

# Foreign Policy Review

VOLUME 14

**Péter Goreczky:** The Present and Future Prospects of Japanese FDI in Hungary

**Hitoshi Suzuki:** EU - Japan Economic Partnership Agreement:  
benefits for the Visegrád Countries

**Ágnes Szunomár:** Japanese Foreign Direct Investment  
in the Visegrád Four: Trends, Characteristic and Driving Forces

**Ivana Karásková:** China's Investment in the Czech Republic:  
Much ado About Nothing?

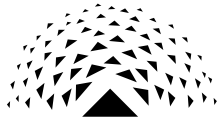
**Csaba Moldicz:** Geopolitical Tensions in East Asia  
and the Effects on Japanese and Hungarian Economic Relations

**Ohara Bonji:** Japan's Asian Competitors in Visegrád Countries

**Atsuko Higashino:** Japan's relations with Visegrád 4 (V4)  
and the Central and Eastern European Countries (CEECs): Adjusting mismatches?

2021/01





INSTITUTE FOR FOREIGN AFFAIRS AND TRADE  
HUNGARY



Publisher:

**INSTITUTE FOR FOREIGN AFFAIRS AND TRADE**

---

## Foreign Policy Review 2021/01

Publisher: *Márton Ugrósdý*

Editor: *László Vasa*

The authors express their views independently and individually. Opinions expressed by one do not necessarily reflect the views and positions of the other authors, the editors, the publisher or the International Visegrad Fund

H-1016 Budapest, Bérc utca 13-15.

Tel.: +36 1 279-5700

E-mail: [kulugyiszemle@ifat.hu](mailto:kulugyiszemle@ifat.hu)

<http://kki.hu>

© Institute for Foreign Affairs and Trade

Budapest, 2021

ISSN 1588-7855 (Print)

ISSN 2064-9428 (Online)

<https://doi.org/10.47706/KKIFPR.2021.1.13-29>

<https://doi.org/10.47706/KKIFPR.2021.1.30-52>

<https://doi.org/10.47706/KKIFPR.2021.1.53-64>

<https://doi.org/10.47706/KKIFPR.2021.1.65-75>

<https://doi.org/10.47706/KKIFPR.2021.1.76-97>

<https://doi.org/10.47706/KKIFPR.2021.1.98-110>

<https://doi.org/10.47706/KKIFPR.2021.1.111-123>

# CONTENTS

<b>Márton Ugródsy</b>	
Preface	10
<b>Péter Goreczky</b>	
The Present and Future Prospects of Japanese FDI in Hungary	13
<b>Hitoshi Suzuki</b>	
EU - Japan Economic Partnership Agreement: benefits for the Visegrád Countries	30
<b>Ágnes Szunomár</b>	
Japanese Foreign Direct Investment in the Visegrád Four: Trends, Characteristic and Driving Forces	53
<b>Ivana Karásková</b>	
China's Investment in the Czech Republic: Much ado About Nothing?	65
<b>Csaba Moldicz</b>	
Geopolitical Tensions in East Asia and the Effects on Japanese and Hungarian Economic Relations	76
<b>Ohara Bonji</b>	
Japan's Asian Competitors in Visegrád Countries	98
<b>Atsuko Higashino</b>	
Japan's relations with Visegrád 4 (V4) and the Central and Eastern European Countries (CEECs): Adjusting mismatches?	111

## ABOUT THE AUTHORS

### **Ohara Bonji**

senior fellow, The Sasakawa Peace Foundation, Japan

### **Péter Goreczky**

senior analyst, Institute for Foreign Affairs and Trade, Hungary

### **Atsuko Higashino**

senior lecturer, Graduate School of Business Sciences,  
Humanities and Social Sciences, University of Tsukuba, Hungary

### **Ivana Karásková**

research fellow, Association for International Affairs, Czech Republic

### **Csaba Moldicz**

college professor, Budapest Business School  
head of research, Eurasia Institute, John Neumann University, Hungary

### **Ágnes Szunomár**

head of research Group on Development Economics,  
CERS Institute of World Economics  
associate professor, Corvinus University of Budapest, Hungary

### **Hitoshi Suzuki**

professor, COO, LLC future mobility research, Japan

# PREFACE

*Márton Ugródsy*

Economic relations between Japan and Central Europe have been traditionally important ever since they became possible after the fall of communism. Japanese companies were among the first ones to invest in the region, and most of them stayed as their projects became profitable early on. Later, with the European Union accession of the Visegrád Four countries, these Japanese holdings gained access to the Single Market, further reinforcing the right decision Japanese corporate leaders made shortly after the fall of the Iron Curtain. Japanese politicians did not always followed this optimism, but with the changes in the late 2010s, Central Europe and especially the V4 regained the attention of the Japanese government and businesspeople alike.

This newfound attention has a lot to do with the perception of rising Chinese presence in Central Europe. With the inauguration of the 16, and later 17 and even more recently 16+1 format, China gained an institutionalized foothold in the heart of Europe. Japan slowly followed suit with nominating an ambassador-at-large to cover the V4 (and the Western Balkans) and redirected its political attention to the region once again, which became visible in the number of high-level exchanges between the V4 and Japan, as well as the visit of Prime Minister Abe Shinzo to Bratislava in 2019, the country which has held the rotating presidency of the V4 at the time. Many observers thought this newly re-found attention is a clear signal that Japan wishes to face the Chinese challenge in Central Europe with a new impetus and determination.

However, as this special issue clearly underlines, Japan and all other Asian investors (with the possible exemption of the Republic of Korea in some V4 countries) are far outweighing Chinese investments in Central

Europe. When it comes to economic cooperation, the span and depth of the V4-Japan nexus is far deeper and more enhanced, than CEE's trade with China. Furthermore, Japan is considered and regarded as a reliable partner, which puts Japan ahead compared to other Asian nations in the eyes of the Visegrád countries.

We are delighted to present this volume, to which the speakers of our online mini conference-series have contributed. The Institute for Foreign Affairs and Trade has successfully organized a series of events in early 2021 to map, explore and highlight existing trends, opportunities and challenges in the V4-Japan nexus. Drawing on the expertise of leading Central European and Japanese experts, we have aimed to provide a balanced and well-grounded view on not only great power competition in Central Europe, but also the opportunities that both the Central European and the Japanese governments should grab in order to further enhance our bi- and multilateral relations. We hope that this modest contribution to the debate will lead all of us in the right direction.





# THE PRESENT AND FUTURE PROSPECTS OF JAPANESE FDI IN HUNGARY

*Péter Goreczky*

<https://doi.org/10.47706/KKIFPR.2021.1.13-29>

**Abstract:** Traditionally, the cornerstones of Hungary's competitiveness in FDI attraction have been the favourable geographic location and the availability of a qualified and cost-effective labour pool. Western countries are still far the most important sources of the FDI stock in Hungary, however Japan is the second largest investor among Asian nations. Most of the Japanese FDI has been concentrated in the automotive sector and has targeted Western, Central and Northeast Hungary. Some Japanese investors have already started to locate high-end manufacturing technologies to Hungary which was in line with the country's goal to be at the forefront of Industry 4.0. The main challenge on the Hungarian side is whether the country can ensure the necessary pool of talents and skilled labour to maintain its attractiveness and to move up in the value chain.

**Keywords:** foreign direct investment, FDI, Hungary, Japan, Industry 4.0

## Introduction

From 2011, it has been a frequently cited strategic goal in the Hungarian Government's communication that the country should develop itself to be the manufacturing centre of Central and Eastern Europe. One of the goals of the 'Made in Hungary' concept was the reduction of unemployment which required the attraction of job-creating investment

projects. Accordingly, investment promotion has been considered as a top priority in governmental external economic activities. Decision-makers have made efforts on improving the investment environment in order to attract foreign companies' manufacturing activities. Potential Asian investors received intensified attention in line with the 'Opening to the East' policy declared by the Hungarian Government in the first half of the 2010s. Partly due to governmental efforts and partly due to favourable external conditions, the country managed to secure a number of manufacturing investment projects in the past couple of years.

As of early 2017, a shift could be noticed in the focus of the strategic goals communicated by the Ministry of Foreign Affairs and Trade. The 'Invented in Hungary' vision emerged, and it was articulated that the country had to attract research, development and activities of high value through foreign direct investment projects. This shift in goals and focus of communication indicates that further development of the Hungarian economy requires moving up in the global value chain and becoming – at least partly – an innovation centre.

This policy brief aims to analyse the role of major Japanese investor companies in the Hungarian FDI inflow over recent decades and also to evaluate how Japanese FDI can contribute to the above-mentioned goal of moving up in the global value chain and of creating a high-tech manufacturing sector in Hungary.

## Hungary as an investment location

Located in the heart of the continent, a favourable geographic location is one of Hungary's main attractions concerning foreign direct investments. Being a major transport junction in Central and Eastern Europe, the country is an ideal location for regional distribution centres. In the last couple of years, the country has made efforts to position itself as a gateway to the European Union for companies from Eastern countries. Hungary has one of the highest road densities in Europe which also makes the country attractive for foreign companies. Its extensive railway network is also a strong

argument for potential investors in logistics with scheduled block trains running to Europe's main seaports. Záhony, a Hungarian border city, plays a significant role in East-West rail transport: this is where the European standard gauge railway network meets the eastern broad-gauge system. Additionally, Hungary offers the political and economic stability of being an EU member state.

When it comes to location selection for FDI, the availability of a qualified and cost-effective labour pool is always high on the agenda. This factor has been the cornerstone of Hungary's competitiveness in FDI attraction since the early 1990s. A new labour code was introduced in 2012 in order to create legislation that reflects the latest trends on the labour market. Today, wage differences are still remarkable when compared to Western European countries, however, Hungary and other countries in the region were reporting historic low unemployment rates before the outbreak of the COVID-19 pandemic in 2020 (according to the Hungarian Central Statistical Office (HCSO) in December, 2019–February, 2020, an unemployment rate of 3.5% was recorded in Hungary). Nevertheless, the crisis generated by the pandemic has not resulted in a significant increase of unemployment so far; HCSO reported a rate of 4.3% in December, 2020. Naturally, substantial disparities can still be observed when comparing the more developed Western regions and the Budapest metropolitan area to the north-eastern and southern parts of the country. Nevertheless, it is anticipated that the availability of a skilled labour force in general remains an issue and is going to be the key challenge for any foreign investor, including Japanese companies.

The basics of the Hungarian taxation system are in line with Western European standards. A single-rate personal income tax was introduced in 2013; currently at a rate of 15%. Boosting the competitiveness of the Hungarian corporate taxation system, the Government reduced the tax rate to 9%, which is the lowest in the European Union. Based on EU legislation, Hungary offers a wide range of tax allowances and cash incentives for companies locating FDI projects to the country. During the period of 2017–2018, the social contribution tax rate of 27% payable by employers was reduced to 19.5% in two steps.

Figure 1  
The most important Western and Asian origin countries of FDI in Hungary (2018)

Origin country	FDI stock in 2018 (in EUR million)	Share in total FDI stock (in %)
Western countries		
Germany	17 593	21.0
USA	11 613	13.9
Austria	7 027	8.4
France	4 997	6.0
Asia		
Republic of Korea	3 561	4.3
Japan	2 839	3.4
India	2 781	3.3
China	2 188	2.6

Source: MNB (central bank of Hungary)

In line with the EU legislation, Hungary offers a wide range of tax allowances and cash incentives for companies implementing FDI projects in the country.

Protections for property and investment is distinctly developed in Hungary. The Foreign Investment Act of 1988 grants full protection to the investments and businesses of non-Hungarian resident investors and guarantees that non-Hungarian investors will be treated in the same manner as Hungarians.

As Figure 1 highlights, Western countries – especially Germany and the USA – are still by far the most important sources of FDI stock in Hungary. Japan is the second among Asian nations, and when it comes to greenfield investments, as of 2019, the country was considered to be the number one Asian investor in Hungary. However, this position may change soon as Korean battery manufacturer SK Innovation recently announced<sup>1</sup> the largest greenfield investment project of all time in Hungary.

## Major Japanese investors in Hungary

As of January 2021, 180 Japanese companies were operating in Hungary<sup>2</sup> with an aggregated employment of more than 33,000 people. The Hungarian Government entered into strategic cooperation agreements with seven of them so far. This chapter highlights the main features of the investments made by these seven Japanese companies and some further examples that prove the diversity of Japanese FDI in Hungary.

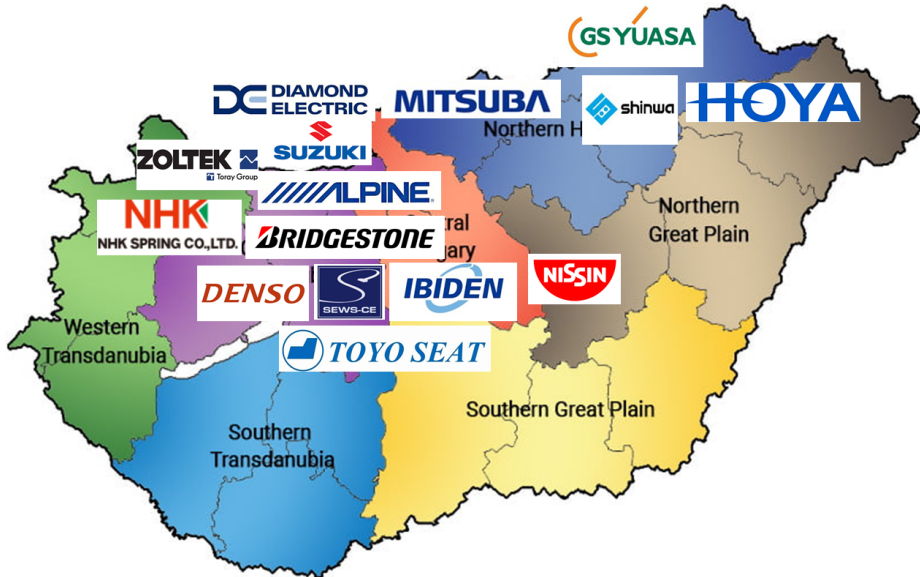
In the wake of political changes, Suzuki was one of the first global companies to choose Hungary as a manufacturing location. The agreement on the foundation of the joint venture<sup>3</sup> was signed in April, 1991 and the inauguration ceremony of a new manufacturing plant in Esztergom was held on 7 May, 1993. Production for export commenced in 1994: the first markets were China, Italy and the Netherlands. Originally, the facility had been designed for an annual production capacity of 50,000 cars, however, as a result of several expansion projects and technology upgrading, the capacity of the plant increased to ca. 180,000 cars per year<sup>4</sup> and shipments were launched to 128 countries around the world. The latest technology upgrading project targets the introduction of smart manufacturing processes in the facility and a related logistics network. As of January, 2021, the Hungarian affiliate was employing a staff of almost 3,000. The Tokyo-based Bridgestone is primarily engaged in the manufacture and development of tyres which accounts for 84% of its product mix. The Hungarian subsidiary of Bridgestone began operations in 2006 and, since then, has evolved to become one of Hungary's largest tyre manufacturing facilities. Since its establishment, the number of employees has increased from ca. 360 to roughly 1,100 in January, 2021<sup>5</sup>.

Bridgestone's main activity in Hungary is the manufacture of tyres and tubes, including the production of passenger car and off-road tyres primarily for premium category motor vehicles and tyres with a high-speed index, in more than 230 sizes. The Japanese company's plant in Tatabánya was established in 2005 with its floor area tripling over time and its capacity expanded fourfold of the original by 2020<sup>6</sup>. In the past decade, the Japanese company invested about EUR 430 million in the construction and technological development of the second plant of the factory in Tatabánya, thus being one of the most modern plants internationally. As a result of an investment project worth HUF 9.2 billion<sup>7</sup> completed in 2019, the Tatabánya facility has become the first factory in Europe – after Japan – to use artificial intelligence technology, 60% of the products are manufactured in this way.

Japanese company Denso is one of the world's top automotive suppliers, being specialised among others, in power transmission, electronics and safety systems. Denso has been present in Székesfehérvár, Hungary, since 1997. Its Hungarian plant manufactures<sup>8</sup> fuel supply system components for the automotive industry, and produces system control units for camshafts and exhaust systems, relying on the expertise of almost 3,900 employees<sup>9</sup>. The Hungarian subsidiary considers Audi, Opel and Suzuki as its most important customers among domestic OEMs.

In 2013, Takata Corporation, a leading global supplier of automotive safety systems, announced the establishment of its plant near Miskolc, Northeast Hungary. Takata's HUF 20 billion investment was considered to be the largest FDI project announced in Hungary since the completion of a vehicle plant by Germany's Daimler<sup>10</sup> concluded in 2012. The establishment of the Hungarian facility was the largest ever FDI project of Takata<sup>11</sup>. However, faulty Takata air bag inflators<sup>12</sup> triggered the auto industry's biggest recall, while lawsuits and a criminal investigation drove the Japanese company to bankruptcy. As a consequence, auto components maker Key Safety Systems acquired Takata<sup>13</sup> and the Hungarian facility could maintain its operations.

Figure 2  
Major Japanese investors in Hungary



Source: Compiled by the author

Ibiden Hungary Ltd.<sup>14</sup> was established in 2004 in the industrial park of Dunavarsány, 25 kilometres south of Budapest, as the second European diesel particulate filter producing centre of the Japanese Ibiden Group. The manufacturing site was established as a result of a HUF 25 billion investment. Currently, the company employs a staff of ca. 1,800<sup>15</sup> at the Hungarian site.

Tokyo-based Toray Industries is an integrated chemical group. Their products are mainly used in the aviation industry, aerospace sector and in the manufacturing of sports goods. Toray Industries Inc. concluded a merger agreement with the US-based Zoltek Companies Inc. in 2013. Zoltek has been present in Nyergesújfalu since 1995, where the only European plant of the company is located. In April 2018, Toray announced<sup>16</sup> an important development in its Hungarian plant. The facility was to be expanded by an EUR 106 million investment that resulted in a 50% capacity



expansion; making this unit the biggest carbon fiber producer in Europe. In 2019, the company announced another expansion<sup>17</sup> of the Hungarian site. As a result of the EUR 408 million investment, the company will manufacture separator films required for lithium-ion batteries from the second half of 2021 in Nyergesújfalu. The project received the 'Largest Greenfield Investment of the Year' award<sup>18</sup> in Hungary in 2019.

Alpine Electronics, Inc. is a Japanese consumer electronics subsidiary of the Japanese electronics component manufacturer Alps Electric, specializing in car audio and navigation systems. Established in 1998, Alpine's Hungarian subsidiary in Biatorbágy manufactures electronic entertainment equipment for the automotive industry. In 2015, the company announced an investment project<sup>19</sup> that doubled the production capacity of the Hungarian unit. Based on the latest data<sup>20</sup>, the company employs ca. 1,000 people in Hungary.

In Hungary, Japanese FDI is not limited to the automotive and chemical industries. The production of optical lenses in Hungary is an activity with a long history and rich in traditions. World-renowned optical manufacturer Magyar Optikai Művek (Hungarian Optical Works) was established in 1876. In the golden age of the company, some 8,000 people were employed throughout its premises, including six sites in the countryside. In the 1990's, the company became a member of Buchmann Group. Optical lens manufacturer Hoya acquired the German company in 1999; thus the Japan-based global enterprise became a major player in the Hungarian optical industry. Hoya's plant in Mátészalka (Eastern Hungary) is specialised in glass lenses, and the company employs a staff of more than 1,100<sup>21</sup>.

Nissan operates its first and only financial shared service centre in Europe. Established in 2017, the Budapest centre<sup>22</sup> supervises another service centre of the company in India and provides full accounting services for the subsidiaries of Nissan Europe in close cooperation with that centre in all major European languages. Centre activity was expanded in 2019 by means of the full financial support of the Sunderland and Barcelona manufacturing units as a result of which the staff numbers in the Budapest office were almost doubled.

It is worth analysing what the major arguments were for Japanese companies when choosing Hungary as an FDI location. According to the president and COO of Takata<sup>23</sup>, the company chose Hungary for the project because of its highly skilled labour force and Miskolc in particular as the company wanted to establish a long-term cooperation with the town's university. In a testimonial, Alpine's managing director explained<sup>24</sup> that Hungary had created a business environment that supported growth in the automotive sector. He highlighted the knowledge and experience of the workforce in electronics manufacturing and the infrastructure and developed logistics routes that provide quick access and ensure smooth communications with customers in Western Europe. Toray and Hoya gained possession over their Hungarian manufacturing units via acquiring other corporations. However, expansion projects implemented ever since prove that both companies are satisfied with the operating conditions in Hungary. The Deputy CEO of Magyar Suzuki Corporation declared in a testimonial<sup>25</sup> that the main benefits of the Hungarian manufacturing location are the proximity to Budapest, the capital with a large pool of professional talent and the constantly developing infrastructure that, for Suzuki, enables easy access to the European and global markets. In the case of Denso and Ibiden, most probably the golden combination of the geographic proximity of the German car industry and lower labour and operational costs were the main arguments in favour of Hungary. The Managing Director of Nissan Sales CEE explained<sup>26</sup> that an important aspect in their investment decision was the immediate availability of skilled labour as Budapest has become a major power regarding service centres.

## Hungary' future economic development and the role of Japanese FDI

In general, it is a key target declared by governing politicians that Hungary should develop itself to be an ideal location for research and development activities and to be able to offer the most attractive and favourable investment environment in Europe. This assumes that companies should consider Hungary not exclusively as a location for

manufacturing but also as a place for innovation. That means a transition from ‘Made in Hungary’ to ‘Invented in Hungary’. In order to achieve these goals, the country should capture investment projects of higher added value. More specifically, this means knowledge-intensive industries, advanced technology manufacturing, shared service centres of complex activities, and research and development centres. The attraction of such projects could boost Hungary’s catching up to countries of high income. The main question is whether future FDI projects of Japanese companies could fit into this vision.

Besides the strategic goal of moving up in the value chain, it is also worth highlighting some industry-specific aspects of Hungarian FDI attraction. It is widely acknowledged that the Hungarian economy’s performance relies heavily on the automotive industry. According to data provided by HCSO<sup>27</sup>, in November, 2020 production of vehicles accounted for 30% of total manufacturing output in Hungary and employed 176,100 people<sup>28</sup>. This fact has two main consequences on Hungarian investment promotion strategies. Firstly, Hungary has to create an investment environment that assists automotive manufacturers in preparing for the era of electric, automated and connected vehicles. From the perspective of automotive manufacturers, entering the new era of mobility coincides with a revolution in production technology, commonly referred to as Industry 4.0. Therefore, in terms of vehicle manufacturing, Hungary has a dual target of maintaining its position in the automotive supply chain in the era of electromobility and also enhancing smart manufacturing and Industry 4.0-related technologies.

The second consequence of the economic predominance of the automotive industry is that Hungary has to seek opportunities to diversify its FDI mix in order to decrease exposure. The lessons learnt from the first year of the COVID-19 pandemic also underline the need for more FDI in those industries that proved to be crisis resistant.

Taking a look at the activity of the above listed Japanese companies in Hungary, it is apparent that some of these investors have already started to locate high-end manufacturing technologies to Hungary in the framework of their global strategy to prepare for the era of Industry

4.0. As result of its investment project completed in 2019, Bridgestone already applies artificial intelligence-based technology in its Hungarian facility. Suzuki has also introduced smart manufacturing in its plant in Esztergom. If we consider e-mobility, Toray Industries has chosen Hungary as the location for its battery separator film manufacturing plant for lithium-ion batteries. With that investment, the Japanese company is becoming a key player in the domestic e-mobility sector. These examples show that Japanese FDI projects can fit into the framework provided and nurtured by the Hungarian state. Hungarian Government's vision on future economic development and FDI attraction. Many years of positive experiences regarding the operation in Hungary creates a solid base for Japanese companies to move on this path and locate high-end activities or R&D to their Hungarian sites. The main challenge on the Hungarian side is whether the country can ensure the necessary pool of talents and skilled labour being capable of handling the most up-to-date technologies. Before the outbreak of the COVID-crisis this aspect seemed to be the number one barrier to the inflow of more high-end manufacturing FDI. As for now it seems that the pandemic has not changed labour market trends in Hungary drastically. The enhanced cooperation between Japanese companies and Hungarian educational institutes could be a forward-looking approach to prevent future shortages of skilled labour. A good example for that was the cooperation agreement signed between the Miskolc University and Takata<sup>29</sup> that initiated collaboration both on training material and the university's R&D activity.

As for a shift in FDI mix towards more crisis-proof industries, pharmaceuticals could be a promising option. Hungary's modern pharmaceutical industry has strong roots and looks back at a history 120 years. Ever since, ground-breaking contributions to life sciences were made by Hungarian scientists. Throughout the 20th century, Hungary was the most important supplier of medicine for Eastern Europe and remained at the forefront of the region's pharmaceutical industry. Among the major manufacturers in the Hungarian pharma industry there are British, French and Israeli companies, but no Japanese corporations yet. Japan has a number of global pharma companies

like Takeda, Daiichi Sankyo or Astellas that could be interested by the opportunities Hungary as an investment location can offer. The medical device industry may also provide ground for extended investment promotion activity towards Japanese companies.

