Japanese Economic Engagement With the EU: Geopolitics Meets Business

H. Richard Nakamura
University of Gothenburg

Patrik Ström
The Stockholm School of Economics

Claes G. Alvstam
University of Gothenburg

During the recent years the world has experienced a shift towards complex relations being formed in the growing interlacing between geoeconomics and geopolitics. This paper aims at bringing geoeconomics and geopolitics on the macroeconomic level together with the potential implications for Japanese firms operating in Europe and more specifically within the EU Single Market. The paper grounds the analysis within international political economy, international business and economic geography. This broad, eclectic theoretical foundation enables the analysis to contribute to a deeper understanding of how firms respond to and potentially drive the political development of trade and investment relations. Hence, the paper strives to examine how geopolitics alter the flows of trade and investments, but also to map a new configuration taking place in parallel on the firm level of industrial dynamics and economic geographical footprint.

Keywords: Japan, EU, geoeconomics, geopolitics, FDI, single market, restructuring

INTRODUCTION

Europe has traditionally been one of the main destinations for export and direct investment by Japanese firms in the process of continuous internationalization and deeper integration in global value chains (GVC). There has in this respect been a need, as seen from Japan's perspective, to balance the country's current large dependence on an unpredictable USA after the collapse of the Trans-Pacific Partnership endeavour, and, in the near abroad, the tense and vulnerable commercial relationships with an ever growing and more powerful China and an aggressively competing South Korea, with a "third leg" represented by Europe. The successful negotiations regarding the free trade section of an Economic Partnership Agreement with the European Union that were brought into force in early 2019, can be seen as an instrument to carry out such a geopolitically better-balanced trade and investment policy, aiming at securing and consolidating the position of Japan's global firms at the European market. The second phase of the EPA[1], an investment treaty, is currently under negotiation and it is uncertain when this part of the agreement will be concluded. An investment treaty between Japan and the EU should be an important complement to the section of external trade in the EPA, since the imbalance in size between foreign direct investment stocks among respective parties, featuring a twice as large stock of Japanese FDI in Europe compared with European investment in Japan, is a major hurdle against deeper economic cooperation and mutual market access. Since a major part of Japan's FDI to Europe has been directed to the UK, a parallel investment agreement process between Japan and the UK has become even more urgent after the completion of the Brexit.

In the current global context, it has become increasingly difficult to separate economic and political aspects of external trade and investment, and a dynamic process exists over time and space. Companies need to constantly reassess their position in the market and their industrial footprint in relation to these macro level dynamics. This also incorporates the ability to reposition the business models and long-term investments abroad. Occasionally, dramatic events such as the Brexit vote in the UK have a profound impact on the business environment. The Chinese Belt and Road Initiative (BRI) is yet another example of how the boundary between geoeconomics and geopolitics become blur. In addition, the recent Strategic Partnership Agreement (SPA) between the EU and Japan is a further case of a new type of collaborative platform, where issues not being handled within traditional trade negotiations are discussed. Through these rules-based schemes, geoeconomics and geopolitics are intertwined at several levels. States need to handle the new situation and companies need to sustain competitive advantage.