The race for capturing FDI projects in the post-COVID world may also pose a threat to the future inflow of Japanese FDI into Hungary. As the crisis bites, the competition for foreign direct investments in Central and Eastern Europe will be stronger than ever. Playing in the same league, countries like Serbia, Romania or Bulgaria are characterised by lower average wage levels compared to Hungary, making these countries more attractive for manufacturing projects. When it comes to making a decision on an investment location, the availability of incentives is always a crucial issue. Being a member state of the European Union, Hungary can offer cash subsidies and tax allowances for FDI projects in line with EU legislation. In certain cases, this results in a lack of flexibility regarding the incentive package that can be offered by the Government. Non-EU countries evidently have a comparative advantage in that respect.

As for now, it appears that the COVID-19 crisis has not decreased Hungary's attractiveness for Japanese investors. On 12 January, 2021, the Hungarian Minister of Foreign Affairs and Trade announced that three Japanese companies (Denso, Alpine and Diamond Electric) would invest a total of HUF 65 billion<sup>30</sup> in order to develop their manufacturing sites in Hungary.

## Conclusions

In order to assist the economic recovery following the COVID-19 pandemic, competition for the FDI projects of Japanese companies will be fierce in the region; therefore, continuous improvement of the business climate is required to maintain Hungary's attractiveness as an investment location. The number one challenge for Japanese investors in Hungary is undoubtedly the availability of the labour force. To manage this risk, Japanese investor companies, corporations with a well-established

presence in Hungary and newcomers to the market, should cooperate closely with local vocational training schools, universities, and the government itself.

Despite the gravitational shift in the global economy, Western European countries and the USA will remain the dominant sources of FDI for Hungary in the foreseeable future. Japan will certainly not replace them in the structure of investment relations. Nevertheless, Japan is one of the most important Eastern sources of FDI and this relationship makes Hungary's external economic relations more stable. Multiple Japanese investor success stories may encourage newcomer companies from the Asian country to choose Hungary as an investment location in the future.

## References

- Autopro.hu.* (2015). Ötszáz új embert venne fel a biatorbágyi Alpine. Retrieved from: <https://autopro.hu/beszallitok/otszaz-uj-embert-venne-fel-a-biatorbagyialpine/152071>
- HIPA (2018). Automotive industry in Hungary. Retrieved from: [https://hipa.hu/images/publications/hipa-automotive-industry-in-hungary\\_2018\\_09\\_20.pdf](https://hipa.hu/images/publications/hipa-automotive-industry-in-hungary_2018_09_20.pdf)
- HIPA. (2018). Bridgestone's plant in Hungary has grown triple in ten years – Video report. Retrieved from: <https://hipa.hu/bridgestone-s-plant-in-hungary-has-grown-triple-in-ten-years>
- HIPA. (2018). Nissan to develop its European financial centre in Budapest – Video report. Retrieved from: <https://hipa.hu/nissan-to-develop-its-european-financial-centre-in-budapest>
- HIPA. (2018). Zoltek starts huge expansion in its European unit in Hungary – Video report. Retrieved from: <https://hipa.hu/zoltek-starts-huge-expansion-in-its-european-unit-in-hungary>
- HIPA. (2019). Denso's technology-intensive development has been completed in Székesfehérvár – Video report. Retrieved from: <https://hipa.hu/denso-s-technology-intensive-development-has-been-completed-in-szekesfehervar>
- HIPA. (2019). Tovább bővül az MI-alapú gyártás a Bridgestone tatabányai egységében – Video report. Retrieved from: <https://hipa.hu/tovabb-bovul-a-mesterseges-intelligencia-alapu-gyartas-a-bridgestone-tatabanyai-egysegeben>
- HIPA. (2019). Tech-intensive development to be launched in the Miskolc factory of Joyson safety – Video report. Retrieved from: <https://hipa.hu/technology-intensive-development-to-be-launched-in-the-miskolc-factory-of-joyson-safety>
- HIPA. (2019). Toray starts another major investment in Hungary – Video report. Retrieved from: <https://hipa.hu/toray-starts-another-major-investment-in-hungary>
- HIPA. (2020). The most prominent investors of 2019 have been honoured in eight categories. Retrieved from: <https://hipa.hu/the-most-prominent-investors-of-2019-have-been-honoured-in-eight-categories>.

- HIPA. (2021). SK Innovation: The largest greenfield FDI project ever to start in Iváncsa – Video report. Retrieved from: <https://hipa.hu/gigantic-investment-of-sk-innovation-the-largest-greenfield-fdi-project-ever-to-start-in-ivancsa>
- Hungarian Government. (2021). 6,5 milliárd forintos autóiipari beruházást hajt végre három japán vállalat Magyarországon. Retrieved from: <https://kormany.hu/hirek/65-milliard-forintos-autoipari-beruhazast-hajt-veg-re-harom-japan-vallalat-magyarorszagon>
- InfoEsztergom. (2015). 25 éve indult a Suzuki esztergomi története. Retrieved from: <https://www.infoesztergom.hu/hirek/olvas/25-eve-indult-a-suzuki-esztergomi-tortenete-2015-01-14-072341>
- Járműipar.hu. (2018). 2020-ra okosgyár lesz az esztergomi Suzuki. Retrieved from: <https://jarmuipar.hu/2018/05/2020-ra-okosgyar-lesz-az-esztergomi-suzuki/>
- KSH. (2021). Gyorstájékoztatók – Ipar. Retrieved from: <https://www.ksh.hu/gyorstajekoztatok/#/hu/document/ipa2011>
- Megazin. (2015). Új együttműködési megállapodást kötött a Miskolci Egyetem és a Takata. Retrieved from: [http://megazin.uni-miskolc.hu/campus/524/uj\\_egyuttmukodesi\\_megallapodast\\_kotott\\_a\\_miskolci\\_egyetem\\_es\\_a\\_takata](http://megazin.uni-miskolc.hu/campus/524/uj_egyuttmukodesi_megallapodast_kotott_a_miskolci_egyetem_es_a_takata)
- MIDIP. (2013). Takata to build new factory in Hungary, employ 1,000. Retrieved from: <http://midip.hu/en/takata-build-new-factory-hungary-employ-1000>
- Reuters. (2015). Takata to build new factory in Hungary, employ 1,000. Retrieved from: <https://www.reuters.com/article/hungary-takata/takata-to-build-new-factory-in-hungary-employ-1000-idUSB3N0CV01E20131115>
- Reuters. (2018). Key Safety Systems completes deal to acquire air-bag maker Takata. Retrieved from: <https://www.reuters.com/article/us-takata-sale-key-safety-systems-idUSKBN1HI3CG>
- Reuters. (2020). Honda confirms 17th U.S. death in Takata air bag rupture. Retrieved from: <https://www.reuters.com/article/honda-takata-idUSKBN26P04K>



## Endnotes

- 1 <https://hipa.hu/gigantic-investment-of-sk-innovation-the-largest-greenfield-fdi-project-ever-to-start-in-ivancsa>
- 2 <https://kormany.hu/hirek/65-milliard-forintos-autoipari-beruhazast-hajt-vegre-harom-japan-vallalat-magyarorszagon>
- 3 <https://www.infoesztergom.hu/hirek/olvas/25-eve-indult-a-suzuki-esztergomi-tortenete-2015-01-14-072341>
- 4 <https://jarmuipar.hu/2018/05/2020-ra-okosgyar-lesz-az-esztergomi-suzuki/>
- 5 <https://www.ceginformacio.hu/cr9311196030>
- 6 <https://hipa.hu/bridgestone-s-plant-in-hungary-has-grown-triple-in-ten-years>
- 7 <https://hipa.hu/tovabb-bovul-a-mesterseges-intelligencia-alapu-gyartas-a-bridgestone-tatabanyai-egysegeben>
- 8 <https://hipa.hu/denso-s-technology-intensive-development-has-been-completed-in-szekesfehervar>
- 9 <https://www.ceginformacio.hu/cr9310252194>
- 10 <https://www.reuters.com/article/hungary-takata/takata-to-build-new-factory-in-hungary-employ-1000-idUSB3N0CV01E20131115>
- 11 <https://hipa.hu/technology-intensive-development-to-be-launched-in-the-miskolc-factory-of-joyson-safety>
- 12 <https://www.reuters.com/article/honda-takata-idUSKBN26P04K>
- 13 <https://www.reuters.com/article/us-takata-sale-key-safety-systems-idUSKBN1HI3CG>
- 14 <https://www.ibiden.hu/en/>
- 15 <https://www.ceginformacio.hu/cr9310998955>
- 16 <https://hipa.hu/zoltek-starts-huge-expansion-in-its-european-unit-in-hungary>

- 17 <https://hipa.hu/toray-starts-another-major-investment-in-hungary>
- 18 <https://hipa.hu/the-most-prominent-investors-of-2019-have-been-honoured-in-eight-categories>
- 19 <https://autopro.hu/beszallitok/otszaz-uj-embert-venne-fel-a-biatorbagyi-alpine/152071>
- 20 <https://www.ceginformacio.hu/cr9310225237>
- 21 <https://www.ceginformacio.hu/cr9310673753>
- 22 <https://hipa.hu/nissan-to-develop-its-european-financial-centre-in-budapest>
- 23 <http://midip.hu/en/takata-build-new-factory-hungary-employ-1000>
- 24 <https://hipa.hu/alpine-electronics-manufacturing-of-europe-ltd-yasukimatsui-managing-director>
- 25 [https://hipa.hu/images/publications/hipa-automotive-industry-in-hungary\\_2018\\_09\\_20.pdf](https://hipa.hu/images/publications/hipa-automotive-industry-in-hungary_2018_09_20.pdf)
- 26 <https://hipa.hu/nissan-to-develop-its-european-financial-centre-in-budapest>
- 27 <https://www.ksh.hu/gyorstajekoztatok/#/hu/document/ipa2011>
- 28 [https://www.ksh.hu/docs/hun/xstadat/xstadat\\_eves/i\\_qlf005b.html?down=136](https://www.ksh.hu/docs/hun/xstadat/xstadat_eves/i_qlf005b.html?down=136)
- 29 [http://megazin.uni-miskolc.hu/campus/524/uj\\_egyuttmukodesi\\_megallapodast\\_kotott\\_a\\_miskolci\\_egyetem\\_es\\_a\\_takata](http://megazin.uni-miskolc.hu/campus/524/uj_egyuttmukodesi_megallapodast_kotott_a_miskolci_egyetem_es_a_takata)
- 30 <https://kormany.hu/hirek/65-milliard-forintos-autoipari-beruhazast-hajt-vegre-harom-japan-vallalat-magyarorszagon>

# EU – JAPAN ECONOMIC PARTNERSHIP AGREEMENT: BENEFITS FOR THE VISEGRÁD COUNTRIES

*Hitoshi Suzuki*

<https://doi.org/10.47706/KKIFPR.2021.1.30-52>

**Abstract:** The aim of this paper is to review the current standing of Japanese-Visegrád-4 (V4, with Poland, Hungary, The Czech Republic, and Slovakia) relations within the context of the Japan-European Union (EU) Economic Partnership Agreement (EPA) and the Strategic Partnership Agreement (SPA). After looking into statistics of trade and facts between Japan, the V4, and the EU, we will list possibilities for expansion of V4 exports to Japan and provide some starting points for further necessary surveys/research in the issue.

**Keywords:** Japan-European Union (EU) Economic Partnership Agreement (EPA)

## The Japan-EU EPA and Visegrád-4: facts

- EU exports to Japan expanded by 6.6% during January 2019 and 2020.<sup>1</sup>
- Japanese exports to the EU expanded by 6.3% during the same period.<sup>2</sup>
- In 2020, Japan was the seventh largest partner for EU exports of goods (2.8 %) and also the seventh largest partner for EU imports of goods (3.2 %).<sup>3</sup>
- Among EU Member States, Germany was both the largest importer of goods from and the largest exporter of goods to Japan.
- Japan is the EU's second-biggest trading partner in Asia after China.
- The Japan-EU EPA was the most applied agreement in Japan's foreign trade among other FTA/EPAs.<sup>4</sup>

## *Foreign Minister Motegi's latest visit to Poland and his statements*

On 15 February, 2021, Toshimitsu Motegi – Minister for Foreign Affairs of Japan – sent a congratulatory message to H.E. Mr. Zbigniew Rau, Minister of Foreign Affairs of the Republic of Poland, H.E. Mr. Péter Szijjártó, Minister of Foreign Affairs and Trade of Hungary, H.E. Mr. Ivan Korčok, Minister of Foreign and European Affairs of the Slovak Republic, and H.E. Mr. Tomáš Petříček, Minister of Foreign Affairs of The Czech Republic, upon the 30th anniversary of the establishment of the Visegrád Group (V4) on the same day in 1991.<sup>5</sup> The V4 was founded in Visegrád in Hungary in 1991, and holds dialogues at the leader, foreign minister, and senior working levels and promotes V4 plus Japan cooperation in areas such as science and technology, assistance to third countries, disaster risk reduction, and the environment.<sup>6</sup>

Minister Motegi, on 15 February 2021;

“I would like to extend my heartfelt congratulations to Poland, Hungary, Slovakia, and The Czech Republic, upon the 30th anniversary of the establishment of the V4.

Starting in 2003, Japan was one of the first non-EU countries to engage in cooperation with the V4, and together we have promoted dialogue and cooperation in a wide range of fields. Japan appreciates the increasingly important role played by the V4 within the EU, as well as its active contributions to regional affairs, including the integration of the Western Balkans in Europe and the Eastern Partnership.

As confirmed in the previous three V4 plus Japan Summit Meetings and the previous six V4 plus Japan Foreign Ministers' Meetings, Japan intends to continue to work closely with the V4 to actively address the challenges faced by the region and the international community, and to reinforce the fundamental values and principles of democracy, rule of law, human rights, and market-based economy. I look forward to continued cooperation with each of you to further deepen V4 plus Japan cooperation”.

On 7 May, 2021, Minister Motegi attended the 7th Meeting of Ministers of Foreign Affairs of the V4 plus Japan.<sup>7</sup> He stated that the international community faces challenges such as protectionism and unilateral attempts to change the status quo by force or coercion amid the COVID-19 pandemic, and that Japan attaches great importance to cooperation with the Visegrád Group, whose presence in the EU is growing. The Ministers confirmed recent major achievements such as “V4 plus Japan” seminars on cybersecurity and connectivity, assistance for the Western Balkans, joint research on science and technology and coordination among think tanks, and shared the view to continue and enhance such cooperation. The following three issues were discussed at the meeting:<sup>8</sup>

- Japan-EU Cooperation / Connectivity

The Ministers shared the view to advance Japan-EU cooperation in various fields such as sustainable connectivity, quality infrastructure, and global issues. The V4 bloc expressed expectations for Japan’s cooperation in the “Three Seas Initiative” which has been led by Poland, and Motegi confirmed. Regarding the COVID-19 response, the Ministers also agreed to promote cooperation in fields such as equitable access to vaccines and World Health Organization reform. In addition, Minister Motegi requested the V4 Ministers’ cooperation for the lifting of the EU’s import restriction measures on Japanese food products that were introduced following the Great East Japan Earthquake in 2011.

- Free and Open Indo-Pacific

Minister Motegi welcomed the European Council’s conclusion on the ‘EU Strategy for cooperation in the Indo-Pacific’ as a sign of the EU’s strong will to engage with the Indo-Pacific and stated that he expects the V4’s active contribution to the formulation of a joint EU communiqué, and was confirmed by the V4 Ministers.

- China and North Korea

Minister Motegi expressed serious concerns about the continued and strengthened unilateral attempts to change the status quo in the East and South China Seas, as well as the situation surrounding Hong Kong

and the Xinjiang Uygur Autonomous Region. The Ministers shared the view on the importance of maintaining and enhancing the free and open international order based on the rule of law. Furthermore, the Ministers confirmed that full implementation of UN Security Council resolutions was essential to achieve the complete, verifiable, and irreversible dismantlement of all North Korea's weapons of mass destruction and ballistic missiles. Minister Motegi asked for understanding and cooperation for the immediate resolution of the abductions issue.

### *The Ministry of Economy, Trade and Industry (METI)*

METI expects the Japan-EU EPA – valued at ca. 30% of the world's GDP and covering ca. 40% of world trade – will achieve high levels of tariff reductions/abolishment and intellectual property rights protection that promote mutual trade and investments; including in SMEs.<sup>9</sup> See also the following section on JETRO.

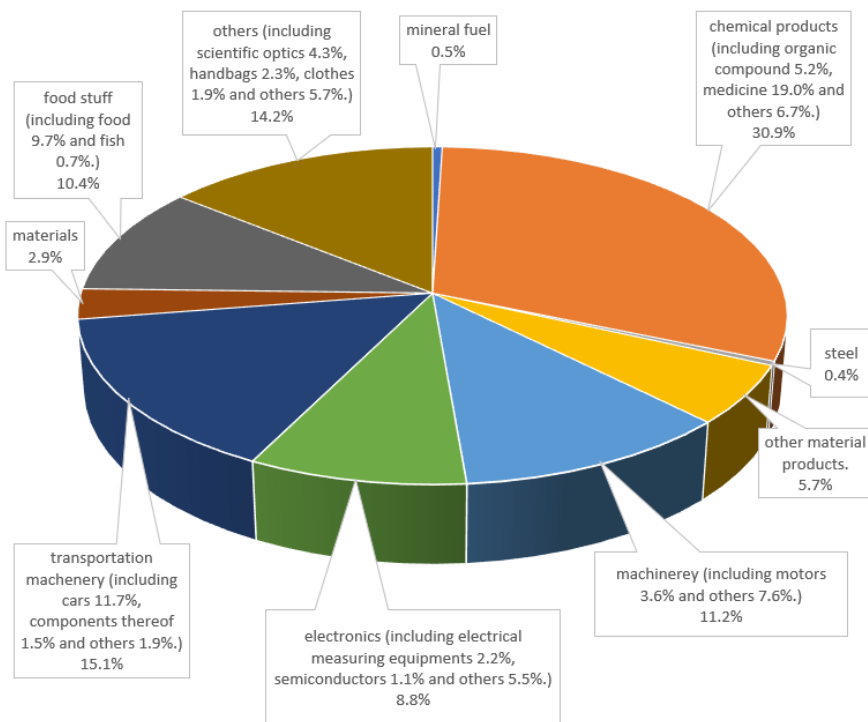
### *The Japan External Trade Organization (JETRO)*

JETRO is an Independent Administrative Institution (*dokuritsu gousei houjin*) working closely with METI, aiming to promote mutual trade and investments between Japan and the rest of the world. JETRO promotes foreign direct investment into Japan and assists small to medium sized Japanese firms maximize their global export potential. Its offices in Europe are located in Brussels, Paris, London, Milan, Berlin, Dusseldorf, Munich, Amsterdam, Vienna, Geneva, Madrid, Warsaw, Budapest, Prague, and Bucharest.

JETRO holds details of the second meeting of the Japan-EU EPA Joint Committee, co-chaired by Foreign Minister Toshimitsu Motegi and Valdis Dombrovskis, Executive Vice-President of the European Commission for an Economy that Works for People and European Commissioner for Trade from the EU side that was held on 1 February, 2021.<sup>10</sup> Both parties welcomed the second year of the Agreement entering into force which sustains 170 billion euros of annual trade between Japan and the EU. Each side agreed upon

adding 28 additional geographical indications (GI) protected.<sup>11</sup> Hybrid cars, fuel cell cars (FCVs) and components thereof were newly-added to the list of items to omit redundancy of certifications which will speed up trade.<sup>12</sup>

Figure 1.  
EU exports to Japan in 2016



Source: <<https://www.mofa.go.jp/mofaj/files/000382020.pdf>>

Accessed on 10 June 2021 and modified by author.

### Delegation of the European Union to Japan

The Delegation carried out a survey on the Japan-EU EPA and its impact on Japanese firms importing from the EU and European firms operating in Japan in May, 2021.<sup>13</sup> The results are not yet made public.

## *EU-Japan Centre for Industrial Cooperation*

The EU-Japan Centre for Industrial Cooperation (EUJC) was launched in 1987 as a 'joint venture' between the European Commission and the Ministry of Economy and Trade and Industry of Japan (MITI/METI) and maintains its characteristic of a substantial 'win-win' symbolic significance.<sup>14</sup>

Currently, the EU-Japan Centre for Industrial Cooperation has placed the support for SMEs at the core of all its activities because SMEs are considered as the principal driver for economic growth - both in the EU and Japan.<sup>15</sup> It has established the Enterprise Europe Network–Japan, the Cluster Support Service, the Tax and Public Procurement Helpdesk, the Step in Japan business incubator, the Technology Transfer Helpdesk, the Minerva Fellowship, the Horizon2020 Contact Point, and so forth. The Centre is ready to engage itself in more complex support missions in the post FTA/EPA era for an ever-closer economic partnership between the EU and Japan.<sup>16</sup>

## Merits of the EPA and successful cases

### *Successful items of EU's exports to Japan<sup>17</sup>*

- Meat: 12.1% increase during 2019 and 2020, including pork with a 12.6% increase and frozen beef 3.2 times more than the previous year.
- Dairy products: 10.4% increase, including butter with a 47.8% increase.
- Beverages: 20.6% increase, including wine with a 17.3% increase.<sup>18</sup>
- Leather products: 14.1% increase.
- Electronics: 16.4% increase.

### *V4 products in Japanese households: some examples<sup>19</sup>*

- Zubrowka 500ml (Poland): 1,090 yen / 8.27 euros, at Seijyo-ishii
- Pilsner 350ml (The Czech Republic): 360 yen / 2.73 euros, at Seijyo-ishii



- Acacia Honey 300g/Renge (Hungary): 1,490 yen / 11.3 euros, at Amazon.jp
- Tokaji 750ml (Hungary): 2,000 yen / 15.18 euros, at Amazon.jp
- Tokaji 750ml (Slovakia): 3,600 yen / 27.31 euros, at Amazon.jp

Further detailed study on market penetration and market share in Japan is necessary. Internet shopping provides better opportunities for SMEs which previously faced difficulty in market penetration and advertising costs. V4 products are also available at major liquor shops - like Bic Camera, Inc. - and high-end supermarkets like Seijyo-Ishii focused on imported items with high value-added. One of the factors behind the expanding market share of European beers in Japan was Asahi Group Holdings - a Japanese beverage firm - acquiring SABMiller plc. and its brands in The Czech Republic, Slovakia, Poland, Hungary and Rumania including Pilsner Urquell in December, 2016.<sup>20</sup> Asahi aimed to globally sell its Japanese brand Super Dry via its new acquisition.

Among internet-based shops in Japan, not limited to liquor retailing, Amazon.jp stands out on top with 1.74 trillion yen of sales in 2020.<sup>21</sup> The second largest was Yodobashi-camera with 138.5 billion yen, followed by Zozo with 125.5 billion yen and Biccamera with 108.1 billion yen in fourth position. Amazon is the utmost champion in retailing, but a careful examination of cost and benefit is required to find out where and how to promote V4 products.

The Ministry of Agriculture, Forestry and Fisheries (MAFF) calculated the effects of the Japan-EU EPA. An item-to-item survey in December, 2017 showed a possible decrease of the domestic price of Japanese agriculture products identical to tariff reduction levels of each item which would cause a decrease in production of between 60 to 100 billion yen in Japan.<sup>22</sup> Owing to its aids to structurally reform farms and its management, MAFF concluded that domestic production levels in Japan could be maintained after the EPA and its ratification.<sup>23</sup>

### *A bottleneck of V4 exports to Japan?*

- among the geographical indication (GI) of EU products under the EPA, only two items – Czech hop from Žatec and Hungarian salami from Szeged – are nominated from V4 countries.<sup>23</sup>

GI aims to protect brands in the markets of other parties and reduce producer costs in registering their products with authorities abroad.<sup>24</sup> MAFF expects Japanese brands to become known in the single market and increase its brand image in the EU. As shown above, V4 products have gained a certain level of market access in Japanese supermarkets and internet-based shopping: Amazon.jp, Yahoo.jp, Rakuten, and others. To what extent would GI increase exports from the V4 to Japan, and how much in costs would it save for farmers and SMEs in their exports? A detailed analysis is required.

Under the EPA, 48 items of Japanese agriculture products are protected. Hokkaido melon, Kobe beef, miso from Aichi, and so on, covering roughly one item from each Prefecture. As for EU products, 71 items are protected in Japan. These encompass 27 dairy products, 14 meat products, 10 oil products, 6 raw items of fruit and fish, 5 confectioneries, and 9 others; including Italian balsamic vinegar and hop from Germany and The Czech Republic. Among the dairy products, 10 are Italian, 6 are French, 3 from Spain, 2 from the Netherlands, and one each from Belgium, Portugal, and Greece. As for meat products, 5 are Italian, 3 from Spain, 2 from France, and one each from Germany, Belgium, Austria and Hungary.

\*In the following sections ‘3. 20th anniversary of V4 plus Japan’ and ‘4. Osaka Expo 2025’, we will consider the possibilities of export promotions of V4 countries.<sup>25</sup>

### *Merits of the EPA for Japanese firms operating in the V4<sup>26</sup>*

- skilled workers
- language diversity where English and Japanese are accepted

- geographical convenience for trade/supply chains
- increasingly expanding domestic market in recent years <sup>27</sup>

\*Difficulties encountered by Japanese industry in the V4:<sup>28</sup>

- increased labour costs
- shortage of labour supplies
- slump due to COVID-19, but quicker recovery compared to other EU member states
- energy supplies

Among the Japanese firms operating in the V4, 60.2% stated that an increase of labour costs was their largest concern. The second major concern was COVID-19 and its negative effect on the economy, reaching 55.9%. Within the negative effects, the largest issue was the decline of consumption, which reached 77.8% of answers in The Czech Republic and Poland.<sup>29</sup>

*Reduced costs as merits of the EPA:  
examples of the Japanese car industry in the V4*

- Example of Toyota in Valenciennes, France

The EPA reduced the operating costs of Toyota and its plant in Valenciennes. The immediate tariff abolition of automotive components has reduced 2% of Toyota's costs concerning its supply chain.<sup>30</sup> Its plant in Jelcz-Laskowice, Poland, is expected to gain similar advantages. The Jelcz-Laskowice plant assembles components for Toyota Yaris Hybrids.<sup>31</sup> The recent carbon-neutral goals called for by the EU and Japan hint that shifts toward high-end, high-value-added, components will reduce imports from Japan and help secure local employment. Investment incentives, R&D aid, and workforce training will accelerate further shifts toward such trends.

- Example of Japanese component supplies in Hungary

Diamond Electric is a Japanese component supplier based in Osaka, focusing on ignition coils. It is the world's third largest supplier in ignition coils and operates plants in Thailand, India and Hungary. Its local Hungarian branch in Esztergom was launched in September, 2000.

Delivery of material supplies for such coils take around two weeks, and therefore Diamond Electric is localizing its material purchases in Hungary. Still, some of the specific materials – epoxy resin – need to be exported from Japan. The firm has experienced the merit of an immediate reduction of the 6.5% tariff on epoxy resin to zero in 2020.<sup>32</sup>

### *Japanese views and images of Poland and Hungary*

The image of Poland and Hungary in Japan does not reflect the rising status and capability of both countries. The image of Hungary is crowned by Suzuki's success, but is rarely connected to Hungary's investments in the latest high-tech of autonomous driven cars and EV buses. Among the Japanese firms operating in the EU, nearly 30% listed Poland as a future business destination.<sup>33</sup> Half of the top ten countries ranked in the survey were CEE countries which include all the V4 countries. The Japanese perception of the V4 is shifting from its past image of supply chain countries to that of a promising and expanding market.<sup>34</sup>

Another issue up for debate is whether Poland, Hungary and The Czech Republic should join the euro zone. The UK was a member state accommodating Japanese car plants of Nissan, Toyota and Honda, where the Japanese did not experience any major inconvenience of pound/euro exchange rates. The most significant aspect was its access to the single market. The same applies to the V4 countries. The V4 - without budget expenditure limits under the rules of the euro zone - will provide a freer hand for governments to subsidize R&D in the car industry. The Japanese see further chances to expand investments in the V4, if the EU reduces its support.<sup>35</sup>

## *20 years of Japan-V4 cooperation: anniversary and export promotion in 2024*

PM Junichiro Koizumi visited Poland and The Czech Republic in August, 2003.<sup>36</sup> It was the starting point of today's cooperation between Japan and the V4. The Emperor and Empress also visited Poland and Hungary in July, 2002.<sup>37</sup> PM Koizumi flew from Berlin and arrived in Warsaw on 19 August, 2003 and held a meeting with Polish PM Leszek Miller at the Belvedere Palace and explained Japan's efforts on North Korean nuclear armament and the abduction issue.<sup>38</sup> Both PMs announced a joint statement on a Japan-Poland strategic partnership to reinforce their relationship with the EU's enlargement in mind.<sup>39</sup> Poland confirmed its commitment to strengthening ties between the V4 group and Japan, with emphasis on mutually expanding investments.<sup>40</sup> The V4 countries joined the EU in May, 2004.

In October of 2004, Hungarian PM Gyurcsány Ferenc visited Japan and held a meeting with PM Koizumi on 25 October. Both sides agreed to launch the V4 plus Japan dialogue and cooperation initiative. The cooperation was modeled upon the Asia-Europe Cooperation Framework 2000,<sup>41</sup> in which Japan requested the V4 countries to join the Asia-Europe Meeting (ASEM). Unlike the joint communique in the previous year which emphasized bilateral cooperation, the joint communique of October, 2004 called for cooperation under multilateral frameworks and welcomed further dialogue and cooperation by the V4 plus Japan.<sup>42</sup>

The first V4 plus Japan summit was held in June, 2013 in Warsaw<sup>43</sup> and confirmed that both parties share universal values such as democracy, the rule of law, human rights, and that of a market economy. The Year 2014 – the 10th anniversary of V4 plus Japan<sup>44</sup> – could serve as an example of the year 2024 – the 20th anniversary – to come.

# Export promotion of V4 products: Osaka Expo, 2025

Figure 2.  
Osaka Expo 2025



Source: < <https://www.expo2025.or.jp/> > Accessed on 14 June 2021.

The Osaka-Kansai Exposition is planned for between 13 April and 13 October, 2025 at Yumeshima (meaning 'island of dream'), Osaka.<sup>45</sup> The theme of the World Expo is 'Designing Future Society for Our Lives' with three sub-themes: 'Saving Lives', 'Empowering Lives', and 'Connecting Lives'. Some 28.2 million visitors and 2 trillion yen of economic impact are expected. An overall Master Plan was made public in December, 2020.<sup>46</sup> The following five goals are defined:<sup>47</sup>

1. Bringing together the wisdom of the world, including breakthrough technologies, to create and communicate new ideas
2. Expansion of domestic and overseas investment
3. Creation of innovation through activation of human interaction
4. Activation of regional economies and small and medium enterprises
5. A chance to communicate the wealth of Japan's culture

Page 30 of the Master Plan – project planning – introduces the eight main areas which will be developed in pavilions. Emphases are added to issues which might be in the interest of the V4:<sup>48</sup>

**Quest of Life:** This project aims to position humankind as living beings in the entire system of life.

**Totality of Life:** This project aims to enable visitors to experience a connection between all forms of life in space, in the seas and on the earth.

**Embracing Lives:** To prevent division among people due to crises, the project aims to offer a vision of a future where diverse lives will be protected by recognising the existence of others in one's self.

**Cycle of Lives:** This project aims to examine the value of the act of eating as a link between nature and culture and between people and share the spirit of gratitude that underlies Japanese food culture.

**Amplification of Lives:** The project aims to expand the functions and capabilities of humans and other organisms and explore wider possibilities for lives with novel science and technology.

**Invigorating Lives:** This project will create a place for co-creation

where people will be able to enhance their lives by experiencing the joy of living through play, learning, sports and art.

**Forging Lives:** Through the combination of the natural and the artificial and of the physical and the virtual in quest of a brilliant future, this project aims to explore art forms that can be in harmony with nature.

**Resonance of Lives:** By acknowledging and appreciating the uniqueness of each individual life, this project aims to propose a model for a world where everyone can shine by providing visitors with an opportunity to experience the harmony created by diverse forms of life.

From page 46 onwards, the Master Plan gives out instructions on official participation, aiming to have 150 countries and 25 international organisations – including businesses, organisations, local governments, and grassroots bodies – participate in the Expo.<sup>49</sup> We should consider whether the V4 countries are independently or jointly participating, or will coordinate their efforts with the EU. Site preparation schedule is mentioned on page 70.

## Shared values and Japanese diplomacy: near-future perspectives

Democracy, human rights, and rule of law are significant shared values defined in the Japan-EU EPA/SPA. The Liberal Democratic Party (LDP) – the ruling coalition party with the Komei Party – issued a document on Japanese diplomacy and shared values. The document titled ‘The first proposal: Japan’s diplomacy concerning human rights (*Waga-kuni no jinken-gaikou no arikata kentou project team*)’ is the first report of LDP’s Foreign Affairs Division (*Gaikoubukai*) and was made public on 2 June, 2021.<sup>50</sup> Recent developments in Asia – Myanmar and Uighur – have put Japan’s diplomacy into question. ‘Dialogue’ and ‘cooperation’ have been the core of Japanese diplomacy up to present, but should be reconsidered on how and what points should human rights be taken into account.<sup>51</sup>



Japan has kept away from forcing developing countries to accept certain norms and has chosen an approach to bridge these countries with the Western developed countries. Japanese administrations have pursued the ‘Free and Open Indo-Pacific Strategy (FOIP, *jiyuu de hiarakareta indo-taiheiyou senryaku*)’ based on such understandings. What lacks now in Japan’s diplomacy is to take one further step forward in implementing human rights.<sup>52</sup> The US and EU member states are increasing pressure against abuses, making human rights not merely an international norm to respect but a concrete basis of institutionalization in each country. If not being able to react, Japan faces a risk of losing presence which would damage national interests.<sup>53</sup> The government is currently preparing guidelines of the issue for Japanese firms operating abroad.

Short term measures recommended in the report include ten points which are: to join the Genocide Convention, to actively use the Foreign Exchange and Foreign Trade Act (*Gaitame-hou*) as a legal basis for sanctions, to install a so-called Magnitsky Act, and so forth.<sup>54</sup> Domestic reforms will be required simultaneously, namely with MOFA, JICA, and concerning Ministries. The impact of this report on Japan’s diplomacy remains to be seen, but will possibly affect activities of Japanese firms through tightened guidelines on shared values which will be required not only for the multinationals themselves but also to local suppliers and partners. The timing of the next national election and a new administration in power – possibly after the Tokyo Olympics/Paralympics – will also need close observation.

## Conclusion

Cooperation of the V4 plus Japan has developed in a fruitful way for both parties during the past two decades. The Japan-EU EPA has expanded exports of both sides during the two years of enforcement. The Japanese car industry merited from cost reduction by the

EPA and are seeing chances of increasing investments in the V4 countries. Exports of the V4 to Japan has expanded; especially in food and beverages which provide opportunities for SMEs. The anniversary year 2024 and the Osaka Expo scheduled in 2025 could provide further chances to promote human exchanges and expand exports to Japan. The shared values defined in the SPA and LDP's latest proposal on Japanese diplomacy require close watch on how it would impact trade and investments between Japan and the V4.

## References

- Acquired beer business in 5 countries in Central and Eastern Europe for 888.3 billion yen. (2016). *Rutsu-news*. Retrieved from <https://www.ryutsuu.biz/strategy/mn7022-3.html>
- Amazon is number one in the EC sales ranking... (2020). *Tsuhun-shinbun*. Retrieved from [https://netshop.impress.co.jp/node/8076?form=MY01SV&O\\_CID=MY01SV](https://netshop.impress.co.jp/node/8076?form=MY01SV&O_CID=MY01SV)
- Ambasada Japonii w Polsce. About the „V4+Japan” Exchange Year 2014. Retrieved from [https://www.pl.emb-japan.go.jp/j\\_v4japan.html](https://www.pl.emb-japan.go.jp/j_v4japan.html)
- Delegation of the European Union to Japan. (2019). EU-Japan Economic Partnership Agreement (EPA). Retrieved from [https://eeas.europa.eu/delegations/japan/56981/node/56981\\_en](https://eeas.europa.eu/delegations/japan/56981/node/56981_en)
- EU-Japan Centre for Industrial Cooperation. 30 Years of the EU-Japan Centre. Retrieved from <https://www.eu-japan.eu/news/30-years-eu-japan-centre>
- European Commission. (2021). Japan. Retrieved from <https://ec.europa.eu/trade/policy/countries-and-regions/countries/japan/>
- European Commission. (2021). Japan-EU international trade in goods statistics. *Eurostat*. Retrieved from [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Japan-EU\\_%E2%80%93international\\_trade\\_in\\_goods\\_statistics](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Japan-EU_%E2%80%93international_trade_in_goods_statistics)
- European Commission. (2021). The second Joint Committee of the EU-Japan Agreement for an Economic Partnership. Retrieved from [https://trade.ec.europa.eu/doclib/docs/2021/march/tradoc\\_159504.pdf](https://trade.ec.europa.eu/doclib/docs/2021/march/tradoc_159504.pdf)
- Imperial Household Agency. (2002). When visiting Poland and Hungary. *Kunaicho*. Retrieved from <https://www.kunaicho.go.jp/okotoba/01/gaikoku/gaikoku-h14-easterneurope.html>
- Japan Association for the 2025 World Exposition. (2020). Expo 2025 Osaka, Kansai, Japan Master Plan. Retrieved from [https://www.expo2025.or.jp/wp/wp-content/themes/expo2025orjp/assets/pdf/masterplan/expo2025\\_masterplan\\_en.pdf](https://www.expo2025.or.jp/wp/wp-content/themes/expo2025orjp/assets/pdf/masterplan/expo2025_masterplan_en.pdf)

- Japan Association for the 2025 World Exposition. Overview. Retrieved from <https://www.expo2025.or.jp/en/overview/>
- Japan Association for the 2025 World Exposition. Purpose. Retrieved from <https://www.expo2025.or.jp/en/overview/purpose/>
- Japan External Trade Organization. (2019). Polish economy, views of Japanese trading companies. JETRO. Retrieved from <https://www.jetro.go.jp/biz/areareports/2019/83b967a7884cb2c5.html>
- Japan External Trade Organization. (2020). Diamond Electric reduces costs by using EU-Japan EPA. JETRO. Retrieved from <https://www.jetro.go.jp/biznews/2020/03/3ccdf7d617403cc5.html>
- Japan External Trade Organization. (2020). Central and Eastern Europe still keen to expand, but expects to become a market, survey of Japanese companies in Europe. JETRO. Retrieved from <https://www.jetro.go.jp/biznews/2020/12/42c20b1c6ee1efa5.html>
- Japan External Trade Organization. (2020). The economy is doing well and there is a move towards higher added value (Poland, Hungary, Czech Republic, Romania, Austria, Slovakia, Western Balkans). JETRO. Retrieved from <https://www.jetro.go.jp/biz/areareports/2020/e171054c42ae5dd5.html>
- Japan External Trade Organization. (2020). The European Commission emphasizes the effect of the Japan-EU EPA. JETRO. Retrieved from <https://www.jetro.go.jp/biznews/2020/02/f83ad8578241ad57.html>
- Japan External Trade Organization. (2020). Toyota Motor Manufacturing, France takes advantage of the EU-Japan EPA to launch the new Yaris. JETRO. Retrieved from <https://www.jetro.go.jp/biznews/2020/03/333d3ef46e9c8461.html>
- Japan External Trade Organization. (2021). Two years after the entry into force of the EU-Japan EPA, a joint committee meeting was held. JETRO. Retrieved from <https://www.jetro.go.jp/biznews/2021/02/fce1ff33bd12afd9.html>
- LDP. (2021). Project Team for the Study of Japan's Human Rights Diplomacy, Foreign Affairs Committee. *Jimin*. Retrieved from <https://www.jimin.jp/news/policy/201677.html>
- Ministry of Agriculture, Forestry and Fisheries. (2017). The impact on the value of agricultural, forestry and fisheries production (EU-Japan EPA). MAFF. Retrieved from [https://www.maff.go.jp/j/kanbo/eu\\_epa/attach/pdf/index-18.pdf](https://www.maff.go.jp/j/kanbo/eu_epa/attach/pdf/index-18.pdf)

- Ministry of Agriculture, Forestry and Fisheries. (2018). The EU-Japan EPA, Handling of Geographical Indications (GI). MAFF. Retrieved from [https://www.maff.go.jp/j/shokusan/gi\\_act/designation2/attach/pdf/index-17.pdf](https://www.maff.go.jp/j/shokusan/gi_act/designation2/attach/pdf/index-17.pdf)
- Ministry of Economy, Trade and Industry. (2021). Japan-EU EPA (Economic Partnership Agreement). METI. Retrieved from [https://www.meti.go.jp/policy/trade\\_policy/epa/epa/eu/eu\\_epa.html](https://www.meti.go.jp/policy/trade_policy/epa/epa/eu/eu_epa.html)
- Ministry of Finance. (2020). EU-Japan Economic Partnership Agreement: One year on from its entry into force. MOF. Retrieved from [https://www.mof.go.jp/public\\_relations/finance/202005/202005f.pdf](https://www.mof.go.jp/public_relations/finance/202005/202005f.pdf)
- Ministry of Foreign Affairs of Japan. (2014). 2014 „V4 + Japan” Exchange Year. MOFA. Retrieved from [https://www.mofa.go.jp/mofaj/erp/c\\_see/page18\\_000174.html](https://www.mofa.go.jp/mofaj/erp/c_see/page18_000174.html)
- Ministry of Foreign Affairs of Japan. (2017). Factsheet on the EU-Japan Economic Partnership Agreement (EPA). MOFA. Retrieved from <https://www.mofa.go.jp/mofaj/files/000382020.pdf>
- Ministry of Foreign Affairs of Japan. (2021). Congratulatory Message from Foreign Minister Motegi Toshimitsu to the Foreign Ministers of the V4 countries on the 30th Anniversary of the establishment of the V4. MOFA. Retrieved from [https://www.mofa.go.jp/press/release/press4e\\_002976.html](https://www.mofa.go.jp/press/release/press4e_002976.html)
- Ministry of Foreign Affairs of Japan. (2021). Foreign Minister Motegi Visits Poland. The 7th „V4 plus Japan” Foreign Ministers’ Meeting. MOFA. Retrieved from [https://www.mofa.go.jp/erp/c\\_see/page4e\\_001127.html](https://www.mofa.go.jp/erp/c_see/page4e_001127.html)
- Ministry of Foreign Affairs of Japan. (2021). „V4+Japan” dialogue and cooperation. MOFA. Retrieved from [https://www.mofa.go.jp/mofaj/area/europe/v4\\_japan/index.html](https://www.mofa.go.jp/mofaj/area/europe/v4_japan/index.html)
- Suga Cabinet. (2021). EPA coverage reaching eighty percent: four times the coverage of 2012. Nikkei. Retrieved from <https://www.nikkei.com/article/DGXZQOUA224RU0S1A520C2000000/>
- The Mission of Japan to the European Union. (2021). Summary of the Second Meeting of the Japan-EU EPA Joint Committee. MOFA. Retrieved from [https://www.eu.emb-japan.go.jp/itpr\\_en/11\\_000001\\_00078.html](https://www.eu.emb-japan.go.jp/itpr_en/11_000001_00078.html)
- Toyota and Poland produce parts for Yaris HV. (2021). NNA EUROPE. Retrieved from <https://europe.nna.jp/news/show/2175520>

## Endnotes

- 1 Announced by the European Commission on 31 January, 2020. Japan External Trade Organization (JETRO), “The European Commission emphasizes the effect of the Japan-EU EPA (Oushuu-iinkai, nichu-EU EPA no kouka o kyouchou),” 3 February 2020. < <https://www.jetro.go.jp/biznews/2020/02/f83ad8578241ad57.html>>Accessed on 2 May 2021.
- 2 With the ratification of the RCEP in April, 2021, Japan’s FTA/EPA coverage of its annual trade will reach eighty percent. The coverage has risen four times more since 2012. Nihon-keizai-shinbun (Nikkei), “EPA coverage reaching eighty percent: four times the coverage of 2012 (Keizai-renkei-kyoutei, boueki-sougaku o hachiwari cabaa, jyuuni-nen-hi yon-bai no suijyun),” 24 May 2021. <<https://www.nikkei.com/article/DGXZQOUA224RU0S1A520C2000000>>Accessed on 24 May, 2021.
- 3 European Commission <<https://ec.europa.eu/trade/policy/countries-and-regions/countries/japan/>><[https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Japan-EU\\_%E2%80%93\\_international\\_trade\\_in\\_goods\\_statistics](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Japan-EU_%E2%80%93_international_trade_in_goods_statistics)>Accessed on 10 June 2021. In 2020, the UK emerged as a larger trade partner than Japan with the EU.
- 4 The EU and its EPA with Japan covered 23% of the latter’s total value of imports from February to October, 2019 and ranked top. The second was ASEAN by 16% and the third was TPP-11 by 14%. Ministry of Finance (MOF), May 2020 < [https://www.mof.go.jp/public\\_relations/finance/202005/202005f.pdf](https://www.mof.go.jp/public_relations/finance/202005/202005f.pdf)>Accessed on 13 June 2021.
- 5 MOFA, 15 February 2021 < [https://www.mofa.go.jp/press/release/press4e\\_002976.html](https://www.mofa.go.jp/press/release/press4e_002976.html)>Accessed on 13 June 2021.
- 6 Ibid.
- 7 MOFA, 7 May 2021 < [https://www.mofa.go.jp/erp/c\\_see/page4e\\_001127.html](https://www.mofa.go.jp/erp/c_see/page4e_001127.html)>Accessed on 13 June 2021.
- 8 Ibid.
- 9 METI, 9 June 2021 < [https://www.meti.go.jp/policy/trade\\_policy/epa/epa/eu/epa.html](https://www.meti.go.jp/policy/trade_policy/epa/epa/eu/epa.html)>Accessed on 13 June 2021.
- 10 European Commission < [https://trade.ec.europa.eu/doclib/docs/2021/march/tradoc\\_159504.pdf](https://trade.ec.europa.eu/doclib/docs/2021/march/tradoc_159504.pdf)>Accessed on 13 June 2021; MOFA < [https://www.eu.emb-japan.go.jp/itpr\\_en/11\\_000001\\_00078.html](https://www.eu.emb-japan.go.jp/itpr_en/11_000001_00078.html)>Accessed on 13 June 2021.

- 11 JETRO < <https://www.jetro.go.jp/biznews/2021/02/fce1ff33bd12afd9.html> >Accessed on 13 June 2021.
- 12 Ibid.
- 13 EU Delegation Email Bulletin, 6 May 2021. Delegation of the European Union to Japan < [https://eeas.europa.eu/delegations/japan/56981/node/56981\\_en](https://eeas.europa.eu/delegations/japan/56981/node/56981_en) < [https://ec.europa.eu/eusurvey/runner/EPA\\_Survey\\_2020\\_2021\\_Year2](https://ec.europa.eu/eusurvey/runner/EPA_Survey_2020_2021_Year2) >Accessed on 24 May 2021.
- 14 EUJC < <https://www.eu-japan.eu/news/30-years-eu-japan-centre>>Accessed on 13 June 2021.
- 15 Ibid.
- 16 Ibid.
- 17 Nikkei, 24 May 2021. <<https://www.nikkei.com/article/DGXZQOUA224RU0S1A520C2000000> >Accessed on 24 May 2021.
- 18 Note that alcohol beverages are not under the jurisdiction of MAFF but MOF and its Liquor Tax Law (shuzei-hou).
- 19 1 euro / 131.78 yen, 6 May 2021.
- 20 Rutsu-news (Distribution journal) 13 December 2016 < <https://www.ryutsuu.biz/strategy/mn7022-3.html> >Accessed on 13 June 2021.
- 21 Tsuhan-shinbun(Online shopping journal) 7 October 2020 <<https://netshop.impress.co.jp/node/8076?form=MY01SV&OCID=MY01SV> >Accessed on 13 June 2021.
- 22 MAFF, October 2017 < [https://www.maff.go.jp/j/kanbo/eu\\_epa/attach/pdf/index-18.pdf](https://www.maff.go.jp/j/kanbo/eu_epa/attach/pdf/index-18.pdf)>Accessed on 13 June 2021.
- 23 Ibid.
- 24 MAFF < [https://www.maff.go.jp/j/shokusan/gi\\_act/designation2/attach/pdf/index-17.pdf](https://www.maff.go.jp/j/shokusan/gi_act/designation2/attach/pdf/index-17.pdf)>Accessed on 24 May 2021.
- 25 Ibid.
- 26 JETRO < <https://www.jetro.go.jp/biz/areareports/2019/83b967a7884cb2c5.html>>Accessed on 24 May 2021.
- 27 JETRO, “Polish economy, views of Japanese trading companies (Nikkei-shousha ga miru Poland keizai),” 3 October 2019. <<https://www.jetro.go.jp/biz/areareports/2019/83b967a7884cb2c5.html>>Accessed on 24 May 2021.

- 28 JETRO, 24 December 2020. < <https://www.jetro.go.jp/biznews/2020/12/42c20b1c6ee1efa5.html> >Accessed on 24 May 2021; JETRO, 14 February 2020. < <https://www.jetro.go.jp/biz/areareports/2020/e171054c42ae5dd5.html> >Accessed on 24 May 2021.
- 29 Ibid.
- 30 JETRO, 4 March 2020 <<https://www.jetro.go.jp/biznews/2020/03/333d3ef46e9c8461.html>>Accessed on 24 May 2021.
- 31 NNA EUROPE, 12 April 2021 < <https://europe.nna.jp/news/show/2175520> >Accessed on 24 May 2021.
- 32 JETRO, 3 March 2020 <<https://www.jetro.go.jp/biznews/2020/03/3ccdf7d617403cc5.html>>Accessed on 24 May 2021.
- 33 JETRO, 24 December 2020 < <https://www.jetro.go.jp/biznews/2020/12/42c20b1c6ee1efa5.html> >Accessed on 24 May 2021.
- 34 Ibid.
- 35 JETRO, 14 February 2020 < <https://www.jetro.go.jp/biz/areareports/2020/e171054c42ae5dd5.html> >Accessed on 24 May 2021.
- 36 Ambasada Japonii w Polsce <[https://www.pl.emb-japan.go.jp/j\\_v4japan.html](https://www.pl.emb-japan.go.jp/j_v4japan.html)>Accessed on 13 June 2021; MOFA < [https://www.mofa.go.jp/mofaj/area/europe/v4\\_japan/index.html](https://www.mofa.go.jp/mofaj/area/europe/v4_japan/index.html)> Accessed on 13 June 2021.
- 37 Imperial Household Agency < <https://www.kunaicho.go.jp/okotoba/01/gaikoku/gaikoku-h14-easterneurope.html>>Accessed on 13 June 2021.
- 38 Prime Minister of Japan and His Office <<https://www.kantei.go.jp/jp//koizumiphoto/2003/08/19poland.html> >Accessed on 13 June 2021.
- 39 Ibid.
- 40 Prime Minister of Japan and His Office < <http://www.kantei.go.jp/jp//koizumispeech/2003/08/19seimei.html>>Accessed on 13 June 2021.
- 41 [https://waseda.repo.nii.ac.jp/?action=repository\\_action\\_common\\_download&item\\_id=25444&item\\_no=1&attribute\\_id=162&file\\_no=5](https://waseda.repo.nii.ac.jp/?action=repository_action_common_download&item_id=25444&item_no=1&attribute_id=162&file_no=5) >Accessed on 13 June 2021, p.367.
- 42 Prime Minister of Japan and His Office < <http://www.kantei.go.jp/jp//koizumispeech/2004/10/25seimei.html> >Accessed on 13 June 2021.