The changed political economy of the European market for Japanese firms could facilitate a transformation of the overall industrial footprint in parallel with a reconfiguration of strategy. Finding the right setting of operations will be of great importance for Japanese firms to utilize the full benefits from the EPA. Japan and the UK recently signed an FTA (GOV.UK, 2020), which is essentially similar to the previously concluded EU-Japan EPA, but in reality, the outcome will be dependent on the future development of economic relationships between the EU and the UK. Since the UK has been a substantial host location for investments from Japan, particularly from the 1980s and onwards (e.g., Morris, 1988; Hood et al., 1994; Darby, 1996; Strange, 2002; Morris et al., 2013; Watanabe, 2020), the future of these investments is connected to the overall locational strategy of Japanese firms within the European Single Market. On the basis of reconfiguration and strategic impact of changes in the relationships within the European Single Market, one indirect opportunity that has not been featured in the debate has been the Scandinavian countries. Japanese companies have since several decades been active in this region through acquisitions among highly advanced and often technologically leading firms. Some of these firms have under the new Japanese ownership become platforms for exports to the entire European market. Generally, small and medium-sized firms have been the main targets for acquisition, but in late 2018, the largest Japanese investment in Scandinavia so far was concluded through Hitachi's acquisition of the power grid division of the Swedish/Swiss engineering giant ABB at a stated price of USD 11 billion, and with its main production and R&D facilities located in Sweden and a well-developed international presence. This huge deal signals an increased activity among Japanese companies to consolidate their position in the European Single Market and has also put the focus on further steps to broaden their geographical scope outside the largest European markets. The investment follows a path of change within the Japanese business environment domestically as well as abroad. In the aftermath of the bust of the real estate and stock market bubble, Japan has experienced decades of slow growth, and challenges within business sectors, specific business groups and location strategy have become apparent (Nakamura, 2005; Ström and Yoshino, 2009; Watanabe, 2020). There are signs of strategic repositioning to take advantage of new business opportunities. In a recent contribution to the understanding of change, Schaede (2020) suggest this development to be business reinvention built on an aggregate niche strategy. Overall, the ongoing business reinvention among Japanese companies is developing in parallel with, and is in a way, a response to the changing industrial location dynamics connected to the wider political economy. Despite this evolution of the corporate landscape in the midst of economic stagnation and consistent macro-economic challenges in Japan, relatively little attention has been paid in the literature to how Japanese firms have countered this complex development.

In the post-1989 world order, characterized by an American political and economic dominance, at least partly flanked and supported by a growing European Union, it was a natural choice for a regional power like Japan to stick to its traditional post-war policy under an American security and commercial umbrella. The development towards a 'tri-centric' world order, however, in which the American hegemony is challenged by a rising and increasingly self-confident China, has forced a change of Japan's foreign economic strategy, both regionally and globally. These changes have naturally also given rise to an increasing focus on political aspects of economic affairs among economists, and a growing interest in economic aspects of security policy among political scientists. The "geopolitics-turn" in international business research is reflected in a growing number of contributions that suggest that the long-term globalization has come to an end, and that a process of "de-globalization" and "de-coupling between main political and economic blocs will characterize the coming years (see e.g., Cuervo-Cazurra et al., 2020; Guillen, 2018; Witt, 2019a, 2019b). These views are in many ways contested by other groups of scholars, but the issue of de-coupling has nevertheless been described from different angles. The business economist Peter Ping Li (Li, 2021), uses the term "*bifurcated governance*" to describe two contrasting sets of game rules, i.e., the rule of law vs. rule of ruler, as represented by the U.S. and China (Jannace and Tiffany, 2019; Petricevic and Teece, 2019; Teece, 2020; Buckley, 2020; Altenberg, 2021), toward a new Cold War (Hagström, 2016; Schell, 2020; Witt, 2019b). In parallel, the concept of "geoeconomics" that was originally coined in the 1990s by Edward Luttwak and Pascal Lorot (Luttwak, 1990; Lorot, 1999) is useful to understand and explain this process. Luttwak returned in his later works to describe how international politics to an increasing extent needs to pay attention to the economic and commercial interdependence between states in a world economic order characterized by what was later labelled as GVC. In our definition, the concept of geoeconomics should be viewed broadly. It may comprise all aspects of measures that a state uses to enhance and maintain economic power, but it can at the same time also be seen as a policy instrument to carry out external trade and investment with partners in the near geographical region. In this sense, a geoeconomic strategy is a tool to promote regional, rather than global partnerships. In the context of this paper, Japan's ambitions to achieve a balance between its regional priorities and competitors in East and Southeast Asia, as well as attempting at regaining its previous position in the European economy in order to balance its traditional high dependence on the United States, can thus be seen as an example of a coherent, although multifaceted, geoeconomics strategy. Further, we can regard geoeconomics as a neutral concept, in which the dimensions of space, distance, availability and accessibility, all key concepts within the discipline of economic geography (see e.g., Dicken, 2015; Clark et al., 2018; Coe et al., 2019), are used to better understand and explain a geoeconomics strategy.

Thus, we use geopolitics and geoeconomics as intertwined concepts in order to demonstrate that both perspectives are necessary conditions for an understanding of Japanese business reinvention within the changing geopolitical realities in Europe. We focus in this respect on the economic relations, but viewed through a geopolitical lens.