- 43 MOFA < [https://www.mofa.go.jp/mofaj/kaidan/page23\\_000038.html](https://www.mofa.go.jp/mofaj/kaidan/page23_000038.html)<  
<https://www.mofa.go.jp/mofaj/files/000006751.pdf>>Accessed on 13 June 2021.
- 44 MOFA < [https://www.mofa.go.jp/mofaj/erp/c\\_see/page18\\_000174.html](https://www.mofa.go.jp/mofaj/erp/c_see/page18_000174.html)>Accessed on  
 13 June 2021.
- 45 Japan Association for the 2025 World Exposition < <https://www.expo2025.or.jp/en/overview/> >Accessed on 13 June 2021.
- 46 Japan Association for the 2025 World Exposition < [https://www.expo2025.or.jp/wp/wp-content/themes/expo2025orjp/assets/pdf/masterplan/expo2025\\_masterplan\\_en.pdf](https://www.expo2025.or.jp/wp/wp-content/themes/expo2025orjp/assets/pdf/masterplan/expo2025_masterplan_en.pdf)>Accessed on 13 June 2021.
- 47 Japan Association for the 2025 World Exposition < <https://www.expo2025.or.jp/en/overview/purpose/>>Accessed on 13 June 2021.
- 48 Japan Association for the 2025 World Exposition < [https://www.expo2025.or.jp/wp/wp-content/themes/expo2025orjp/assets/pdf/masterplan/expo2025\\_masterplan\\_en.pdf](https://www.expo2025.or.jp/wp/wp-content/themes/expo2025orjp/assets/pdf/masterplan/expo2025_masterplan_en.pdf)>Accessed on 13 June 2021.
- 49 Ibid.
- 50 LDP < <https://www.jimin.jp/news/policy/201677.html>>Accessed on 13 June  
 2021.
- 51 Ibid.
- 52 Ibid.
- 53 Ibid.
- 54 Ibid.

# JAPANESE FOREIGN DIRECT INVESTMENT IN THE VISEGRÁD FOUR: TRENDS, CHARACTERISTIC AND DRIVING FORCES

*Ágnes Szunomár*

<https://doi.org/10.47706/KKIFPR.2021.1.53-64>

**Abstract:** Japan continues to be the most important Asian investor in Poland and Czechia, and the second most important player in Hungary and Slovakia (after South Korea). Japanese multinationals, operating in the automotive, electronics and other industries, as well as in certain services, play an important role in the Central and Eastern European economies, enhancing the performance of the respective V4 economies. Although compared to, for instance, German MNCs' investment, Japanese MNCs represent a rather minor share in the total FDI stock of these countries, the number of companies increase year-on-year. The paper briefly presents the history and main trends of Japanese investment in the V4 region, maps out the main characteristics of Japanese investment flows, and identifies the driving forces of Japanese FDI within the V4 region. The last section of the paper also sheds light on a new opportunity for the V4 countries to attract more investment from Japanese companies, that is the Japanese companies' possible relocation to the V4 region from the United Kingdom, as a result of Brexit.

**Keywords:** foreign direct investment, Japanese MNCs, Visegrad Four, driving forces of FDI, location decisions, relocation

## Introduction

The change of the Visegrád Four (V4) countries from centrally-planned to market economies resulted in increasing inflows of foreign direct investment (FDI) to these transition countries. During the transition, the region went through radical economic changes which had been largely induced by foreign capital. Foreign multinationals realized significant investment projects in the V4 and established their own production networks. Investors - mainly from core European Union countries - were attracted by macroeconomic factors such as relatively low unit labour costs, market size, openness to trade, and proximity. When it comes to institutional factors that influence inward FDI, the prospects of V4 countries' economic integration with the EU have already increased FDI inflows into the region.

Although the majority of investors arrived from Western Europe, the first phase of inward Asian FDI came also right after the transition. Japanese as well as Korean companies indicated their willingness to invest in the V4 region already before the fall of the Iron Curtain. The majority of their investments took place during the first years of the democratic transition. The second impetus was given by the V4 countries' accession process to the European Union. EU membership of the V4 countries allowed Asian investors to avoid trade barriers and the countries could also serve as assembly bases for them. Not only membership but the prospect of EU accession attracted new Asian investors to V4 countries. New investments arrived in the year of accession, too. The third phase dates back to the global economic and financial crisis, when financially-distressed companies all over Europe had often been acquired by non-European companies.

In line with the above, the aim of this paper is to briefly present the history and main trends of Japanese investment in the V4 region, map out the main characteristics of Japanese investment flows, and to identify the driving forces of Japanese FDI within the V4 region. The final section of this paper sheds light on a new opportunity for V4 countries to attract more investment from Japanese companies; that is, the Japanese companies' possible relocation to the V4 region from the United Kingdom as a result of Brexit.

## Japanese investment in the V4 region in retrospect

Japanese companies started to expand overseas by the early 1960s with modest growth in the beginning. The Foreign Exchange and Foreign Trade Control Law and the Foreign Capital Law were the two main laws which regulated - and somewhat restricted - Japanese firms' international activities during the 1950s, 60s and 70s. However, the revision of the Foreign Exchange and Foreign Trade Control Law in 1979 accelerated the overseas activities of Japanese companies as this revision created the opportunity for free outward investment (Yang et al, 2009).

Japan led the way in government-subsidized outward FDI in the 1950s, well before the liberalization through offering subsidized loans to companies investing abroad. Irwin and Gallagher (2014) highlight that the Export-Import Bank of Japan created a branch focusing on OFDI in 1953 which gave almost 70 billion USD by 1999 to finance its companies' foreign investments. Likewise, the Japan Bank of International Cooperation (as well as its predecessor, the Japanese Development Bank) began operations mainly with export loans in the 1950s but later evolved as an outward investment creditor (Irwin-Gallagher, 2014).

When it comes to Japanese companies' investments in the V4, the three waves of FDI, mentioned in the introduction above, can be observed. The first investments by Japanese firms were made in the service sector in the late 1970s and 1980s. General trading companies opened their local representative offices to develop and strengthen trade relations with Japan. At that time, Japanese companies, such as Itochu, were mainly acting as distributors; representing certain goods in their line of products (Grill et al. 2016). The real impetus was given by the democratic transition of Visegrád countries in 1989, followed by notable investment inflows from the 1990s. In Hungary, the largest of these was the establishment in 1991 of a Suzuki plant in Esztergom, Hungary. Suzuki's experience became a model for other Japanese companies wanting to invest in the region (Grill et al. 2016), followed by companies such as Sony, Alpine, Aikawa, Clarion, TDK, Denso - just to mention a few companies hailing from the electronic

industry as well as those from within the car part manufacturing industry. Toyota arrived in Poland in 1999 and initiated production in the early 2000s (McCaleb-Szunomar 2016).

The years before and immediately after the EU accession of V4 countries attracted many Japanese companies and brought major investments, mainly in the automotive and electronic sectors, but Japanese companies also became involved in other sectors such as the chemical industry. In Hungary, for instance, Asahi Glass, Ibiden, and Bridgestone were the three major automotive companies that arrived that time with further companies arriving in other sectors such as in chemicals (Zoltek), food (Nissin) and beverages (when Asahi Group acquired Dreher, the famous Hungarian brewing company).

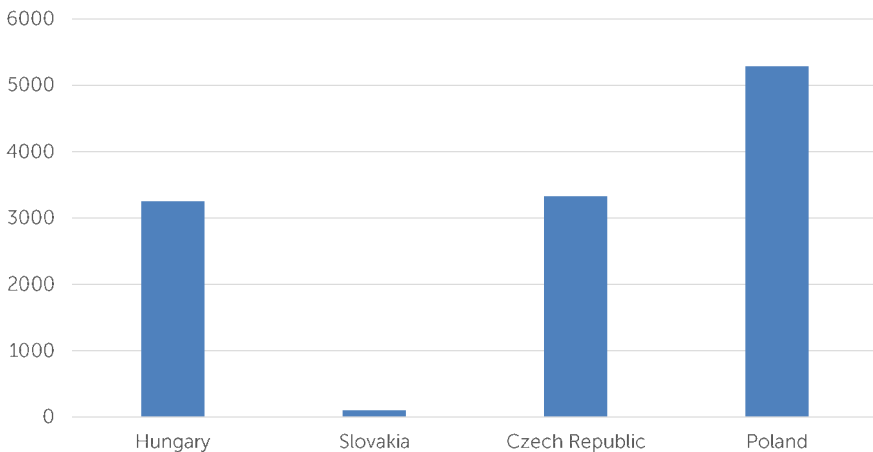
Although the global economic and financial crisis did not bode well for attracting many new companies, those that invested in V4 countries are continuously expanding, introducing new production technologies and increasing available supplier capacities. In 2020 in Hungary, for instance, Japanese companies invested around 68 million EUR<sup>1</sup>. In 2021, three major companies in the automotive sector - Alpine European Electronics Industry Ltd. in Biatorbágy, DENSO Manufacturing Hungary in Székesfehérvár and Diamond Electric Hungary Kft. in Esztergom - have recently announced investments of 18 million EUR, while developments are also planned at the Suzuki plant in Esztergom.

## Characteristics of Japanese investments in the V4

According to the Amadeus Database, there are 132 Japanese companies operating in Hungary, 82 in Slovakia, 260 in Poland and 229 in the Czech Republic. It varies country to country but 40-50% of these are manufacturers. Their geographical location is diverse: some of these companies are located in more developed regions of V4 countries (in the case of Hungary, for instance: in the north-western part of the country with a larger cluster in and around the capital city of Budapest), but there are cases of companies located in less prosperous sub-regions (such as

Eastern Hungary). Japan is one of the most important non-European investors in the V4 region, especially in Poland, Hungary and the Czech Republic (see Figure 1).

*Figure 1.*  
*Japanese FDI stock in the V4, 2018, million USD*



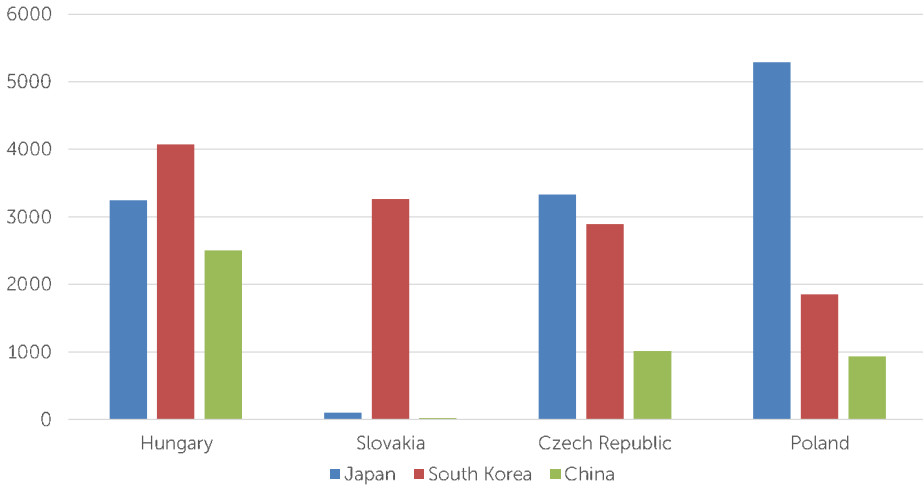
*Source: OECD Stat*

If we compare Japanese FDI stock with other East Asian countries' (South Korea and Japan) FDI positions (see Figure 2.), Japan seems to be the most important East Asian investor in Poland and the Czech Republic, while being the second most important player in Hungary and Slovakia (after South Korea).

Japanese MNE's have also become important employers in the V4 region. Péter Szijjártó, Minister of Foreign Affairs and Trade, recently stated that Japanese companies employ some 34,000 Hungarians, 40,000 in Poland, and 47,000 in the Czech Republic. The management methods and practices of the Japanese V4 subsidiaries represent a unique mix due to (1) early collaboration in the Visegrád region's economic development; (2)

the U.S.-style influence on European affiliates of Japanese multinationals; (3) the European Union’s effect on V4 market practices; (4) and the fact that V4 markets are also unique in comparison to other European markets as a result of their transition process (Grill et al. 2016).

*Figure 2.  
East Asian FDI stock in the V4, 2018, million USD*



*Source: OECD Stat*

## Driving forces behind Japanese investments in the V4 region

Different types of investment motivations attract different types of FDI which Dunning (1992, Dunning and Lundan 2008) divided into four categories: market-seeking, resource-seeking, efficiency-seeking and strategic asset-seeking. The factors attracting market-seeking multinationals usually include market size, as reflected in GDP per capita and market growth (GDP growth). The main aim of a resource-seeking MNE is to acquire particular types of resources that are not available at home (such as natural resources or raw materials) or are available at a lower cost compared to the domestic market (such as unskilled labour).

Investments aimed at seeking improved efficiency are determined by factors such as low labour costs and tax incentives. Finally, the companies interested in acquiring foreign (strategic) assets may be seeking brands, new technologies or market niches that they can fill in.

Till the end of the 1970s, Japanese outward FDI was characterized by natural resource-seeking motives in order to supplement the countries' resource-poor economy (Park, 2003). Between 1979 and 1985, Japanese companies' overseas investments were motivated by market-seeking, as – according to Yoshida (1987) – market expansion was cited as the number one reason for Japanese firms' investment in the United States. Besides market-seeking investments over the last twenty years, efficiency-seeking became another important motive for Japanese companies for reasons of cost reduction (Yang et al., 2009).

Kawai (2006) analysed motivation and location determinants of Japanese MNEs in Central and Eastern Europe. The author found that by 2004, Japanese investment in CEE was low when compared with European counterparts and 90% of investment was located in the Czech Republic, Hungary and Poland. Japanese MNEs' investment in ECE was motivated by relatively low labour and land costs, well-educated labour forces deemed necessary in manufacturing sectors while access to rich EU markets also played a role. Thus, overall, Japanese FDI in CEECs is characterized by efficiency-seeking and market-seeking motives (Kawai 2006).

And, indeed, when searching for possible factors that made the V4 region a favourable investment destination for Japanese investors, the labour market is to be considered as one of the most important factors: a skilled labour force is available in sectors where Japanese companies are operating, while labour costs are lower in the Central and Eastern European (CEE) region than the EU average. However, there are differences within the CEE region as well; unit labour costs are usually cheaper in Bulgaria and Romania than in Hungary, the Czech Republic, Slovakia and Poland. Corporate taxes or various tax incentives are among the further potential pull factors of the CEE region.



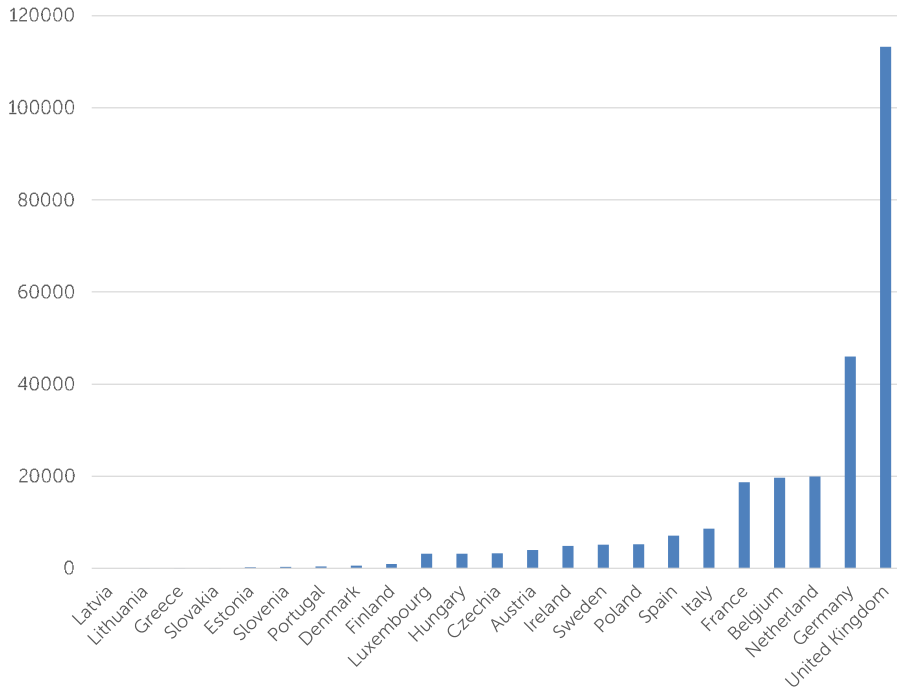
Nevertheless, these labour costs and tax differences are not the most important factors in attracting investments within the CEE region as there is more investment from Japan in Visegrád countries where labour costs and taxes are relatively higher when compared to Romania and Bulgaria. Since FDI in the V4 countries is generally the highest in the CEE region, an explanation for that can be the so-called ‘agglomeration effect’ - when multinational companies from the same country increase their efficiency by locating close to each other - and the ‘demonstration effect’ - whereby multinational companies that have already invested in V4 countries send signals to new potential investors on the reliability and attractiveness of the host country (McCaleb-Szunomar 2016, 2017 and Szunomar et al. 2020).

Although the above-mentioned efficiency-seeking motives play a role, the main type of Japanese FDI in the V4 region is market-seeking investment: by entering V4 markets, Japanese companies have access not only to the whole of the EU market but also to the CIS, Mediterranean and EFTA markets. These companies’ operations in the V4 region can either be linked to their already-existing businesses in Western Europe or can help strengthen their presence on the wider European market. Another aspect of EU membership that has induced Japanese investment in the V4 region is institutional stability; such as the protection of property rights (Morck et al. 2007).

## Conclusions and future prospects

When examining economic ties between East Asia and the Visegrád region, we can conclude that while Japan and South Korea have been investing in this region for more than three decades, China has recently been pushing forward. However, Japan continues to be the most important Asian investor in Poland and the Czech Republic, and the second most important player in Hungary and Slovakia (after South Korea). Japanese multinationals, operational in the automotive, electronics and other industries, as well as in certain services, play an important role in CEE economies, leaving their marks on the performance of the respective V4 economies. Although they represent a rather minor share in the total FDI stock of these countries, the number of companies increase year-on-year.

Figure 3.  
Japanese FDI stock in Europe, 2018, million USD



Source: OECD Stat

Moreover, when looking further ahead, the V4 region can possibly expect rising inflows of Japanese FDI as a result of the UK's decision to leave the European Union. At first reading, it may seem that Brexit might have nothing to do with Japanese companies' presence in the V4 region but in fact it has. As can be seen in Figure 3., the UK hosts the vast majority of Japanese FDI in Europe. They also have the highest number of Japanese companies (almost one thousand) as well as affiliated employees; around 175,000 (Rudlin 2021).

The majority of these companies are exporting to the EU market which will be more difficult in the future as a result of post-Brexit rules. According to Rudlin's report (2021), as a reaction to Brexit, the Japanese presence in the UK is already declining while rising elsewhere

in Europe which most likely indicates that these companies are looking for new host countries. Since a significant share of Japanese companies located in the UK are manufacturers in sectors such as that of automotive, where V4 countries have strong traditions, their relocation could be an opportunity for V4 countries. There are more than 200 Japanese companies with manufacturing activities in the UK. Based on the long-established successful cooperation between Japanese companies and V4 countries, with the appropriate investment promotion activities, some of them could be convinced to relocate to the Visegrád region.

This could be the beginning of the next wave of Japanese FDI to the Visegrád region.

## References

- Dunning, J. H. (1992) *Multinational Enterprises and the Global Economy*. UK: Addison-Wesley Publishers Ltd.
- Dunning J. H. and Lundan SM. (2008) Institutions and the OLI paradigm of the multinational enterprise. *Asia Pacific Journal of Management* 25: 573–593.
- Grill T. V., Maharjan M. P., Sekiguchi T. (2016): Human Resource Management of Japanese Companies in Hungary: How do Japanese and Hungarian Styles Blend? *Journal of East-West Business* 22(3):145-167
- Irwin A, Gallagher KP (2014). *Exporting National Champions: China's OFDI Finance in Comparative Perspective*. GEGI Working Paper, Boston University, June 2014, Paper 6
- Kawai, N. (2006), 'The Nature of Japanese Foreign Direct Investment in Eastern Central Europe', *Japan aktuell - Journal of Current Japanese Affairs* 5/2006, 3-41.
- McCaleb A, Szunomár Á (2016): Comparing Chinese, Japanese and South Korean FDI in Central and Eastern Europe. In: Joanna, Wardega (szerk.) *China-Central and Eastern Europe cross-cultural dialogue: society, business, education in transition*. Krakow, Poland: Jagiellonian University Press, pp. 199-212.
- McCaleb A, Szunomár Á (2017): Chinese foreign direct investment in central and eastern Europe: an institutional perspective. In: Drahekoupil J (szerk.) *Chinese investment in Europe: corporate strategies and labour relations*. Brussels: European Trade Union Institute (ETUI), 2017. pp. 121-140.
- Morck R., Yeung B. and Zhao M. (2007) Perspectives on China's outward foreign direct investment. [http://pages.stern.nyu.edu/~byeung/Morck\\_Yeung\\_Zhao\\_Perspectives\\_on\\_China\\_Outward\\_Foreign\\_Direct\\_Investment\\_2007\\_06\\_12\\_.pdf](http://pages.stern.nyu.edu/~byeung/Morck_Yeung_Zhao_Perspectives_on_China_Outward_Foreign_Direct_Investment_2007_06_12_.pdf)
- Park, K (2003). Patterns and strategies of foreign direct investment: The case of Japanese firms. *Applied Economics*, 35, pp. 1739–1746.

- Rudlin Consulting Ltd. (2021): Japanese companies in the UK. [https://mcusercontent.com/bcd2fee8ad0ac0c8f6eea666c/files/ca031b51-4490-421c-95d7-29b8e97f0615/JapanesecompaniesintheUK20214th\\_March2021.pdf](https://mcusercontent.com/bcd2fee8ad0ac0c8f6eea666c/files/ca031b51-4490-421c-95d7-29b8e97f0615/JapanesecompaniesintheUK20214th_March2021.pdf)
- Szonomár A, Gerócs T, Kiss J, Peragovics T, Ricz J, Szanyi M, Szigetvari T, Völgyi K, Weiner Cs (2020): Final reflections: Emerging Market Multinational Enterprises in East Central Europe. In: In: Szonomár, Á (szerk.) Emerging-market multinational enterprises in East Central Europe, Cham, Switzerland: Palgrave Macmillan, pp. 313-321.
- Yang X, Jiang Y, Kang R, Ke Y (2009). A comparative analysis of the internationalization of Chinese and Japanese firms. *Asia Pacific Journal of Management*, 26(1), pp. 141-162.
- Yoshida, M (1987). Macro-micro analysis of Japanese manufacturing investments in the United States. *Management International Review*, 27, pp. 19-31.

## Endnotes

- 1 For more details, see: <https://bbj.hu/economy/finance/trade/japanese-companies-plan-big-investments-in-hungary>
- 2 For more details see: <https://hungarianinsider.com/japanese-companies-invest-billions-of-forints-in-hungary-6333/>
- 3 According to Foreign Minister Péter Szijjártó, this number is even higher in the Hungarian case with over 160 Japanese companies. For more details see: <http://abouthungary.hu/news-in-brief/fm-japanese-companies-have-an-important-role-in-hungarys-economic-growth/>
- 4 For more details on the data, see: <http://abouthungary.hu/news-in-brief/fm-japanese-companies-have-an-important-role-in-hungarys-economic-growth/> (Hungary); <https://www.thefirstnews.com/article/about-300-japanese-firms-in-poland-investments-total-eur-25-mln---pm-20238> (Poland); <https://www.nihonshokokai.cz/en/> (Czechia)

# CHINA'S INVESTMENT IN THE CZECH REPUBLIC: MUCH ADO ABOUT NOTHING?<sup>1</sup>

*Ivana Karásková*

<https://doi.org/10.47706/KKIFPR.2021.1.65-75>

China is a relative newcomer to Central Europe and as such could not utilize previously established links or knowledge of local languages or the political and economic environment. However, it has been using a variety of tools in order to increase its visibility and establish its positive image; including foreign direct investment (FDI).

This article provides a brief assessment of China's recent political and economic performance in the Czech Republic and debates the opportunities and challenges the Czech experience with China provides to other Asian (mostly Japanese and South Korean) investors.

## China in the Czech political discourse till 2015: from pariah to paragon

After 1989, Czechoslovakia and China started to build their bilateral relations with historical baggage stemming from the Cold War and without previously established links or a detailed knowledge of the political processes of the other. While open hostility to China was rare in the country, Czech Republic's first president Václav Havel met frequently with the Dalai Lama and pursued a policy of political and economic negligence of China.

The discourse on China at the Chamber of Deputies of the Parliament of the Czech Republic followed the same pattern. While China was not a subject of much interest at the Chamber of Deputies of the Parliament

of the Czech Republic in the 1990s in comparison to other regional or global powers or the European Union it was hardly ever referred to in a positive manner. The debate started to change during the slow-down of the Czech economy in 1996-1998, when the country started to first look to China as a potential export market. A narrative which looked at China as a potential economic opportunity reoccurred at times of Czech economy's slow-downs and was most notably expressed during and after the global financial crisis. It was during the Civic Democratic Party (*Občanská demokratická strana*, ODS) government of Petr Nečas from the when the discourse in the Czech Republic started to visibly swing towards a decidedly more positive account of China.

The Prime Minister's speech against 'Dalai-Lamaism'<sup>2</sup> represented the first account of a politician in the Czech government who actively pushed for the intensification of bilateral relations with China. The gradual move towards favoring an economic agenda in Czech relations with China was completed by the government of Bohuslav Sobotka (2014-2017) which redefined the Czech foreign policy agenda on the matter and verbally abandoned the policy of human rights promotion in favor of improved economic relations with China.

The trend was further reinforced by the election of Miloš Zeman as the Czech President in 2013. Since his election, Zeman referred to China frequently and favorably. In October 2014, he appeared on Chinese CCTV, stating that China could help teach the Czech Republic to "stabilize society".<sup>3</sup> In September 2015, Zeman travelled to Beijing again, this time to commemorate the 60th anniversary of the end of World War II in Asia, as the only head of the state from the European Union and despite criticism from Western statesmen, Czech political opposition and media. The visit apparently made a favorable impression on the host and in return, Zeman invited Xi Jinping to visit Prague.

The historical first visit of the Chinese head of state to the Czech Republic took place in March 2016. Preceding the visit, President Miloš Zeman gave an interview to CCTV where he claimed that Czech-Chinese relations had undergone 'a restart', based on the fact that the new government was no longer subservient to the interests

of the United States and the European Union but followed a new independent policy. While both sides signed a strategic partnership, the visit came to be known for the clashes between Chinese citizens welcoming Xi and pro-Tibet (mainly Czech) protesters.

The narratives which occurred in the media between 2012 and 2016 focused on the notions of economic opportunities for Czech companies in China's market. Still, in comparison to the remaining V4 countries, Czech media discourse at the time did not focus predominantly on economic issues. On the contrary, Czech media paid unparalleled (in comparison to Polish, Hungarian or Slovak media discourses) attention to the issues of human rights, Tibet, Taiwan and the problem of censorship in the PRC.

Despite the critical approach by mainstream media, the ruling political elite kept pushing a more favorable narrative. Through Zeman's speech to CCTV in 2014 regarding the stabilization of Czech society according to China's model, China started to be portrayed as not only a business opportunity, but as a normative model. The media research and mapping of Zeman's proclamations on China reveal that his positive view of China was not directed exclusively at the Chinese audience. Using the discourse of economic profitability, Zeman and a section of the Czech political and economic elite began promoting not only opportunities for Czech businessmen in China but also Chinese investment in the Czech Republic – a move which followed similar foreign policy U-turns exhibited by other EU member states. As a component of the whole process, these protagonists have undeniably, openly, but not successfully strived for a categorical improvement of Beijing's image in Czech public discourse.

## Falling from grace: the battle over China's image after 2015

At first glance, this policy seemed to bear fruit. In 2015, the allegedly private Chinese company China Energy Company Limited (CEFC) announced its interest to found its headquarters in Prague. During its



shopping spree in 2015, it acquired a stake in the airline company Travel Service (which co-owns the national carrier Czech Airlines) and invested in a soccer club, the retail sector, a brewery and media company Empresa Media. Its chairman Ye Jianming was appointed Zeman's China advisor. Zeman told Týden (one of the outlets co-owned by the Chinese company): "the Czech Republic could be a kind of secure heaven for the expansion of Chinese investment. Every ship needs a harbor where it can return and which does not endanger it. And given the Czech Republic's attitude towards China, which is much more accommodating than that of some other European Union countries, I think that the Czech Republic could be such an unsinkable aircraft carrier of Chinese investment expansion".

Nonetheless, the dichotomy between the public perception of China and policies promoted by the Czech policy players still existed and manifested itself during Xi Jinping's visit to Prague in 2016 and the controversies surrounding its handling (including the use of the Czech police against pro-Tibet demonstrators). The visit arguably turned the attention to the China issue in the Czech Republic beyond the realm confined to Czech China scholars. It more than tripled the number of instances China was mentioned in the debates at the Chamber of Deputies and led to a sharp increase in the coverage and reporting on China by the Czech media. In most cases, the mentions on China were critical. As a result of the heightened attention by the Czech media and an impression that China grew closer to the Czech Republic, parliamentarians, for the first time, began to perceive China not as a mere point of reference, but as a topic in its own right.

Commencing in 2012, Chinese espionage activities in the Czech Republic were being frequently reported by the civil counterintelligence service (*Bezpečnostní informační služba*, BIS). As the annual reports show, the tone shifted and increased warnings have been issued regarding the allegedly increased assertiveness of Chinese intelligence services. A year before the Czech 'restart' of relations with China, the 2011 annual report describes Chinese activities as not crossing the boundaries of usual Chinese diplomatic behavior. However, since 2012 (the year of the Czech U-turn in its foreign policy on China), the BIS has warned against military and civil espionage, Huawei and ZTE products and disloyalty and collaboration shown by various Czech citizens.

## The CEFC scandal: bursting the China bubble

The restart of Czech-Chinese relations provoked a rise of proclamations and subsequent expectations regarding an influx of future Chinese investment. However, two years after CEFC established its headquarters in Prague, in 2017, it was rumored to be near bankruptcy and subsequently had to be bailed out by the Chinese state-owned CITIC group. Ye Jianming, the chairman of CEFC, disappeared in China in what seems to have been a corruption probe. His company turned out to be allegedly built on a Ponzi scheme.

Even accounting for the money channelled via CEFC, Chinese investment in the Czech Republic remained rather marginal. Moreover, economic data shows that while exports to China have risen over recent years, so have the imports from the PRC, resulting in the continuation of a trade deficit on the Czech side.<sup>4</sup> However, it is difficult to come up with specific numbers regarding the Chinese FDI in the Czech Republic due to unclear methodology for statistical data collection (which is, in some form or another, true for the majority of Central and Eastern European countries). CzechInvest, an investment agency under the Ministry of Trade and Industry, states that the People's Republic of China invested 600 mil. EUR in the Czech Republic from 1993 to 2018.<sup>5</sup> Different data were released by the presidential office based on calculations from investment agreements (not actual deals). In 2016, the office expected deals worth 3.517 billion EUR and, between 2016 and 2020, another investment worth 5.068 billion EUR.

Despite uncertainty pertaining to the data, in comparison to the Chinese FDI flows to Western European countries, Central and Eastern Europe altogether absorbed very little Chinese investment. Despite this fact, countries in the region remain of interest to China; considering them politically and economically stable, close to Western markets, part of German supply chains and also sources of skilled, relatively inexpensive labour. In the specific case of the Czech Republic, investment mostly came in the form of mergers and acquisitions, not as investment in infrastructure, and

did not contribute significantly to the increased rates of employment or creation of new jobs. In contrast to China, Japan and South Korea represent traditional Asian investors in the Czech Republic. In 1993–2019, Japan was the second biggest investor in the Czech Republic, investing altogether 4 billion USD. Until today, the biggest Japanese investment has been a joint project of Toyota and Peugeot Citroen in Kolín, a city in the Central Bohemia region. Other significant Japanese investments include the manufacturing facilities of Panasonic, Daikin, Denso, Toyoda Gosei, Hitachi, Mitsubishi Electric, JTEKT, KYB, Olympus and Shimano. Others, such as Yamazaki Mazak, Rigaku or Konica Minolta, operate their research and development facilities in the Czech Republic. Altogether, 266 Japanese companies employ more than 50,000 people in the country. In 2017, Asahi bought Pilsen Brewery and other Central and Western European branches of the company for 7.3 billion EUR, making it the biggest acquisition for Asahi abroad. Moreover, Japanese visitors to the Czech Republic play an important role in revenues from tourism.

Similarly, South Korea has been a traditional investor in the Czech Republic with an 8 percent share in total inbound FDI. It has been constantly surpassed only by Germany (23 percent share), Japan (13 percent) and the United States (9 percent). The biggest investment is connected to the activities of Hyundai with other significant investments coming from the tyre manufacturer Nexen Tire which opened a new manufacturing factory in Žatec and Doosan Heavy Industries, which carries Škoda Power in its portfolio, for 631 million USD. Korean investors also show interest in retail and logistic centers, e.g. investing 800 million. EUR in 2019 alone.

Despite the lack of comparative research on Japan's and South Korea's image in the perception of the Czech public, it is safe to claim that companies from both countries have not been connected to any notable scandal in the country. On the contrary, Japanese and South Korean investors seem to be underreported in Czech media. This has led to a strange situation where major political and media attention has been paid to a less significant investor: China. A logical

explanation of this trend could be based on three different factors. First, the activities of the Czech political and economic elites who invested personal capital in the China issue which increased the PRC's profile (though not necessarily in a positive way in the end). Second, the focus on China has been further fueled by the spillover of attention and media coverage devoted to the increasingly assertive China by the United States and Europe. Finally, while Japan and South Korea are not primarily associated with the character of their political system, research on media narratives revealed that, indeed, the image of China in the Czech Republic has been reflexively linked to its authoritarian regime and communist ideology; two topics which are specifically important for the country's post-communist heritage.

## Conclusion

The unfulfilled expectations of an influx of Chinese investment in the Czech Republic and the specific bad experience with the CEFC company have had a profound impact on China's perception in the Czech Republic. More generally, the developments may also alter the prospects of other (Asian) investors. The Czech debate on China's (limited) investment naturally brought to the fore the role played by Japanese and South Korean companies in the Czech Republic. Contrasting their image with the Chinese competition, the remaining investors were quite frequently mentioned as a 'gold standard' against which the success or failure of any Chinese future investment should be measured. This reflected positively on Japan and South Korea's image in the Czech Republic. On the other hand, it does not seem that either of the two countries has been able to capitalize on the trend, perhaps because the scope for the intensification of their economic engagement in the Czech Republic is limited. Recent negative experience with China and a certain level of securitization of Chinese activities also contributed to the adoption of mechanisms which shield the country from unwanted investment; mechanisms such as the national investment screening regulation ('FIR Act'); membership of the Clean Networks initiative regarding the exclusion of untrusted vendors from the construction of 5G networks

or the exclusion of companies from non-democratic countries from involvement in critical infrastructure (such as the Dukovany nuclear power plant tender). This development should not harm responsible investors in the Czech Republic, yet the mechanisms create an obstacle for Chinese companies. On the political front, together with a new emphasis on the Indo-Pacific area by the European Union, the Czech Republic started to show a renewed interest in Japan, South Korea and also India. The Czech Ministry of Foreign Affairs' treatment of the region seems to be developing towards a more holistic approach, seeking the prospect of developing bilateral ties with other Asian countries beyond China. This trend in Czech foreign policy will likely persist as the country prepares to hold the EU presidency in the second half of 2022, thus counting with its new responsibilities regarding the continuation of the EU Indo-Pacific agenda.

## References

- BIS. (2018). "Výroční zpráva bezpečnostní informační služby 2017." Bezpečnostní informační služba, Security Information Service, December 3. Retrieved from [https:// www.bis.cz/public/site/bis.cz/content/vyrocnizpravy/2017-vz-cz.pdf](https://www.bis.cz/public/site/bis.cz/content/vyrocnizpravy/2017-vz-cz.pdf)
- BIS. (2017). "Výroční zpráva bezpečnostní informační služby 2016." Bezpečnostní informační služba, Security Information Service, October 24. Retrieved from [https:// www.bis.cz/public/site/bis.cz/content/vyrocnizpravy/2016-vz-cz.pdf](https://www.bis.cz/public/site/bis.cz/content/vyrocnizpravy/2016-vz-cz.pdf)
- BIS. (2013). "Výroční zpráva bezpečnostní informační služby 2012." Bezpečnostní informační služba, Security Information Service, November 7. Retrieved from [https:// www.bis.cz/public/site/bis.cz/content/vyrocnizpravy/2012-vz-cz.pdf](https://www.bis.cz/public/site/bis.cz/content/vyrocnizpravy/2012-vz-cz.pdf)
- BIS. (2012). "Výroční zpráva bezpečnostní informační služby 2011." Bezpečnostní informační služba, Security Information Service. August 22. Retrieved from [https:// www.bis.cz/public/site/bis.cz/content/vyrocnizpravy/2011-vz-cz.pdf](https://www.bis.cz/public/site/bis.cz/content/vyrocnizpravy/2011-vz-cz.pdf)
- BusinessInfo*. (2019a). "Čína: Obchodní a ekonomická spolupráce s ČR." May 25. Retrieved from <https://www.businessinfo.cz/cs/clanky/cina-obchodni-a-ekonomicka-spoluprace-s-cr-19054.html>
- BusinessInfo*. (2019b). "Japonsko: Obchodní a ekonomická spolupráce s ČR." December 15. Retrieve from <https://www.businessinfo.cz/navody/japonsko-obchodni-a-ekonomicka-spoluprace-s-cr/>
- BusinessInfo*. (2019c). "Korejská republika: Obchodní a ekonomická spolupráce s ČR." December 15. Retrieved from <https://www.businessinfo.cz/navody/korejska-republika-obchodni-a-ekonomicka-spoluprace-s-cr/>
- CCTV. (2016). "Czech President Milos Zeman on ties." March 26. Retrieved from [https:// www.youtube.com/watch?v=PflK1aUEgTM](https://www.youtube.com/watch?v=PflK1aUEgTM)
- CEECAS. (2021). "Chinese Investment in Central and Eastern Europe." Retrieved from <https://www.china-cee-investment.org>.
- ČT 24. (2012). "Nečas: Podpora dalajlamismu škodí českému exportu". Czech Television 24, September 10. Retrieved from <https://ct24.ceskatelevize.cz/domaci/1147149-necas-podpora-dalajlamismu-skodi-ceskemu-exportu>

- Fox, J. & Godement, F. (2009). *A Power Audit of EU-China Relations*. European Council on Foreign Relations, April. Retrieved from [http://www.ecfr.eu/page/-/ECFR12\\_-\\_A\\_POWER\\_AUDIT\\_OF\\_EU-CHINA\\_RELATIONS.pdf](http://www.ecfr.eu/page/-/ECFR12_-_A_POWER_AUDIT_OF_EU-CHINA_RELATIONS.pdf)
- Garlick, J. (2015). "China's Trade with Central and Eastern European EU Members: An Analysis of Eurostat Data, 2004-2014." *Acta Oeconomica Pragensia* 23, no. 4: 3-22.
- Ji, T. & Han W. (2018). "In Depth: Investigation Casts Shadow on Rosneft's China Investor CEFC." *Caixin*, March 1. Retrieved from <https://www.caixinglobal.com/2018-03-01/investigation-casts-shadow-on-rising-oil-star-101215272.html>
- Karásková, I. (2019). *Between Power and Perception: Analyzing China's Influence in International Relations*. 222 pp. Doctoral dissertation (Ph.D.) Charles University in Prague, Faculty of Social Sciences, Institute of Political Studies.
- Karásková, I., Bajerová, A., & Matura, T. (2019). *Images of China in the Czech and Hungarian Parliaments*. Policy paper 02, March. Association for International Affairs (AMO). Retrieved from [http://www.amo.cz/wp-content/uploads/2019/03/AMO\\_Images-of-China-in-the-Czech-and-Hungarian-Parliaments.pdf](http://www.amo.cz/wp-content/uploads/2019/03/AMO_Images-of-China-in-the-Czech-and-Hungarian-Parliaments.pdf)
- Karásková, I., Matura, T., Turcsányi, R.Q., & Šimalčík, M. (2018). *Central Europe for Sale: The Politics of China's Influence*. Policy Paper 03. Association for International Affairs (AMO), April. Retrieved from [https://www.amo.cz/wp-content/uploads/2018/04/AMO\\_central-europe-for-sale-the-politics-of-chinese-influence.pdf](https://www.amo.cz/wp-content/uploads/2018/04/AMO_central-europe-for-sale-the-politics-of-chinese-influence.pdf)
- Kratz, A., Huotari, M., Hanemann, T., & Arcesati, R. (2020). *Chinese FDI in Europe: 2019 Update*. Rhodium Group and the Mercator Institute for China Studies (MERICS), April. Retrieved from <https://merics.org/sites/default/files/2020-05/MERICSRhodium%20GroupCOFDIUpdate2020.pdf>
- Mikoláš, R. (2016). "Čína a Česká republika jsou strategickými partnery, dohodu podepsali na Hradě prezidenti." *Irozhlas.cz*, March 29. Retrieved from [https://www.irozhlas.cz/zpravy-domov/cina-a-ceska-republika-jsou-strategickymi-partnery-dohodu-podepsali-na-hrade-prezidenti\\_201603291306\\_mhromadka](https://www.irozhlas.cz/zpravy-domov/cina-a-ceska-republika-jsou-strategickymi-partnery-dohodu-podepsali-na-hrade-prezidenti_201603291306_mhromadka)
- Novinky.cz. (2014). "Chci se poučit, jak se stabilizuje společnost, řekl Zeman v čínské televizi." October 30. Retrieved from <https://www.novinky.cz/zahranicni/svet/352107-chci-se-poucit-jak-se-stabilizuje-spolecnost-rekl-zeman-v-cinske-televizi.html>

- Office of the President. (2016). "Ekonomické dohody podepsané při příležitosti cesty prezidenta ČLR do ČR." Retrieved from <https://www.hrad.cz/file/edee/2016/03/seznam-dohod-20160330-234153.pdf>
- PSSI. (2018). Léta 2004-2006, krátké jaro česko-čínských vztahů. Prague Security Studies Institute (PSSI). Retrieved from [http://www.pssi.cz/download/docs/503\\_leta-2004-2006-kratke-jaro-cesko-cinskych-vztahu.pdf](http://www.pssi.cz/download/docs/503_leta-2004-2006-kratke-jaro-cesko-cinskych-vztahu.pdf)
- Radiožurnál*. (2015). "Čínský prezident přijal Zemanovo pozvání ke státní návštěvě České republiky." September 4. Retrieved from <https://radiozurnal.rozhlas.cz/cinsky-prezident-prijal-zemanovo-pozvani-ke-statni-navsteve-ceske-republiky-7185850>
- Radiožurnál*. (2015). "Čínský prezident přijal Zemanovo pozvání ke státní návštěvě České republiky." September 4. Retrieved from <https://radiozurnal.rozhlas.cz/cinsky-prezident-prijal-zemanovo-pozvani-ke-statni-navsteve-ceske-republiky-7185850>
- Rühlig, T.N., Jerdén, B., Putten, van der, F.-P., Seaman, J., Otero-Iglesias, M., & Ekman, A. (Eds.) (2018.) Political values in Europe-China relations. European Think-tank Network on China (ETNC), December.
- Soukup, J. (2016). "Zeman: Čína je pro exportéry nenasycený trh." *Týden*, March 28. Retrieved from [https://www.tyden.cz/rubriky/domaci/politika/zeman-cina-je-pro-exportery-nenasyceny-trh\\_377377.html](https://www.tyden.cz/rubriky/domaci/politika/zeman-cina-je-pro-exportery-nenasyceny-trh_377377.html)

## Endnotes

- 1 The article uses excerpts from the unpublished manuscript: Karásková (2019).
- 2 Nečas created the neologism in his speech to businessmen at a trade fair in Brno where he argued that the support of the Tibetan spiritual leader "could jeopardize relations with China, Czech Republic's strategic export partner" (cit. in ČT 24, 2012).
- 3 Video is no longer available, cit. in e.g.: Novinky.cz (2014).
- 4 It is worth noticing, however, that the Czech Republic has a trade deficit not only with China, but also with Japan and South Korea. On trade deficit with China e.g. Garlick (2015), BusinessInfo (2019a).
- 5 CzechInvest monitors only projects which received investment incentives, i.e. not acquisitions (Business, Info, 2019a).



# GEOPOLITICAL TENSIONS IN EAST ASIA AND THE EFFECTS ON JAPANESE AND HUNGARIAN ECONOMIC RELATIONS

*Csaba Moldicz*

<https://doi.org/10.47706/KKIFPR.2021.1.76-97>

**Abstract:** The paper places a strong focus on the increasing geopolitical tensions in the world and the geopolitical and geo-economic adjustment process of both Japan and Hungary to the new environment. After the introductory part (Chapter 1), which discusses the changes in the global political and economic environment, the next chapter (Chapter 2) analyses the geopolitical changes for both countries, focusing on foreign and trade policies. Chapter 3 focuses on how political and economic relations with the two major powers, the United States and Japan, have changed. This chapter also provides an overview of the possible foreign policy strategies vis-à-vis the United States and China. The last chapter tries to find the common platform on which these two countries could work together to achieve their political and economic interests.

**Keywords:** Japan, Hungary, foreign policy, trade, investment, geopolitics,

## Introduction

Despite earlier expectations, the new Biden administration did not provide a respite in the disputes that grew more and more pronounced from 2016 onwards between the United States and China. The two countries who seem to be set on a collision course became more so involved in a trade war. However, it soon became clear that the geopolitical dispute between the two countries is more about

global leadership than it is about trade, technology transfer or control over the South East China Sea. The sudden shift in the tone of bilateral negotiations can be traced back to two key factors: (1) US disillusion with the engagement policy<sup>1</sup> toward China grew and the proponents of China's containment<sup>2</sup> are setting the tone of US foreign policy; (2) After decades of the economic rise of China, development appears to have reached a certain point where the shift in economic power is bound to spill over into world politics, establishing a new balance. The clash between the rising hegemon and the declining power – the so-called 'Thucydides Trap' – seems to be unavoidable according to some analysts, although in our opinion, a predicted long-lasting economic and political dependence on both sides reduces the probability of a real cold war. In our view, there are at least three basic differences between the recent period and the Cold War period after WWII. The two countries are not involved in an ideological war, full economic decoupling is not possible given the level of current economic internationalization and the interests of multinational companies and the two countries do not lead well defined alliance systems against each other. (Christensen, 2021, March 24).

Both Japan and Hungary keep in mind the worst-case scenario which would be that of war and total economic decoupling and for this reason, they appear to avoid adopting positions in binary contentions over trade and security issues. This long-term goal is shared by the two countries.

The paper aims to give a review of the growing geopolitical tensions with special focus on the geopolitical and geoeconomic adjustment process that both countries are currently undergoing in their respective foreign and trade policy. A special focus is set on how bilateral relations might be affected by the changing political environment.

After this introduction, the second section of the paper discusses geopolitical factors that change the political and economic environment for both Japan and Hungary, while the third section of the paper focuses on those geoeconomic effects of the superpower struggle that change Japan's and Hungary's trade and foreign direct investment relations. The fourth section of the paper looks at factors that play a decisive role in both countries' policies and tries to find common platforms allowing for coordinated or like-minded policies.

## Geopolitical factors

The most radical recent change in geopolitical factors was via the new Biden administration, which appears to continue the adaptation of a containment policy towards China. It must be added that it takes place on a different basis than the previous administration's China policy. While the Trump administration criticized China because of its alleged unfair practices in trade, exchanges rates and business,<sup>3</sup> the new administration seems to return to Cold War-inspired terminology and attacks China on an ideological platform. At this point, it should be added that this is not a Cold War in its original iteration as China – in sharp contrast to the Soviet Union – does not pursue the spread of its ideology abroad, nor is it building a group of allied countries, or stationing its military in other countries.

From our standpoint, China's behavior can be more easily construed if we view China as a rising power aiming to make changes in the multilateral institutions of world politics and economy. The narrative that China aims to redesign the world order, reshape its institutions and export authoritarianism does not reflect the reality, but it sets a model for others as Campbell and Sullivan argue "U.S.-Chinese economic and technological competition suggests an emerging contest of models. But unlike the Cold War, with its sharp ideological divide between two rival blocs, the lines of demarcation are fuzzier here. Although neither Washington nor Beijing is engaging in the kind of proselytizing characteristic of the Cold War, China may ultimately present a stronger ideological challenge than the Soviet Union did, even if it does not explicitly seek to export its system. If the international order is a reflection of its most powerful states, then China's rise to superpower status will exert a pull toward autocracy." (Campbell & Sullivan, 2019)

When looking at this confrontation, the question arises as to which side smaller nations should take, if any. At this point, the Hungarian and Japanese foreign policy responses are significantly different. The following two subsections investigate how Hungary and Japan have responded to the growing tensions between the United States and China.