RESEARCH DESIGN AND DATA SOURCES

Through combining conceptual issues of political economy, geoeconomics, strategy and location, the paper positions the ongoing development of Japanese investments within the European Single Market in a wider perspective reflecting on future implications of change within Japanese firms and industrial dynamics of Europe. The aim of this paper is to explore the dynamics of how the macro-economic environment and the wider political economy is developing in parallel with business reinvention and structural shift of Japanese companies in Europe. Apart from using the broader EU perspective to position the ongoing geoeconomic and geopolitical shifts and the macroeconomic foundation, the case of Sweden is used to display some of the firm level developments on in relation to the European Single Market. Hence, the specific research question to be assessed is: *How is the Japanese economic engagement with the EU evolving from macro and firm level perspectives?*

This study uses data at different levels of analysis. Trade and foreign direct investment data are used on both the EU-Japan level, but also to analyse more specific country related flows. Here, statistical data are obtained through IMF, JETRO, ITC, UNCTAD, & WTO databases. In relation to business operations of Japanese firms, company level data is used to develop a better understanding of the firm level in the business environment, and to showcase empirical examples of business level strategy, reconfiguration and business strategy reinvention. The company information is derived from open sources (e.g., reports, company homepages, press releases and news articles), triangulated with the Factiva, UNCTAD and Recof databases in order to capture the dynamic process of Japanese acquisition strategies in Europe.

Conceptualizing the Interconnectedness of Geoeconomics and Geopolitics

Despite a gloomy outlook for the multilateral trade agreements, countries in Asia and the EU pushed on without the US commitment to trade regimes during the last five years. With this backdrop, the outcome of the economic partnership negotiations between the EU and Japan became even more important. The negotiations showed commitment from both parties to strengthening the collaboration under the assumption of a rules-based world order. The changing geoeconomics also paved the way for deepening the efforts of concluding a deal, as well as the subsequent formation of the Strategic Partnership Agreement.

There has been an intense debate, involving both academia and policymakers, around the benefit to seek what is often seen as the second-best alternative to multilateral solutions, namely regional/plurilateral trade agreements (e.g., Witt, 2019a; Witt, 2019b; Li, 2021). The dividing line has been drawn up between multilateralism as the only sustainable alternative in the long run, and the more pragmatic view on regional trade arrangements, as an incremental approach to eventually reach a successful multilateralism. This has resulted in the “stumbling block” vs. the “stepping stone” metaphor (Baldwin, 2004; Lamy, 2002; Senti, 2014). In recent years, there has been a process of conversion between the two attitudes, arguing that regionalism and plurilateralism can be multilateralized in the sense that regional and plurilateral trade arrangements which fulfil the general multilateral basic rules, and in addition also are able to proceed further than is possible at the WTO level, might increase the possibilities of reaching a successful multilateral agreement (Baldwin and Evenett, 2020).

Nevertheless, various preferential agreements have become parts of a larger geopolitical, geoeconomic and security policy context, where trade is closely associated to the degree of political intentions and political will. Thus, there is an increasing need to view trade negotiations in a multidisciplinary synthesis of economics and politics, where strong stakeholders can utilize the playing field for sustaining a rules-based framework for the long term goal of achieving a multilateral trade order.

In our study, we conceptualize four levels in the multilevel analysis of the interconnection between geopolitics and geoeconomics, namely the global, interregional, intraregional and national level. A simplified picture of how these different policies can be illustrated is shown in the Figure 1 below. We acknowledge that the different levels may partly overlap, but we argue that the balance between the different geographical levels requires an equally subtle balancing as between geopolitics and geoeconomics, which in turn impact the business environment of firms. In parallel to this development at the global and interregional levels, firms are constantly managing operations and re-evaluating their strategy.