## *Hungarian foreign and trade policy*

During the Covid-19 pandemic, the resilience of the Chinese economy was astonishing by international standards, seeing as China's GDP – the only one among major economies – rose in 2020. Not only last year, but over recent decades, China's relevance in Hungarian trade and investment has been increasing while American economic influence has, for many years, been dwindling which means that now there is no going back to the Obama-era for Hungary's economic relations.

This rapid growth of China coincides with Hungary's need for trade and investment diversification. This need became very clear after the Global Financial Crisis (2008-2009), when the asymmetric dependence of the Hungarian economy on the West backfired and made Hungarian decision-makers aware of the threat of asymmetric dependence in terms of financing and technology. For this reason, Hungary has been pursuing a hedging strategy between China and the US, Russia, the United States and, in some cases, the European Commission since 2010.

Due to the Biden administration's new priorities, Hungary now needs to rethink its US strategy. Not only because the Hungarian government rooted for Trump in the election, but more importantly because Biden sets emphasis on so-called shared democratic values upon which Washington intends to defend against with regards to China. Based on the same logic and values, Biden is very likely to confront Hungary in the debate on the "rule of law"<sup>4</sup> between Hungary and the European Commission and choose the European Commission's side but this debate can be resolved, however, there are two - in our opinion - core questions where Hungary and the United States disagree, and solutions are difficult to find: (1) energy supplies from Russia; (2) growing economic relations with China.

(1) Energy supplies: Hungary has been traditionally dependent on Russian energy imports for decades yet, at the same time, the United States has been pushing Hungary in recent years to decrease its traditional energy dependence on Russia due to geopolitical reasons. Hungary simply cannot follow this foreign policy 'wish' of the United States as it is difficult to replace cheap energy from Russia at this moment. The dilemma we face at

this point is why any foreign policy decision maker would follow assertive advice that goes against the country's energy security. What we can see in a broader context is that American efforts to marginalize Russia have not yielded results since the occupation of Crimea (2014). For the sake of Russia's isolation, the US needs the cooperation of its allies, but in this case the US seems willing to ask its allies to act against their own economic interests without being compensated for the economic losses.

In our opinion, the so-called 'Three Seas Initiative' could be the point at which U.S. foreign policy could compensate Hungary, but the initiative's projects require significant funding. This could be the point where even Japanese foreign policy could play a role in establishing this key infrastructure which would improve North-South connectivity in Central Europe (see the Via Carpathia project) and secure energy supplies to the region (pipelines, LNG terminal etc.).

(2) Growing economic relations with China: while until 2019 Central Europe was regarded as a new fan of China, cracks in China-CE relations have appeared on the surface now.<sup>5</sup> However, Hungary is still pursuing the Eastern Opening Policy and the main reason for that is that Hungary clearly belongs to those countries in the region who benefited relatively the most from deepening economic relations with China.

The accumulated amount of FDI stock between 2005 and 2019 was 3.65 percent of Hungarian GDP in 2019. This proportion is relatively small, however, it has been growing continuously over this period. In contrast to other CE countries, the trade balance with China did not worsen between 2010 and 2018 while the overall trade balance remained positive. In other words, Hungary does not lose from deepening relations with China and trade and investment relations with China speed up the catch-up process with the West.

Special relations with China also helped Hungary when speeding up the vaccination program. The main reason why Hungary was able to surpass EU members in the vaccination of the population<sup>6</sup> is that in this case, the country was pursuing its closest strategic goal and not paying attention to the growing international tensions between the US/EU bloc and China-Russia. The success of this strategy can

be easily measured in numbers: 1.5 million Hungarians were vaccinated (dates: 22-03-2021) with 700 thousand Hungarians being inoculated with Russian and Chinese vaccines (Hungarian Government, 2020).

Although trade and investments from China are still not significant in terms of volume, they have a tendency to increase, and Hungarian foreign and trade policy seems to have a long-term vision and is prepared for the time when China's intentions, like those of the US now, cannot be disregarded in any foreign policy strategy.

In summary, Hungary is 'dancing' between the United States and China, and is continuously switching between the two as shifts in power take place and as Hungary's narrow economic interests dictate. It must be admitted that this geopolitical strategy can sometimes backfire when the power shifts occur in a short period of time and swift adjustments are required. Coca describes this as the 'nonalignment problem' in the case of Indonesia: "In recent years, Indonesian leaders have sought to chart a middle path toward China, pandering to popular distrust of China while seeking Chinese investment. But that balancing act has done little to dissuade Beijing from harassing Indonesia as it does its other Southeast Asian and Pacific neighbors. President Joko Widodo, also known as Jokowi, largely eschews opportunities to speak on the international stage. His ambiguous messaging on China is becoming increasingly unsustainable as the regional security landscape changes" (Coca, 2020, December 30). We don't have to deal with this situation in Hungary's case as economic projects are more successful and due to the geographical distance between the two countries, there is no clash of geopolitical interests.

### *Japanese foreign policy – an act of recreating foreign policy*

In sharp contrast to Hungary, the rise of China has deeper meaning for Japanese foreign policy and more direct economic effects. The geographical closeness and the deeper historical relations with China that often are regarded with mixed feelings on both sides explain why that kind of hedging strategy adopted by Hungary cannot be the praxis of the Japanese foreign policy. Not to mention, the different economic opportunities Japan enjoys while Hungary's economic development is dependent on foreign capital and technology.

Japanese foreign policy actions of the Abe Shinzo era can be divided into two main periods. In the first period (2006-2007; 2011-2014; 2014-2017), Japan tried to systematically improve its relations with China whilst the second period (2017-2020) was more so characterized by growing concerns about China's more assertive behavior in international relations. In the first period, the attempt at warming-up relations was not only motivated by considerations regarding China's new role in the international order but by the unorthodox American foreign policy between 2016 and 2020, whose twists and turns made the alliance between the two countries fragile. Miller put this feeling this way: "The U.S.-Japanese alliance has remained on firm ground since Trump's inauguration, and Abe has developed a strong personal rapport with Trump. Yet Trump's capriciousness toward U.S. allies and his proclivity for economic protectionism have unnerved many of Washington's partners. Perhaps the most striking example of this was Trump's decision to withdraw the United States from the Trans-Pacific Partnership – a deal in which Japan invested deeply without a backup plan".

The new Biden administration just reinforced the need for adjustment in Japanese foreign policy because the period of warming relations with China was rather lukewarm and did not result in permanent changes or satisfactory guarantees of which China does not gain a political advantage from due to its strong economic position in the region. That is why, between 2017 and 2020, the Abe administration was extremely active in forming economic integration and other regional alliances:

1. Japan became a founding country of the Regional Comprehensive Partnership (RCE) in 2020.
2. It is also the founding country of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) that evolved from the Trans-Pacific Partnership (TPP) which never entered into force due to the American withdrawal. It must be added that American participation in the original TPP was seen as a surprise due to domestic opposition from the Japanese agricultural sector and it required flexibility and initiative taking.
3. It must be underlined that Japan's active role can easily be seen in the CPTPP, where the country has a leading role in the success of the trade agreement.

4. Japan strongly advocated for the revival of the Free and Open Indo Pacific concept (FOIP) which originates from Japan and it also participated in the Quad meetings between Japan, the US, Australia and India which resulted in joint military maneuvers.

Oba argues that the original containment-style foreign policy steps of Japan were unsuccessful and, after realizing this, Japan began to take China into consideration, stating: “The Abe administration also gradually reached the point of having to take China into consideration and FOIP became less concerned with restraining China, and more with exploring the possibility of Japan-China Cooperation on Third Countries, thus taking the regional order vision of the Abe administration in a rather different direction that was originally planned” (Oba, 2020 September 20).

At the same time, the flexibility and initiative taking were not sufficient in preventing rising tensions between the United States and China and now Japan seems to be torn apart by these tensions. This is the point at which even a cunning foreign policy alone is not able to stop the tectonic economic and political power shifts. The failure of Japanese foreign policy is a simple reflection of Japan’s dwindling relative political and economic power in the region and of China’s rise. Japan’s economic power has been decreasing for decades, but the turning point was not only created by the rise of China, but the dynamism of the ASEAN countries too.

Oba thinks that “Japan will increasingly have to seek influence through multilateral diplomacy and regional and global institutions. It is this recognition that should inform the foreign policy of the next administration” (Oba, 2020). However, the hedging strategy of Hungary suggests that this kind of ‘swing state’<sup>17</sup> diplomacy is more yielding to the given country than it is taking sides.

At first glance, we could conclude that Japan has chosen the reinforcement of its alliance with the United States. In 2018, Koga argued that Japan’s strategy vis-à-vis China is that of balancing against the risk of China’s rise, while Japan’s position is rather one of bandwagoning vis-à-vis the United States.<sup>8</sup>



In our view, both Hungary’s and Japan’s behavior is rather to be considered as being in-between the two extremities and can be called hedging, while Japan leans more towards balance and Hungary towards bandwagoning in the case of China. For the definition of hedging, we rely on Koga who maintains it means “an insurance policy against opportunism” (Lake 1996: 15). Koga argues that a hedging strategy included deeper economic cooperation and preparation for confrontation (Koga, 2018: 2). We must be aware of the recent changes in Japanese foreign policy towards China, as the emphasis has moved from hedging (preparing for confrontation) to a less cooperative attitude of balancing strategy (ready for confrontation). Japan now seems to be concerned about the attached risks from China’s rise than ever before (see table 1).

Table 1.  
*Foreign policy strategies of Hungary and Japan*

The chosen strategy	Japan	Hungary
vis-à-vis China	Between Hedging and Balancing	Between Hedging and Bandwagoning
vis-à-vis the United States	Bandwagoning	Hedging

Source: own compilation

The fact that Beijing is also aware of the shifts in Japanese foreign policy are shown by the latest remarks of the Chinese foreign minister, Wang Yi, who reacted to the preparations for the US-Japan meeting between the two leaders; President Biden and Prime Minister Suga. The Chinese Foreign Minister put it this way: “China hopes that Japan, as an independent country, will look at China’s development in an objective and rational way instead of being misled by some countries holding a biased view against China” (Wang Yi, cited by Sposato, 2021).

Not only the meeting itself but former statements from the Japanese side make Beijing nervous. In these statements, Hong Kong and Xinxiang are explicitly mentioned as concerns for Japan, while China considers these issues to be internal issues. Japan is also pressured by the United States to join sanctions against China due to the claims of human right violations. The awkwardness of the situation is pointed out by Reynolds, who put it this way: “Japan has found it increasingly awkward to balance its relations with the U.S., its only military ally, and China, its biggest trading partner” (Reynolds, 2021).

As pointed out earlier, China is an increasingly important trading partner of Hungary, but it is far from being the biggest one. That is why Hungary can pursue a different foreign policy strategy than Japan. Due to recent geopolitical tensions, the former Hungarian hedging strategy shifted towards bandwagoning (without earlier striking an alliance with China) and for the same reason, Japan’s hedging was moving towards balancing in the case of China. We can see in both cases that the shift in strategy positioned both countries further from hedging, however, we must also mention that the Hungarian strategy vis-à-vis China is still closer to hedging than bandwagoning, whereas Japan is closer to balancing than hedging. The more subtle change in Hungarian foreign policy can be explained by the geographical distance to China and its lesser importance in the Hungarian economy.

## Geoeconomic factors

In the next subsection, we focus on the economic ties of Hungary and Japan with the United States and China and try to give a rationale to their different foreign policy strategies and their shifts toward the two major powers.

### *The case of Hungary*

Hungarian foreign and trade policy is led by the recognition that the country’s economy relies on the West asymmetrically in terms of capital and technology. The search for a way out of this situation led

to new policies and out-of-the-box solutions in Hungary. Some argued that the measures implemented by Central European governments after the Global Financial Crisis in 2008-2019 signalled a shift towards (re) establishing a state-led capitalist model. We would rather argue that this shift of economic policy thinking brought Hungary a little bit closer to the original version of a developmental state; where the state's role in the economy is much more pronounced than in Western European or North American economies. This shift in the economic model can also be construed as a response to "dependent capitalism which evolved after the 1990s", according to Martin Myrant. Myrant points out two key factors that distinguish this version of capitalism from other forms: "... the level of development of financial systems required for a liberal market economy is absent, as are the cooperative relationships between firms and with trade unions that are at the heart of the notion of a coordinated market economy. These problems are partly overcome with the introduction of a further variety, a dependent market economy, by Nölke and Vliegenthart [2009]. In this version, the CEECs have created environments that give them a competitive advantage in attracting inward FDI by MNCs which then undertake simpler manufacturing tasks in those countries" (Myrant, 2018: 294).

The shift is interpreted by many as a 'newfound love for China' and can be explained by the simple need for diversification in trade and investment ties. China's share in Hungary's trade is still relatively low, thus the increase in trade with China does not involve any significant geopolitical risks. This is why Hungary was able to launch its Eastern Opening Policy in 2011. The Hungarian initiative came at the right time as these Chinese initiatives coincided with the Eastern Opening Policy.<sup>9</sup>

Some argue that a Chinese trade surplus makes the goals of the Eastern Opening Policy questionable, but the Chinese share in Hungarian trade is not yet significant; China's share in Hungarian imports was 5.4 percent in 2018, while China's share in exports reached 1.9 percent in the same year. In other words, the turn towards Asia is still in its infancy, the trade balance deficit with China can be improved and declaring the Eastern Opening Policy based on these percentages would be precipitous. Moreover, we can see that the trade balance

with China improved in the years 2010 and 2018 which is not typical in the region (see table 2). We can add that in the world of global supply chains, bilateral trade statistics tell us less about the reality as Chinese products imported into Hungary can be immediately exported to other EU members.

*Table 2.*  
*Visegrad countries' trade balance with China (\$ billion)*

	Trade balance with China in 2010	Trade balance with China in 2018	The overall balance in 2010	The overall balance in 2018
Czech Republic	-14,1	-23.5	6.4	17.6
Hungary	-4.6	-4.0	7.3	6.6
Poland	-14.8	-28.4	-17.0	-5.8
Slovakia	-2.7	-3.9	-0.4	0.5

*Source: World Bank WITS database*

When it comes to Chinese FDI, we can use two sets of data: the balance of payments statistics of the Hungarian Central Bank (MNB) and alternative information sources of Chinese foreign direct investments such as the statistics of the American Enterprise Institute (AEI) or MERICS. China's share of Hungarian inbound FDI stocks was 2.7 percent based on final investor data (balance of payments approach); around 2.1 billion euros. Even if taking into account the figures from the China Global Investment Tracker (US\$5.88 billion) (American Enterprise Institute, 2020) or the MERICS data (€2.4 billion), the argument that China 'buys up' Hungary is weak (Kratz, et al., 2020).

When looking at these data, we can understand why Hungary's position regarding a much more cooperative China-policy is understandable and logical. Moreover, narrow Hungarian economic interests dictate the implementation of a hedging strategy in the case of trade and investment relations.

When comparing the role of Japan, China and the US in Hungary's diversification policy, we can arrive at different conclusions.

1. When it comes to foreign direct investment, according to MNB, Japan's role as an investor in Hungary is still more significant than China's. Japan's share was 3.7 percent in 2018 – based on final investor data. MERICS or AEI data cannot be used for comparison as there are no Japanese FDI collections available.
5. When it comes to trade, China's role is more significant and is still growing, while the Japanese share is more limited (see table 3). In contrast to the two Asian countries, Hungary has a trade surplus with the United States, however, the share in overall trade is small.
6. The US's share in Hungarian FDI stock is the most significant one among the three countries, although this share has been drastically decreasing in recent years - while the American share in FDI stock was 18.68 percent in 2014, it shrank to 10.73 percent in 2018.

*Table 3.  
China's and Japan's share of Hungarian exports and imports  
(2018, %)*

	Import share	Export share
China	5.4	1.9
Japan	1.28	0.56
United States	1.83	2.86

*Source: own compilation based on World Bank WITS database*

### *The case of Japan*

Japan in sharp contrast to Hungary does not rely on external financing. It possesses an impressive technological knowledge base and ‘know-how’, thus it does not import technology but export it. We can generally say that Japan has great maneuvering room for choosing the right and appropriate economic policies and theories as it is less dependent on partners. However, when looking at Chinese and American shares in its trade, it is clear that the country can hardly avoid taking this aspect into consideration in its foreign policy. The two countries have equally important shares in Japan’s exports – around one-fifth (see table 4).

*Table 4.*  
*China’s and United States’ share of Japanese exports and imports*  
*(2018, %)*

	Import share	Export share
China	23.20	19.51
United States	11.17	19.05
Hungary	0.14	0.22

*Source: own compilation based on World Bank WITS database*

In table 5, we can find the main direct investors in Japan. China does not have a significant position as an investor (2019: 1.56 percent), while the US’ investor role in Japan (2019: 23.56 percent) might be able to sway the course of the country’s foreign policy. When looking at the share of Japanese FDI abroad, a similar close link can be found between Japan and the US (2019: 28.70 percent) while the China-Japan link is weaker.

At the same time, there is one factor that we have not discussed in the case of Hungary, but it must be mentioned in Japan's context and that is the fact that Japan is within range of Chinese weaponry while Central Europe is not. We can also add other basically never-ending disputes over the Senkaku/Diaoyu islands to the list of tension-generating issues between the two countries. In other words, Hungary does not have a clash of geopolitical interests with China, while Japan is more vulnerable from this aspect. While Hungary is allied with the United States in the framework of NATO, this alliance explicitly focuses on the transatlantic region, rather than on Asia.

Japan's geographical closeness to China cannot be changed, however, its close trade ties can be loosened over time. Japan has recently called on Japanese companies to turn to the South East region and invest more there. There are significant Japanese firms where the Chinese share in trading activities is circa one-third; making these companies extremely vulnerable to geopolitically-induced shocks. As pointed out above, the Chinese share of Japanese FDI abroad is significantly smaller than the American share, however, the 7 percent can be interpreted as a geopolitical risk which has to be reduced. An Asia Fund Managers report summarizes these efforts this way: "Under the subsidy scheme, the government will cover up to half the cost of investments within the Association of Southeast Asian Nations for large companies and as much as two-thirds for smaller businesses. These subsidies are specific to products manufactured in specific countries" (Asia Fund Managers, 2020, October 8).

Table 5.  
Japanese FDI abroad and FDI in Japan (%)

	FDI stock in Japan (2019)	Japanese FDI abroad (2020)
Asia	22.11	27.78
China	1.56	7.01
Hong Kong	3.65	1.92
Taiwan	2.46	0.82
Korea	2.37	2.10
Singapore	10.52	4.90
US	23.56	28.70
Europe	43.31	29.97
Germany	2.83	2.16
UK	7.37	9.25
France	11.60	0.94
Netherlands	11.53	7.16
Switzerland	4.35	2.44
Sweden	0.92	0.42
ASEAN	12.00	14.29
EU	38.64	27.23
World	100.00	100.00

Source: JETRO: Japanese Trade and Investment Statistics



This subsidy scheme will most likely increase the effects of the Regional Comprehensive Economic Partnership (RCEP), signed in November 2020. Although the RCEP is a free trade agreement, the agreement covers topics related to FDI. The likely outcome of the agreement is that it will increase FDI flow from North Asia to South Asia; only adding to an already existing trend, thus supporting the formation of regional supply chains (FDI Center, 2020, November 20).

## Common platforms

The main common platform in the two countries' relations is their need for diversification in their trade and investment relations. In Hungary's case, diversification in both trade and investment simply means 'more Asia', while in Japan's case the 'more Asia' motto has to be rather specified as South-East Asia or, in other words, 'less China'. Given the high American shares in both trade and investment, the United States does not offer any economic relief for Japan's diversification strategy. In this case, the combination of a Taiwan-style New South Bound Policy<sup>10</sup> with increased investment in Central Europe could solve the diversification problems of Japan.

We could see that the need for diversification has different sources in Japan and Hungary. Hungary is rather motivated by the economic development needs of the country than it is by geopolitically-induced fears. The East Asian region is relevant mainly in economic relations for Hungary so the other main platform for cooperation could be enhanced investments from the Japanese side in the region of Hungary which would also offer diversification opportunities for Japan.

At the same time, we can add that it is difficult for Japan not to deepen economic relations with China as the main growth impulse still comes from China. For the same reason, it will be difficult to disentangle from China if Chinese economic growth generates growing demand for Japanese products and services. The key player seems to be the United States as it is pushing Japan to revise its relations with China on the basis of human rights and other disputed issues which are not related to economic development and business. The question is how long Japan

will be able to pursue this value-based foreign policy because its close and short-term interests would dictate otherwise. Japan's closeness to China and its strong relations with the United States seems to set Japan on a collision course with China. Hungary's room for maneuver is larger, but even in this case, growing international tensions pushes the country towards taking sides which does not stand in Hungary's interests.

## References

- Asia Fund Managers (2020, October 8). Japan's efforts to diversify supply chains. Retrieved from: <https://www.asiafundmanagers.com/int/japan-supply-chains-diversification/>
- American Enterprise Institute (2020). China Global Investment Tracker. Updated in 2020, AEI, Retrieved from: <https://www.aei.org/china-global-investment-tracker/>
- Bergsten, F. C. (1982). What to Do About the U.S. Japan Economic Conflict. *Foreign Affairs*, Summer 1982. pp. 1059-1075. Retrieved from: <https://www.foreignaffairs.com/articles/japan/1982-06-01/what-do-about-us-japan-economic-conflict>
- Campbell, K. M. & Sullivan, J. (2019). Competition Without Catastrophe. How America Can Both Challenge and Coexist with China. *Foreign Affairs*. September/October 2019. Retrieved from: <https://www.foreignaffairs.com/articles/china/competition-with-china-without-catastrophe>
- Christensen, Thomas J. (2021, March 24). There Will Not Be a New Cold War. The Limits of U.S.-Chinese Competition. *Foreign Affairs*. Retrieved from: <https://www.foreignaffairs.com/articles/united-states/2021-03-24/there-will-not-be-new-cold-war>
- Coca, N. (2020, December 30). Indonesia's Nonalignment Problem. Neutrality Won't Protect Jakarta From Beijing's Aggression. *Foreign Affairs*. Retrieved from: <https://www.foreignaffairs.com/articles/indonesias-nonalignment-problem>
- FDI Center (2020, November 20). RCEP – the world's largest trade agreement and its impact on FDI. Retrieved from: <https://fdi-center.com/rcep-the-worlds-largest-trade-agreement-and-its-impact-on-fdi>
- Fontaine, R. & Kliman, D. M. (2013). International Order and Global Swing States. *Center for Strategic and International Studies. The Washington Quarterly* 36:1 pp. 93-109. Retrieved from: [https://csis-website-prod.s3.amazonaws.com/s3fs-public/legacy\\_files/files/publication/TWQ\\_13Winter\\_FontaineKliman.pdf](https://csis-website-prod.s3.amazonaws.com/s3fs-public/legacy_files/files/publication/TWQ_13Winter_FontaineKliman.pdf)
- Hungarian Government (2021). Szijjártó Péter: A kínai és orosz vakcinák beszerzése nagyban elősegítette a magyarországi oltás felgyorsítását. Retrieved from: <https://kormany.hu/hirek/szijjarto-peter-a-kinai-es-orosz-vakcinak-beszerese-nagyban-elosegitette-a-magyarorszagi-oltas-felgyorsitasat>

- Kavalski, E. (2020). Is China Out the Window in the CEE? Echo-Wall. Retrieved from: <https://www.echo-wall.eu/currents-context/china-out-window-cee>
- Kratz, A., Huotari, M., Hanemann, T. & Arcesat, R. (2020, April 08). Chinese FDI in Europe: 2019 Update. Rhodium Group (RHG) and MERICS, Retrieved from: <https://mimderics.org/en/report/chinese-fdi-europe-2019-update>
- Koge, K. (2018). The Concept of “Hedging” Revisited: The Case of Japan’s Foreign Policy Strategy in East Asia’s Power Shift. *International Studies Review* (2018) 20, 633–660.
- Lake, D. (1996). Anarchy, Hierarchy, and the Variety of International Relations. *International Organization* 50 (1): 1–33
- Mie Oba (2020, September 10). Abe’s Regional Diplomacy: Results and Limitations. Broad regional trends ultimately constrained an active foreign policy. *The Diplomat*. Retrieved from: <https://thediplomat.com/2020/09/abes-regional-diplomacy-results-and-limitations/>
- Myrant, M. (2018). Dependent capitalism and the middle-income trap in Europe and East Central Europe. *International Journal of Management and Economic*, 54(4), pp. 291–303. Retrieved from: <https://content.sciendo.com/view/journals/ijme/54/4/article-p291.xml?language=en>
- Neil, Thomas. (2019, September 3). Matters of Record: Relitigating Engagement with China. *Marco Polo*, Retrieved from: <https://macropolo.org/analysis/china-us-engagement-policy/>
- Reynolds, I. (2021, April 6). China Tells Japan to Stay Out of Hong Kong, Xinjiang Issues. *Bloomberg*. Retrieved from: <https://www.bloomberg.com/news/articles/2021-04-06/china-tells-japan-to-stay-out-of-hong-kong-xinjiang-issues>
- Lipset, S. M. (1959). Some Social Requisites of Democracy: Economic Development and Political Legitimacy. *The American Political Science Review*, 53(1), (March, 1959) pp. 69–105. Retrieved from: [https://scholar.harvard.edu/files/levitsky/files/lipset\\_1959.pdf](https://scholar.harvard.edu/files/levitsky/files/lipset_1959.pdf)
- Sposato, W. (2021). Japan Toughens on China as Beijing Issues Threats. *Foreign Policy*. <https://foreignpolicy.com/2021/04/08/japan-china-foreign-policy-threats-maritime-conflicts/>
- Vasa, L. (2020). Az Európai Unió Közép-Ázsia Stratégiájának kritikai elemzése. *Európai Tükör* 23 (1): 34–48.

## Endnotes

- 1 The roots of engagement policy are to be traced back to the Nixon era, but to outside observers it began to take on a clear strategy in the 1990s, when the Eastern European socialist bloc and Soviet Union collapsed. The end of the bipolar world led to the reconceptualization of U.S. policy toward China. George H.W. Bush introduced the term “engagement” with respect to the People’s Republic of China (PRC), but it was not until the Clinton Administration (1993-2001) that the term “engagement policy” became associated with the idea of economic changes and reforms that were followed by political changes and democratization in China (Neil, 2019). Behind the “engagement policy” lies the expectation that only democracy guarantees long term economic rise (Lipset, 1959). However, China disproved this prophecy.
- 2 The U.S. administration under President Donald Trump (2016 and 2020) pursued disengagement from China. The intensity of the disputes reached new heights after 2017 when the Trump administration published the revision of the US National Security Strategy and the next peak came during the Covid-19 pandemic when Secretary of State Mike Pompeo, took aim at engagement policy in his speech “Communist China and the Free World’s Future.” in July 2020. The new administration did not change the main course, but the stronger emphasis on seeking allied countries and problems with human rights in China was set from 2021 on.
- 3 The irony of the criticism that exactly the same accusations were formed by the United States when Japan was on the rise. Bergsten put it this way: “To be sure, there has been fairly steady tension between the United States and Japan over economic issues ever since Japan emerged as a major industrial power. Japan’s amazing success ... has won its grudging admiration but also growing hostility as a disruptive force in American economic life and brought repeated charges of ‘unfair’ competition. Its apparent reluctance, or even inability, to expand substantially its imports of manufactured products has produced steady charges that Japan is itself highly protectionist, a ‘free rider’ on the open trading system from which it benefits so greatly but within which it seems unwilling to provide others with truly reciprocal opportunities.” (Bergsten, 1982: 1059)

- 4 The 'rule of law' debate became very intense when the European Commission wanted to link EU funds to the adherence to the rule of law. The Hungarian government argues that until a clear definition of the rule of law is adopted at an EU level, this link would make countries more receptive to external pressures, which is in sharp contradiction to their sovereignty.
- 5 Kavalski summarizes it this way: "There are no future summits on the horizon. But reinforcing the view that CEE states have grown weary of Chinese promises, and wary of its bullying, only Serbia, Hungary, and Greece among all 17 CEE states agreed to take part in China's June 2020 videoconference on the Belt and Road Initiative." (Kavalski 2020)
- 6 Hungary is the 10th most vaccinated country in the world and the 2nd in the EU based on the proportion of vaccinated people to the entire population (data: 04-04-2021).
- 7 The term „global swing state' was more popular in the early 2010s, when they basically characterized four rising countries this way. Fontaine and Kliman put this: "These four rising democracies might be termed "global swing states." In the American political context, swing states are those whose mixed political orientation gives them a greater impact than their population or economic output might warrant. This applies to Brazil, India, Indonesia, and Turkey" In our case the term simply means balancing countries between the two superpowers. (Fontaine & Kliman, 2013: 93).
- 8 In foreign policy, the spectrum of countries' behavior is usually put between bandwagoning and balancing, where balancing means using political, economic and military means to prevent a rising power from becoming a hegemon one, and bandwagoning means is striking an alliance with the rising power.
- 8 The strategy was revised a year later, it stresses the salience of diversifying trade and investment. The aim was to double the export of Hungarian small and medium-sized enterprises to the target regions, with China, Russia and India being the main partners of these regions. (Becsey, 2014)
- 10 The New South Policy of Taiwan was launched in 2016 and targeted 18 countries in South-East Asia. (Thailand, Indonesia, Philippines, Malaysia, Singapore, Brunei, Vietnam, Myanmar, Cambodia, Laos, India, Pakistan, Bangladesh, Nepal, Sri Lanka, Bhutan, Australia and New Zealand.) The strategy aims to achieve cooperation with the countries in trade, technology, agriculture, medicine, education, and tourism.

# JAPAN'S ASIAN COMPETITORS IN VISEGRÁD COUNTRIES

*Ohara Bonji*

<https://doi.org/10.47706/KKIFPR.2021.1.98-110>

**Abstract:** In this paper, I would like to review the economic activities of China and Korea based on their respective strategies and discuss the future economic activities of Japan, China and Korea in Visegrád countries.. China is expected to increase its investment to strengthen its economic ties with Visegrád countries. In view of the Japanese government's cooperative posture with the U.S., some Japanese private companies have begun to restructure their supply chains, and Visegrád countries are likely to be attractive to them as important nodes in new supply chains. This is a time when Japan's economic activities in Visegrád countries may expand. This will lead to a situation where Japan, China, and the ROK are all planning to develop their economic activities in the Visegrád countries.

**Keywords:** Visegrád countries, Japan, China, Korea

## Japan's Competitors in Central Europe

It can be said that China is the leading economic competitor of Japan in the Central European region. China has been strategically expanding its investments in countries from Southeast Asia westward based on a Belt and Road initiative (BRI) which was proposed in 2013. China insisted that the geographic goal of BRI was the west coast of Europe which faces the Atlantic Ocean. China sees BRI as linking the Asia-Pacific economic zone in the east with the European economic zone in the west<sup>1</sup> and has acquired operational rights to the Greek port of Piraeus

with Greek Prime Minister Tsipras describing Greece as the gateway to Europe on the “21st Century Maritime Silk Road”<sup>2</sup>. Central and Eastern Europe can be considered the gateway to Europe via the land-based “Silk Road Economic Belt”. For China, the Visegrád countries form an important region that can serve as the basis for expanding China’s economic activities in Europe.

The Republic of Korea (ROK) is also actively trying to build economic ties with Visegrád countries. The Korea Chamber of Commerce and Industry and the Ministry of Trade, Industry and Energy held their second economic and trade forum with the Visegrád Four on February 25, 2021 to discuss mutual cooperation in the fields of renewable energy and carbon neutrality<sup>3</sup>. The first forum took place four months ago.

Looking at the economic activities of the ROK, we can understand that the ROK is leading Japan in building a government-led economic framework. The ROK’s economic activities in foreign countries are different from those of Japan; leaving such activities to the discretion of individual private companies. Despite the differences in approach, the ROK will undoubtedly be a strong competitor to Japan in Central Europe.

In this paper, I would like to review the economic activities of China and Korea based on their respective strategies and discuss the future economic activities of Japan, China and Korea in Visegrád countries.

## China’s goal and economic development

As far as the words and deeds of the Chinese Ministry of Foreign Affairs and others are concerned, the overriding national goal of the People’s Republic of China is the continuation of the rule of China by the Chinese Communist Party (CCP), and any action taken to achieve the goal is justified. For example, even if Western countries criticize China for suppressing the pro-democracy camp in Hong Kong and oppressing ethnic minorities in Xinjiang as human rights issues, China treats the events from a different perspective – that of security issues related to maintaining domestic unity. For this reason, the debate between Western countries and China does not mesh.



CCP rule cannot continue unconditionally. To continue its stable rule, the CCP needs not only strict control of society but also the support of the people. Therefore, the CCP must demonstrate that its policies are always correct and maintain its authority. The Xi Jinping administration, with its “Chinese dream of a great rejuvenation of the Chinese nation<sup>4</sup>,” must show the people that China has become richer and stronger.

China has been trying to strengthen its domestic manufacturing industry based on ‘Made in China 2025’ which was released in 2015 by the State Council of China. ‘Made in China 2025’ is not just an economic stimulus package, but a strategy for China to become one of the world’s great powers. This can be seen in the introduction of ‘Made in China 2025’, which states: “The history of the rise and fall of the world’s great powers and the struggles of the Chinese nation since industrial civilization began in the middle of the 18th century proves that a state and a nation cannot be strong and prosperous without a strong manufacturing industry. Establishing an internationally competitive manufacturing industry is an essential way to enhance our country’s comprehensive national strength, guarantee our national security, and build a world Great Power<sup>5</sup>.”

In addition to developing its manufacturing industry, China is also trying to make international business standards, norms, and rules more advantageous to itself. In January 2018, it was reported that China’s National Committee for Standardization Administration (NSCA), together with major think tanks such as the Chinese Academy of Engineering, conducted a study on standardization strategies and formulated ‘China Standard 2035’; a code of conduct to promote standardization strategies<sup>6</sup>. ‘China Standard 2035’ is also recognized as China’s global strategy to succeed ‘Made in China 2025’. It is thought that China is trying to gain an advantage in its own economic activities and information gathering by seizing various standards, norms, and rules of the international community.

In implementing international standards and rules, it is important to increase influence in UN specialized agencies that have jurisdiction over those standards and rules. Currently, four of the 15 UN specialized agencies are led by Chinese nationals. Looking at these UN specialized

agencies, we can understand the areas where China wants to implement its standards. They are the Food and Agriculture Organization of the United Nations (FAO), the United Nations Industrial Development Organization (UNIDO), the International Civil Aviation Organization (ICAO), and the International Telecommunication Union (ITU). In March 2020, an election was held to elect the Director General of the World Intellectual Property Organization (WIPO), and although China fielded a candidate, he lost to a Singapore-based candidate promoted by Japan, the U.S. and Europe<sup>7</sup>. Japan, the United States, and Europe feared that if China took the lead in the field of intellectual property protection in the international community, the international rules for intellectual property protection might be relaxed. The ITU has also been working to create a favorable situation for China in other areas: since its Chinese director general took office in 2015, the ITU has promoted cooperation with the China-led BRI and has increasingly spoken out in favor of Huawei.

## China's Attempt to Seize the Digital Economy

Although China has become economically and militarily powerful as a nation, there is a disparity between the rich and the poor within its borders and is under pressure to continue its economic development. China is now actively promoting the control of information and communication networks and the information that flows through these networks. This is because it is believed that the seizure of these networks will lead to the acquisition of a dominant position in future economic activities and military operations.

China recognizes that the current information and communication network infrastructure and the information on it are in the hands of the United States, and is actively building its own network infrastructure to avoid using the existing network infrastructure.

China has launched more than 130 rockets during the 13th Five-Year Plan (2016–2020), with 34 rockets launched in 2019 and 2020, respectively<sup>8</sup>. The number of rockets launched in the past two years is the largest in the world, accounting for about one-third of all rockets launched in the world.

China has launched a number of satellites using these rockets, including Beidou; a rival version of GPS, various remote sensing satellites, and communication satellites. On June 23, 2020, China launched the 55<sup>th</sup> Beidou satellite overall, completing the Beidou-3 system<sup>9</sup>; a positioning satellite system that China has been building since the 1990s at an estimated cost of US\$<sup>10</sup> 10 billion. The Beidou-3 system is a network of 35 satellites that can provide centimeter-level positioning and navigation aid services on a global scale. By 2035, China plans to turn the Beidou-3 system into a comprehensive space-time system with enhanced ubiquity and integration with AI<sup>11</sup>. In addition, remote sensing satellites are already being used in combination with the Beidou system for undersea resource exploration.

China has also launched a number of communication satellites, but it also understands that satellite-based communication is limited in terms of data volume, and is accelerating the development of high-speed broadband communication satellites with an investment of approximately 10 billion RMB. The “Shixian 20” large platform satellite (weighing about 8 tons); a platform for communication satellites and high orbit remote sensing and can also be applied to space exploration, was launched on December 27, 2019, and is now in operation<sup>12</sup>. The “Changzheng 5” rocket that launched the “Shixian 20” is capable of carrying a 14-ton satellite into geostationary orbit.

One of the reasons why China has begun to actively build satellite networks is because of its military buildup: the Network-Centric Warfare doctrine utilized by the U.S. in the 1991 Gulf War shocked the Chinese People’s Liberation Army (PLA) and, since then, China has been rushing to build the capability to respond to similar combat scenarios. The basis of this capability is a space-based satellite network that is essential for commanding and sharing target information among widely deployed forces and platforms such as naval vessels and aircraft. China has launched a large number of maritime surveillance satellites to detect, identify, track, target, and place foreign naval vessels; mainly U.S. Navy aircraft carrier strike groups under surveillance in a wide range of ocean areas<sup>13</sup>. By combining these maritime surveillance satellites

with intelligence/communications satellites and positioning satellite systems, China will be able to share the precise position of a target within its own widely deployed forces and conduct integrated attacks upon it.

China's willingness to build a satellite network was also due to the perception that submarine cables were in the hands of the US. Submarine cable landing stations are vulnerable and susceptible to attack. Also, the submarine cable itself can be hacked, and the U.S. and Britain are said to be monitoring the information on the submarine cable<sup>14</sup>. More than 95% of the data on the Internet, including voice data, is transmitted by using submarine cables and unless you take control of the submarine cables, you have not taken control of the network. As China has gained economic power, it has begun to aggressively lay submarine cables on its own. The main player in China's submarine cable installation was Huawei Marine, a subsidiary of Huawei, which the U.S. is increasingly wary of for espionage and other reasons. Huawei sold its stake in Huawei Marine in 2019.

It is not only for military purposes that China is trying to seize the network. On May 14, 2017, at the BRI Summit, President Xi Jinping said "We will cooperate in the areas of digital economy, AI, nanotechnology, quantum computing, etc., and promote big data, cloud computing, and smart city construction. And then we will connect those to build the 21st century Digital Silk Road<sup>15</sup>." The future of business is expected to be dominated by network-centric technologies such as automated driving and telemedicine. Those who control the network and the information flowing over the network will achieve superiority in future business. As countries become more and more dependent on the services provided by China's information and communication networks, such as Beidou, China's military and economic influence on those countries will increase.

## Korea's National Strategy and Economic Activities

China is particularly keen on the construction of information and communication networks in space and underwater, and the implementation of various international standards, norms and rules - including internet protocols - as the basis for gaining an edge in future business. If these efforts are combined with investment in

the transportation infrastructure of foreign countries, China will be able to exert a dominant influence in the IoT business in those countries, including autonomous driving and telemedicine etc., which is expected to become the core of business in the future. While each country is trying to create an environment in which its own business can develop favorably, China's economic activities in particular are characterized by strategic investment under the strong leadership of the CCP, and the inability to separate economic influence from the expansion of diplomatic and military influence.

中国の戦略に比べれば、韓国の国家戦略はシンプルであると言える。朝鮮半島内の問題はともかく、グローバルなレベルでは、韓国の優先的な目標は経済的利益を上げることであるように見受けられる。その目標を達成するための戦略が、米中のどちらにも与せず、米国に対する軍事的依存と中国に対する経済的依存とのバランスを取ることである。韓国の中国への輸出量は、米国、日本、欧州連合（EU）への輸出量の合計よりも多いため、韓国が米国と一体となって中国に対抗する姿勢を示せば、韓国経済は危機に陥るだろう。

Compared to China, South Korea's national strategy is simple. Aside from issues within the Korean Peninsula at the global level, the ROK's overriding goal appears to be to make economic gains. Its strategy for achieving this goal is to balance its military dependence on the US with its economic dependence on China without taking sides with either the US or China<sup>16</sup>. Since the ROK's exports to China are larger than the sum of its exports to the US, Japan, and the European Union, the ROK economy would be in jeopardy if South Korea were to join the US in taking a stand against China.

The ROK wants to keep itself outside the great power game being played out between the U.S. and China and is behaving as such. As a result, the ROK's economic activities in foreign countries do not show consideration for either the US or China. While showing no diplomatic intentions, the ROK tends to show its significance as a counter to China's expanding economic influence, and it is possible that it sees the situation where countries alarmed by China's economic expansion

can be presented as an opportunity for the ROK. Such moves by the ROK could be seen not only in Central Europe but also in the Southeast Asian region in the past.

One of the reasons behind the ROK's active development of external economic activities is that the domestic market in the ROK is not necessarily large. This differs from conditions in Japan, the U.S., and China which have certain domestic markets. China, which has been active in foreign investment, has also been advocating a 'Dual Circulation' economy centered on the domestic market in order to cope with changes in the international supply chain stemming from the confrontation between the U.S. and China<sup>17</sup>.

## Prospects for Economic Activity among Japan, China and ROK in Visegrád Countries

In light of China's aforementioned strategy, China is expected to increase its investment in order to strengthen its economic ties with Visegrád countries. The investment is expected to begin with transportation infrastructure and energy-related facilities, and then expand to facilities related to information and communication networks. China has already said that the Export-Import Bank of China will finance about 85% of the construction funds of a railroad connecting Budapest, Hungary and Belgrade, Serbia. China will keep trying to develop new trade routes within Europe and complete the BRI to reach the west coast of Europe.

Although China has adopted an economic policy of 'Dual Circulation' and has also tightened the screening process for foreign investment, it is unlikely that China will stop its efforts to expand its influence. In addition, there is still a possibility that China's investments will be made for diplomatic or military reasons, even if private companies are not considered to have sufficient economic benefits. Based on its 'holistic national security architecture'<sup>18</sup>, China will not distinguish between economic, diplomatic, military, etc., and will use all means to expand its influence which may elevate a sense of vigilance by the Visegrád countries.

The ROK, on the other hand, will take advantage of the Visegrád countries' growing wariness of China and will continue to try to develop its economic activities within the region. Whether the ROK's economy can remain strong will depend on its ability to strike a balance between the US and China. Balancing the U.S. and China is becoming increasingly difficult as the U.S. pursues 'political warfare' and China pursues a 'holistic national security mechanism', using all means at its disposal to achieve their goals.

The situation in the ROK applies to Japan as well. Japan is not inclined to use its economic relations with other countries as diplomatic means to pressure other countries, too. This tendency is stronger than in the ROK. For example, usually, the Japanese government does not show its leadership in promoting economic projects, subsequently leaving Japan's economic activities to the independent activities of private companies which shows that Japan's economic activities tend not to be subject to the will of the government.

Japan tends to place more emphasis on cooperation with the U.S., and the joint statement issued during the Japan-U.S. summit held on April 16, 2021, makes clear that Japan is willing to cooperate with the U.S. in responding to China's attempt to change the status quo by force, unfair economic activities, and other issues<sup>19</sup>. Even if there is no diplomatic intent on the part of the Japanese private sector, China may perceive Japan's economic activities as a way to suppress China's expansion of influence in cooperation with the US.

In view of the Japanese government's cooperative posture with the U.S., some Japanese private companies have begun to restructure their supply chains, and Visegrád countries are likely to be attractive to them as important nodes in new supply chains. This is a time when Japan's economic activities in Visegrád countries may expand. This will lead to a situation where Japan, China, and the ROK are all planning to develop their economic activities in the Visegrád countries. Japan and China may compete in the area of investment, as has been seen in the Southeast Asian region.

## References

- Beidou in Three Steps: From the Beginning to the Global Network “数”说北斗 从起步到全球组网 北斗建设的“三步走。” (2020). Beidou. 北斗网 Retrieved from [http://www.beidou.gov.cn/yw/xwzx/202006/t20200615\\_20649.html](http://www.beidou.gov.cn/yw/xwzx/202006/t20200615_20649.html)
- China Aerospace Science and Technology Group Co. “中国航天科技集团有限公司” Launch Record. “发射记录” Retrieved from <http://www.spacechina.com/n25/n142/n152/n657792/index.html>
- China Aerospace Science and Technology Group Co. “中国航天科技集团有限公司” (2019). The third flight of the Long March 5 rocket was a complete success. “长征5号火箭第3飞获得圆满成功” Retrieved from <http://www.spacechina.com/n25/n2014789/n2014804/c2812651/content.html>
- China launches Remote Sensing 21, reconnaissance satellite swarm to locate US aircraft carrier. “简氏：中国发射遥感21 侦察卫星群定位美航母。” (2014). 手机凤凰网. Retrieved from <http://imil.ifeng.com/42158521/news.shtml?&back>
- Friedhoff, K. (2021). South Korea Is Staying Out of the U.S.-China Rivalry. *World Politics Review*. Retrieved from <https://www.worldpoliticsreview.com/articles/29626/south-korea-is-staying-out-of-the-china-us-competition>
- Greek prime minister in Chinese. “希腊总理用中文”. (2015) Happy new year. Congratulations to the Chinese people. “新年好. 向中国人民祝贺春节(组图)”. *Xinhuanet*. “新华网” Retrieved from [http://news.xinhuanet.com/overseas/2015-02/20/c\\_127509381.htm](http://news.xinhuanet.com/overseas/2015-02/20/c_127509381.htm)
- Jung, S. (2021). South Korea and Visegrád Four to Further Economic Cooperation. *Business Korea*. Retrieved from <http://www.businesskorea.co.kr/news/articleView.html?idxno=61271>
- Literature Research Office of the Central Committee of the Communist Party of China “中共中央文献研究室编” (2013) Excerpts from Xi Jinping’s Discourse on Achieving the Chinese Dream of Great Revival of the Chinese Nation. “习近平关于实现中华民族伟大复兴的中国梦论述摘编.”
- Ministry of Foreign Affairs of Japan. (2021). U.S.-Japan Joint Leaders’ Statement: “U.S.-JAPAN GLOBAL PARTNERSHIP FOR A NEW ERA.” *Ministry of Foreign Affairs of Japan* Retrieved from <https://www.mofa.go.jp/files/100177718.pdf>



- National Standards Committee: „China Standard 2035” is being developed „国家标准委：正制定中国标准2035” (2018). *Xinhuanet*. 新华网. Retrieved from [http://www.xinhuanet.com/fortune/2018-01/10/c\\_129787658.htm](http://www.xinhuanet.com/fortune/2018-01/10/c_129787658.htm)
- Page, J. O’Keeffe, K. Taylor, R. (2019). America’s Undersea Battle With China for Control of the Global Internet Grid. *The Wall Street Journal* Retrieved from <https://jp.wsj.com/articles/SB12498886470155574209504585177543844620112?mg=prod/com-wsj>
- State Council of the People’s Republic of China. „中华人民共和国国务院” (2015). Notice of the State Council on the Issuance of „Made in China 2025” „国务院关于印发《中国制造2025》的通知”
- Tung, Ch. Alan, H. Y. (2020). How China Is Remaking the UN In Its Own Image. *The Diplomat*, Retrieved from <https://thediplomat.com/2020/04/how-china-is-remaking-the-un-in-its-own-image/>
- Wang, Sh. (ed.) (2014). Xi Jinping strategic vision: “One Belt One Road” opens up the space for building dreams. „习近平提战略构想. 一带一路”打开”筑梦空间”. *Xinhuanet*. 新华网. Retrieved from [http://www.xinhuanet.com//politics/2014-08/11/c\\_1112013039.htm](http://www.xinhuanet.com//politics/2014-08/11/c_1112013039.htm)
- Wang, Z. Song, Z. “王政淇 宋子节.” (2020). The new development pattern is described in this way by Xi Jinping. “畅通国内国际双循环 习近平这样阐述”新发展格局”. *People’s People’s*. Retrieved from <http://politics.people.com.cn/n1/2020/0722/c1001-31793969.html>
- Woo, R. Gao, L. (2020). China set to complete Beidou network rivalling GPS in global navigation. *Reuters*. Retrieved from <https://jp.reuters.com/article/us-space-exploration-china-satellite-idUKKBN23J019>
- Xi Focus: Xi stresses building holistic national security architecture. (2020). *Xinhua*. Retrieved from [http://www.xinhuanet.com/english/2020-12/12/c\\_139584669.htm](http://www.xinhuanet.com/english/2020-12/12/c_139584669.htm)
- Xi Jinping’s speech at the opening ceremony of the “Belt and Road” International Cooperation Summit. “习近平在”一带一路”国际合作高峰论坛开幕式上的演讲.” (2017). *Xinhuanet*. 新华网. Retrieved from [http://www.xinhuanet.com/2017-05/14/c\\_1120969677.htm](http://www.xinhuanet.com/2017-05/14/c_1120969677.htm)
- Zhou, Y. (ed.) (2020). The deployment of China’s Beidou-3 global satellite navigation system constellation is fully completed half a year ahead of schedule. “我国北斗三号全球卫星导航系统星座部署前半年全面完成” *Beidou*. “北斗网” Retrieved from [http://www.beidou.gov.cn/yw/xwzx/202006/t20200623\\_20685.html](http://www.beidou.gov.cn/yw/xwzx/202006/t20200623_20685.html)

## Endnotes

- 1 “习近平提战略构想：“一带一路”打开“筑梦空间”《新华网》2014年 月11日，[http://www.xinhuanet.com//politics/2014-08/11/c\\_1112013039.htm](http://www.xinhuanet.com//politics/2014-08/11/c_1112013039.htm)， Retrieved August 12, 2014
- 2 “希腊总理用中文“新年好”向中国人民祝贺春节(组图)”《新华网》2015年2月20日，[http://news.xinhuanet.com/overseas/2015-02/20/c\\_127509381.htm](http://news.xinhuanet.com/overseas/2015-02/20/c_127509381.htm)， Retrieved February 24, 2015
- 3 “South Korea and Visegrád Four to Further Economic Cooperation” *Business Korea*, February 26, 2021, <http://www.businesskorea.co.kr/news/articleView.html?idxno=61271>, Retrieved March 3, 2021
- 4 《习近平关于实现中华民族伟大复兴的中国梦论述摘编》中共中央文献研究室编、2013年12月。
- 5 “国务院关于印发《中国制造2025》的通知”中华人民共和国国务院，2015年5月8日
- 6 “国家标准委：正制定《中国标准2035》”《新华网》2018年1月10日、
- 7 [http://www.xinhuanet.com/fortune/2018-01/10/c\\_129787658.htm](http://www.xinhuanet.com/fortune/2018-01/10/c_129787658.htm)， Retrieved July 3, 2020
- 8 “How China Is Remaking the UN In Its Own Image” *The Diplomat*, April 09, 2020, <https://thediplomat.com/2020/04/how-china-is-remaking-the-un-in-its-own-image/>， Retrieved April 27, 2020
- 9 “发射记录”中国航天科技集团有限公司<http://www.spacechina.com/n25/n142/n152/n657792/index.html>
- 10 “China set to complete Beidou network rivalling GPS in global navigation” REUTERS, June 12, 2020,
- 11 ““数”说北斗 从起步到全球组网 北斗建设的“三步走””，《北斗网》，2020年6月15日，[http://www.beidou.gov.cn/yw/xwzx/202006/t20200615\\_20649.html](http://www.beidou.gov.cn/yw/xwzx/202006/t20200615_20649.html)， Retrieved July 1, 2020
- 12 “长征5号火箭第3飞获得圆满成功”中国航天科技集团有限公司，2019年12月27日，<http://www.spacechina.com/n25/n2014789/n2014804/c2812651/content.html>， Retrieved July 1, 2020

- 13 “简氏：中国发射遥感21侦察卫星群定位美航母”《手机凤凰网》，2014年10月9日，<http://imil.ifeng.com/42158521/news.shtml?&back>，Retrieved October 10, 2014
- 14 “America’s Undersea Battle With China for Control of the Global Internet Grid” *The Wall Street Journal*, March 14, 2019, <https://jp.wsj.com/articles/SB12498886470155574209504585177543844620112?mg=prod/com-wsj>, Retrieved May 10, 2019
- 15 “习近平在“一带一路”国际合作高峰论坛开幕式上的演讲”《新华网》，2017年5月14日，[http://www.xinhuanet.com/2017-05/14/c\\_1120969677.htm](http://www.xinhuanet.com/2017-05/14/c_1120969677.htm)，Retrieved March 26, 2021
- 16 “South Korea Is Staying Out of the U.S.-China Rivalry” *World Policy Review*, May 5, 2021, <https://www.worldpoliticsreview.com/articles/29626/south-korea-is-staying-out-of-the-china-us-competition>, Retrieved May 10, 2021
- 17 “畅通国内国际双循环习近平这样阐述“新发展格局”《人民网》2020年7月22日，<http://politics.people.com.cn/n1/2020/0722/c1001-31793969.html>，Retrieved August 26, 2020
- 18 “Xi Focus: Xi stresses building holistic national security architecture” *Xinhua*, December 12, 2020, [http://www.xinhuanet.com/english/2020-12/12/c\\_139584669.htm](http://www.xinhuanet.com/english/2020-12/12/c_139584669.htm), Retrieved December 24, 2020
- 19 “U.S.-Japan Joint Leaders’ Statement: “U.S.-JAPAN GLOBAL PARTNERSHIP FOR A NEW ERA” “, *Ministry of Foreign Affairs of Japan*, April 16, 2021, <https://www.mofa.go.jp/files/100177718.pdf>, Retrieved April 17, 2021

# JAPAN'S RELATIONS WITH VISEGRÁD 4 (V4) AND THE CENTRAL AND EASTERN EUROPEAN COUNTRIES (CEECS): ADJUSTING MISMATCHES?

*Atsuko Higashino*

<https://doi.org/10.47706/KKIFPR.2021.1.111-123>

**Abstract:** Japan and the Visegrád Group (V4) have enjoyed stable and problem-free relations. However, Japan's engagement with the V4 countries has lacked dynamism and robustness in areas such as Japan's foreign direct investment in the V4 countries and visits by high-ranking Japanese officials to V4. This paper discusses the asymmetric relations between Japan and V4 from the Japanese perspective, focusing mainly on how and why Japan failed to place more emphasis on strengthening its relations with the V4 countries. Three backgrounds for this situation are identified: the US- and China-centric nature of Japan's foreign policy, Japan's large-country focus in its outlook and policies concerning Europe, and Japan's somewhat outdated self-image as a significant donor and supporter of the Central and Eastern European countries.

**Keywords:** Japan and the Visegrád Group (V4)

## Introduction

Japan and the Visegrád-4 (V4) group, i.e., Hungary, Poland, the Czech Republic, and Slovakia, have enjoyed stable and problem-free relations for over 15 years since the official start of the dialogue between Japan and the group. Since 2019, the relationship between V4 and Japan has also been embedded in the larger framework of the EU-Japan

Economic Partnership Agreement (EPA) and the Strategic Partnership Agreement (SPA), both of which have made the ties between Japan and the V4 countries more multi-layered and multi-faceted.

However, Japan's engagement with the V4 countries has lacked dynamism and robustness in areas such as Japan's foreign direct investment in the V4 countries and visits by high-ranking Japanese officials to V4. Arguably, therefore, there has been a structural gap or mismatch between what the V4 countries expect from Japan and what Japan can or is willing to deliver for the V4-Japan relationship.

This paper problematises the asymmetric relations between Japan and V4 from the Japanese perspective, focusing mainly on how and why Japan failed to place more emphasis on fortifying its relationship with the V4 countries. It identifies three backgrounds for the occurrence of this mismatch: the US- and China-centric nature of Japan's foreign policy, Japan's large-country focus in its outlook and policies concerning Europe, and Japan's rather outdated self-image as an important donor and supporter of the Central and Eastern European countries (CEECs).

Japan's recent active diplomacy towards the V4 countries demonstrates its newly gained eagerness to bring fresh impetus to Japan-V4 relations. While it is obviously a welcome development, Japan needs to have a stronger awareness that fortifying ties with the V4/CEEC countries has its own merits; in other words, Japan should not see them exclusively as an ally in its efforts to compete with the growing influence of China in the region. To improve this situation, it is important for Japan to gain a more concrete understanding of the infrastructural needs of the V4 countries and examine how it could substantially contribute to those needs.

## Japan and the V4 countries: a problem-free relationship?

The official start of the dialogue between Japan and the V4 group dates back to the early 2000s. During the visit of the then Prime Minister Koizumi to the Czech Republic and Poland in August 2003, and the visit

of the Hungarian prime minister to Japan in October 2004, it was agreed to promote the 'V4+Japan' dialogue and cooperation between Japan and the V4 group. Since then, two rounds of summit meetings, seven rounds of ministers of foreign affairs meetings, and numerous thematic conferences and workshops (covering topics such as migration, cyber security, Brexit, science, and technology) have been held between Japan and the V4 group. The consultations and cooperation between V4 and Japan across various sectors have been described by the Ministry of Foreign Affairs of Japan (MOFA) as 'multi-layered diplomacy towards Europe'.

The exchanges between V4 and Japan can be assessed positively to a large extent. According to a report published by the Central European Institute of Asian Studies (CEIAS), 'the V4+Japan format has become one of the most mature of the V4+ partnerships, encompassing cooperation and consultations on various issues.' issues' (Dubravčíková et al., 2019: 22). Compared to other 'V4+' formats that started in the 2010s, such as V4+LAC (Latin America and the Caribbean), V4+South Korea, V4+Egypt, and V4+African Union, V4+Japan is generally seen as a pioneering partnership, having the longest history and the widest range of cooperation among all cooperative frameworks that the V4 group has instituted (ibid.).

For Japan as well, V4+Japan is one of the oldest and by far the most successful multilateral platforms with European countries; Japan of course has extensive experience when it comes to bilateral consultations with European countries as well as the European Union, but the dialogues with the V4 countries represent the earliest experience for Japan of holding an institutionalised policy consultation with a regional group within the European Union.<sup>1</sup> After the launch of V4+Japan, Japan and the GUAM countries (Georgia, Ukraine, Azerbaijan, and Moldova) inaugurated the GUAM+1 framework in 2007. While the framework held annual ministerial meetings until 2019, the scope of consultation and cooperation was much more limited than that of V4+Japan. Likewise, Japan launched the Western Balkans Cooperation Initiative in 2018 with the aim of supporting socio-economic reforms in the Western

Balkan countries that were necessary for their EU accession, as well as facilitating cooperation within the region. Therefore, this initiative is qualitatively different from V4+Japan, as the former places more emphasis on assistance, while the latter stresses cooperation on an equal footing.

However, there are many aspects where Japan could and should have sought to fortify relations with the V4 countries more actively. Among others, Japan's investments in the region have always been cautious and not lived up to the region's expectations; they have been surpassed by South Korea's and China's investments for many years now. Constant demands from the V4 countries for more Japanese investments in the region have not been sufficiently fulfilled. In addition, the frequency of visits by high-ranking officials, such as the Japanese prime minister and other important political leaders, to the V4 countries has been low despite requests from V4; in June 2013, Shinzo Abe became the first Japanese prime minister to visit Poland in ten years. Abe visited Slovakia in April 2019 for the first time as the Japanese prime minister. Emperor Akihito and Empress Michiko visited Hungary in July 2002, while no prime minister of Japan has visited Hungary since 2000. No prime minister of Japan visited the Czech Republic since Koizumi's visit in 2003. The visits by the heads of the states and ministers of the V4 countries have therefore constantly outnumbered those by their Japanese counterparts, which has inevitably made the relationship between V4 and Japan asymmetrical.

This is not to say that Japan, as a whole, has had little interest in the V4/CEECs. On the contrary, in areas such as history, linguistics, and cultural studies, the V4/CEECs have attracted significant interest in Japan. Numerous academic studies concerning the V4/CEECs have been conducted, and their results have been actively published.<sup>2</sup> Works by outstanding historians and authors from the V4/CEECs, such as Victor Sebestyen (2006, 2009)<sup>3</sup> and Ivan Krastev (2017; Krastev & Holmes, 2019)<sup>4</sup>, as well as by authors who are well known for their analyses of the history of the region, such as Anne Applebaum (2012, 2020)<sup>5</sup> and Timothy Garton Ash, were translated into Japanese and published shortly after the publication of the original versions. It is therefore all

the more regrettable that such established interests towards the culture and history of the V4/CEECs have not been adequately passed on to Japan's diplomatic endeavour to fortify relations with the V4/CEECs.

One of the very noticeable negative side effects of Japan's inactive foreign relations vis-à-vis the V4 countries was its failure to capitalise on some important political and economic developments in the V4/CEECs, that is, the once glowing and now fading influence of China in the region. Even though Japan has recently been vigilant about China's Belt and Road Initiative (BRI), it failed to regard the V4/CEECs as an important target of the BRI, particularly in the framework of '16(17)+1', which is a platform for cooperation between China and the CEEC and Western Balkan countries.<sup>6</sup> Learning from the V4 experience of 16(17)+1 could be valuable for Japan, especially in terms of assessing the extent of China's influence in a particular area of Europe and considering how Japan should respond to the challenges posed by the BRI. However, it is only recently that Japan has started being aware of the significance of 16(17)+1 in the V4/CEECs.<sup>7</sup> Furthermore, such awareness came only when those countries had already started to lose their interest in the framework.

## Missed opportunity?

### The way Japan perceived V4/CEEC/Europe

The reasons why Japan failed to notice China's influence in the V4/CEECs effectively highlight the peculiarity of Japan's view of international and European affairs. At least three such peculiarities can be identified: (i) the US- and China-centric nature of Japan's foreign policy, (ii) Japan's focus on large countries in its outlook towards Europe, and (iii) a rather outdated self-image of Japan as an important donor and supporter of the V4/CEECs. These three peculiarities should be scrutinised individually in order to identify the ways in which Japan can improve and fortify its relations with the V4/CEECs in a meaningful manner.

First, it is widely known that Japan's interest in international affairs has traditionally been dominated by its relationship with the US. In



addition, Japan's policy towards China has long been extremely controversial, continuously oscillating between pro- and anti-China positions. In addition, the US-China confrontation during the Trump administration from 2017 to 2021 weighed heavily on Japan, with the situation remaining unchanged even after the inauguration of the Biden administration, which has continued to take a hardened position towards China. Too often, Japan's foreign policy interest has been too narrowly focused on how Japan should behave amidst the confrontation between these two great powers; while it is more than obvious that Japan needs to prioritise the US-Japan relationship, not least from the alliance viewpoint, its economic interdependence with China is also critical for Japan's economic survival. Since the main point of interest, or worry, has been how and to what extent the US-China confrontation is relevant to Japan and how to deal with it, Japan's interest in Europe has remained secondary.

Second, even when Japan turns its eyes to Europe, it usually tends to focus its attention on larger countries, namely the United Kingdom, Germany, and France, and to a lesser extent on smaller nations like Italy. Since 2015 in particular, there have been reports in Japan on how large European countries were getting closer to China, as evident from the (in)famous statement by the then UK Prime Minister David Cameron concerning the 'golden age of UK-China relations', the slew of announcements by the UK and other European governments regarding their decision to join the China-led Asian Infrastructure Investment Bank (AIIB), and the Italian government's signing of a Memorandum of Understanding with China on the BRI. Among others, the Merkel administration's apparent pro-China posture received negative coverage in Japanese media; Merkel visited China 12 times during the 15 years of her time in office but visited Japan only five times.

Currently, Europe's position towards China has hardened considerably over concerns about widespread human rights abuses and crimes against humanity, including the forced labour issue in Xinjiang, suppression of the pro-democracy protests in Hong Kong,

and the suspected covering-up of the information concerning the origin of COVID-19. The freezing of the ratification process of the EU-China Comprehensive Agreement on Investment (CAI) in May 2021 is indeed a sign that the honeymoon period is over for the relationship between Europe and China. Even Germany, apparently the most China-friendly European country in the eyes of many Japanese people, is actively seeking a new China strategy in the post-Merkel era.

However, it seems that Japan still retains the afterimage of European countries from the mid-2010s when many European countries actively sought to fortify economic ties with China, and largely regards European countries as being 'too pro-China' or 'too soft on China' (Tsuruoka, 2021). The V4/CEECs, which have largely been described by Japanese media as sharing a similar enthusiasm with Germany in establishing economic ties with China, are also considered as being too pro-China (Nikkei, 2021), even though it is now widely known that many V4/CEEC countries have lost their enthusiasm to maintain close economic relationships with China (Brînză, 2021).

Last but not least, it is important to note the significant paradox arising from Japan's experience in assisting the CEECs immediately after the end of the Cold War in that it has left Japan with a rather outdated self-image of being an important donor and supporter of the CEECs. This obsolete self-image may have hindered Japan's efforts to keep itself updated about the latest developments in the CEECs, in particular their fast-track relationship with China in the framework of 16(17)+1. Indeed, Japan's economic assistance at the time of the Kaifu administration in the early 1990s was noteworthy in its size and amount.<sup>8</sup> In addition, Japan's investments in the V4 countries in the early 1990s, including the successful Magyar Suzuki Zrt venture, were dynamic. Until the 2000s, it was stated in the Diplomatic Bluebook by the Ministry of Foreign Affairs of Japan that 'Japan has provided assistance to the Central and South Eastern European countries for their democratization and transition to market economies since the end of the Cold War, and has been making efforts to build preferable relations with these countries in expectation of EU enlargement and a deepening of European integration' (Ministry of Foreign Affairs of

Japan, op. cit.: 98). This demonstrates the widely shared belief within the diplomatic circle in Japan that besides the US and Europe, Japan has been one of the main providers of considerable assistance to the CEECs in the difficult period of their transition. In reality, however, as argued above, the Japanese economic engagement in the region weakened gradually and was surpassed first by South Korea and then by China as early as the mid-2000s. However, the self-image that Japan is one of the most significant supporters of the V4/CEECs has somehow persisted, preventing Japan from improving its knowledge on the latest developments in the region, including the rise and fall of China's influence in the region.

## Towards stronger ties between Japan and the V4 group

The COVID-19 pandemic set the alarm bells ringing for Japan, which started to realise the closeness of China and the CEECs. When Europe experienced its first outbreak of COVID-19 in March 2020, the so-called mask diplomacy that China actively engaged in drew strong attention in and outside Europe. Serbian President Aleksandar Vučić's remarks that 'European solidarity was a myth' and therefore 'Serbia now turns its eyes to China' (Euractive.com, 2021) were widely reported in Japan as well (Asahishinbun, 2021), as the words symbolised the closeness between China and certain parts of Europe. Furthermore, Hungary's approval of a vaccine made by China's Sinopharm, the first EU member state to do so, was also widely reported in Japan as an example of China's successful vaccine diplomacy (Nihonkeizaishinbun, 2021). Ironically, therefore, it was the outbreak of COVID-19 that arguably promoted awareness in Japan that it was China, not Japan, that the V4/CEECs saw as an important Asian partner at the time of crises. Gradually, the closeness between China and the V4/CEECs started gaining attention in Japan, and rather belatedly, the BRI developments in the V4/CEECs as well as the 16(17)+1 format started to be reported in detail in Japanese newspapers and on TV.

In this context, the series of visits to the V4/CEECs in 2021 by Foreign Minister Toshimitsu Motegi reflects the change in Japan's mindset; in May this year, he visited Slovenia and Bosnia-Herzegovina, along with Poland for a bilateral and V4+Japan meeting. In July, he visited Estonia, Latvia, and Lithuania after attending the G7 meeting. All these visits are useful for promoting and substantiating the common agendas of Japan and V4/CEEC.

Japan's acknowledgement of the importance of the V4/CEECs is undoubtedly a welcome development. However, it is important for Japan not to see its relations with the V4/CEECs narrowly in the context of its competition with China. What is vital for Japan is to thoroughly study the current needs of the V4/CEECs, consider what Japan can do to fulfil such needs, and set clear and concrete goals to be achieved in cooperation with those countries.

In this context, what Japan and Europe need to do is to jointly promote an alternative to the BRI in order to develop more sustainable, inclusive, and environmentally-friendly infrastructure. From this viewpoint, one of the promising ideas is to promote cooperation and coordination between the Japan-led Free and Open Indo-Pacific (FOIP) initiative and the Poland-led Three Seas Initiative (TSI). In September 2021, Polish Minister of Foreign Affairs Zbigniew Rau contributed an article to the *Sankei Shinbun*, one of the major Japanese newspapers, where he argued in favour of close cooperation between FOIP and TSI, claiming that 'the security and development of the Atlantic and Pacific Oceans are inextricably linked, and without stability in one there can be no stability in the other...FOIP and TSI have synergies'. He also claimed that 'Poland and Japan share the belief that only with the necessary economic strength and infrastructure can a comprehensive approach be taken that will provide an effective deterrent and defence against threats. There are countries, including both our partners, that have their sights set on provocations' (Rau, 2021). At the Japan-Poland foreign ministers' meeting in May 2021, Japan's Foreign Minister Motegi mentioned that the TSI was 'a meaningful endeavour which will promote the Japan-EU Connectivity Partnership and the unity of Europe', and expressed Japan's intention 'to consider ways in which Japan could become involved' (Ministry of Foreign Affairs of Japan, 2021).

Taking account of the fact that the enthusiasm towards the TSI varies even within the V4 countries, it is vitally important for Japan to thoroughly study the postures of the other V4 members concerning what could actually be done in terms of FOIP-TSI cooperation, and whether it could lead to the revitalisation of the overall relationship between the V4 group and Japan. Nevertheless, this potential FOIP-TSI cooperation could pave the way for Japan to improve its understanding of the V4/CEECs and build a more robust relationship with them.

## References

- Applebaum, A. (2020). *Twilight of Democracy: The Seductive Lure of Authoritarianism*. New York City: Doubleday.
- Applebaum, A. (2012). *Iron Curtain: The Crushing of Eastern Europe, 1944–1956*. London: Allen Lane.
- Asahishinbun. 朝日新聞 (2021). “Ōshū rentai wa “otogibanashi”? EU ni kiretsu, sonzai-kan masu Chū Ro” 「欧州連帯は『おとぎ話』? EUに亀裂、存在感増す中ロ」 25 April
- Brînză, A. (2021). “How China’s 17+1 Became a Zombie Mechanism.” *The Diplomat*, February 10, 2021, <https://thediplomat.com/2021/02/how-chinas-17-1-became-a-zombie-mechanism/>
- Dubravčíková, K., Šebok, F., Šebeňa, M., Šimalčík, T., Turcsányi, R.Q. (2019). *Prospects for Developing the V4+China Cooperation Platform*. Central European Institute of Asian Studies (CEIAS), 17 October 2019. Retrieved from [https://ceias.eu/wp-content/uploads/2019/10/V4-China-cooperation\\_FINAL.pdf](https://ceias.eu/wp-content/uploads/2019/10/V4-China-cooperation_FINAL.pdf)
- Euractive.com. (2021). “Serbia turns to China due to ‘lack of EU solidarity’ on coronavirus”. 18 March. Retrieved from <https://www.euractiv.com/section/china/news/serbia-turns-to-china-due-to-lack-of-eu-solidarity-on-coronavirus/>
- Krastev, I. & Holmes, S. (2019). *The Light that Failed: A Reckoning*. London: Penguin.
- Krastev, I. (2017). *After Europe*. Philadelphia: Penn University Press.
- Ministry of Foreign Affairs of Japan. (2021). “Japan-Poland Foreign Ministers’ Meeting,” 6 May. Retrieved from [https://www.mofa.go.jp/erp/c\\_see/pl/page4e\\_001129.html](https://www.mofa.go.jp/erp/c_see/pl/page4e_001129.html)
- Ministry of Foreign Affairs of Japan. (2020). *Diplomatic Bluebook*. Tokyo: Government of Japan. Retrieved from <https://www.mofa.go.jp/policy/other/bluebook/2020/pdf/2-4.pdf>
- Nihonkeizaishinbun. 日本経済新聞 2021. “Hangarī, Chūgoku-sei wakuchin o shōnin EU de hatsu” 「ハンガリー、中国製ワクチンを承認 EUで初」 30 January.

- Nikkei.com. 日本経済新聞 (2021). “nichio renkei o chiiki antei ni ikase” 「日欧連携を地域安定に生かせ」 28 May. Retrieved from <https://www.nikkei.com/article/DGXZQODK285140Y1A520C2000000/>
- Rau, Z. ポーランドのズビグニェフラウ外相寄稿 (2021.) “Kyoï yokushi ni keizai renkei wa fukaketsu” 「脅威抑止に経済連携は不可欠」 Sankeishinbun. 『産経新聞 9 September. Retrieved from <https://www.sankei.com/article/20210909-6N2NW3QDQJLVXPYJOUV4DFCS6U/>
- Sebestyen, V. (2009). *Revolution 1989: The Fall of the Soviet Empire*. London: Hachette UK.
- Sebestyen, V. (2006). *Twelve Days: The Story of the 1956 Hungarian Revolution*. New York City: Pantheon Books.
- Tsuruoka, M. 鶴岡路人 (2021). “senryaku-teki jiritsu o mezasu Ôshû — tamesa reru Nihon no gaikô-ryoku” 「戦略的自律を目指す欧州 — 試される日本の外交力」 Wedge Report, 18 January. Retrieved from <https://wedge.ismedia.jp/articles/-/2>

## Endnotes

- 1 Since 2008, Ministry of Foreign Affairs of Japan has also held the ‘Japan-Baltic Seminar’ with Estonia, Latvia and Lithuania on annual bases, but this has rather been a series of expert meetings than policy consultation.
- 2 The Japanese Association for Russian and East European Studies (JAREES), established in 1971 and with 400 members belong to it, is a very active academic association with the focus on Slavic and East European Studies. See <https://www.jarees.jp/> for more information.
- 3 Japanese publications: ヴィクターセバステェン 『ハンガリー革命』 白水社、2008年； ヴィクターセバステェン 『東欧革命1989 ソ連帝国の崩壊』 白水社、2009年。
- 4 Japanese publications: イワンクラステフ 『アフターヨーロッパポピュリズムという妖怪にどう向きあうか』 岩波書店、2018年； イワンクラステフ 『模倣の罠 — 自由主義の没落』 中央公論新社、2021年

- 5 Japanese publications: アンアプルボーム『鉄のカーテン——東欧の壊滅1944-56（上）（下）』白水社、2019年;アンアプルボーム『権威主義の誘惑——民主政治の黄昏』白水社、2021年
- 6 Lithuania declared its withdrawal from the 17+1 in May 2021. As of September 2021, therefore, there are 16 member countries from Europe that join this format.
- 7 CiNii (<https://ci.nii.ac.jp/en>), a bibliographic database service for material in Japanese academic libraries, shows that there are very few research papers and academic works on 16(17)+1 published before 2021. Furthermore, there were essentially no article on 16(17)+1 in the major Japanese newspapers until 2019.
- 8 For Japan's assistance to the CEECs, mainly to Hungary and Poland, see the address by the then Prime Minister Toshiki Kaifu on 9 January 1999.