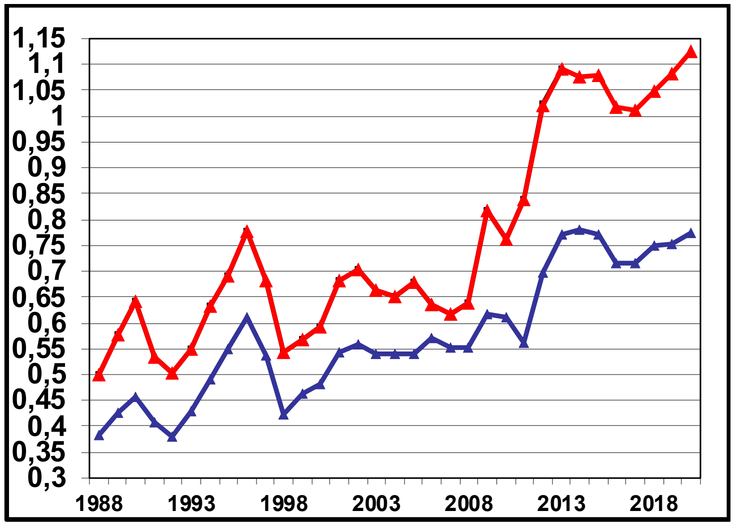
FIGURE 1
THE RELATION BETWEEN THE GEOPOLITICS AND GEOECONOMICS CONCEPTS IN FOUR CONCEPTUAL LEVELS (IN THIS EXAMPLE THE JAPANESE POLICY-MAKING PERSPECTIVE)

	GEOPOLITICS	GEOECONOMICS
GLOBAL	Support the American security order to balance China's rising power within the UN framework	Loyalty to the multilateral rules-based economic order within the WTO framework; Business reinvention strategy
INTER-REGIONAL	North America: Security treaty with USA Europe: Realization of EU-Japan SPA	North America: Continuing implementation of bilateral trade and investment agreement within the USJTA and CPTPP frameworks; Europe: Implementation of JEEPA, inclusion of investment chapter
REGIONAL	Active participation in the "Quad Cooperation" with USA, Australia and India	Balancing China within RCEP; support of ADB
NATIONAL	Balancing of the triangular relation with China and South Korea; cautious opening of contacts with Taiwan	Improving bilateral agreements with Southeast Asian countries and Australia/New Zealand within CPTPP; support of UK's membership

Geoeconomics – Formation of the EPA

An important starting-point of the EU-Japan negotiations – not often referred to by the two parties – is that the direct bilateral trade between the EU and Japan, in terms of imports and exports, is practically "netting out" during the recent decades. Thus, Japan's previously large bilateral trade surplus to the EU has been levelling out, even though the imbalance remains (figure 2). Furthermore, there is a gap in the statistical reporting between the two parties, in which EU's recorded deficit is larger than Japan's reported surplus. Researchers and policy makers who have been following the positions of the negotiation delegations have seen the launch of a bilateral Economic Partnership Agreement (EPA)/FTA between the EU and Japan as a "defensive" measure, with the aim of increasing and reaching prior trade levels among the two trading partners (Manger, 2005).

FIGURE 2
TRADE RATIO BETWEEN EU AND JAPAN 1988-2020 (GOODS). RED LINE = IMPORT/ EXPORT RATIO JAPAN; BLUE LINE = EXPORT/IMPORT RATIO EU



Sources: IMF YEARBOOKS; IMF DOTS, JETRO, ITC, UNCTAD, & WTO DATABASES

About 50 per cent of global trade consists of intermediate goods (UNCTAD, 2021), and if the capital goods sector is included in the definition, the share of world trade of intermediate products[2] is likely to be even higher. Thus, international cross-border transactions have to be understood in the context of increasingly complex Global Production Networks (GPNs). The design and governance of such networks are in this respect a clue to a new understanding of the geography of external trade in goods and services (e.g., Coe and Yeung, 2019; Kano et al., 2020; Gereffi et al., 2021).

The emergence of GPNs in complex GVCs is a reality that will continue to thrive and develop in a globally interconnected world, where data and intermediate goods constitute core elements of the economy. Facing this world order of global business, the Japan-EU EPA is a vital framework for including production *and* investment planning behaviour of the international business rather than only taking trade research estimations into regard when assessing consequences and effects of the trade flows from an EPA. Thus, the EPA creates a foundation for the geoeconomic setting in which firms need to find a viable strategic outlook. Due to the liquid nature of GVC and GPN, decisions among MNCs regarding production location as well as the choice of suppliers and first-tier customers in the value chain, the importance of considering such factors is even more evident. Besides the shifting gravity in the international trade, where China has strengthened its position in relation to the main traditional stakeholders, both the EU and Japan suffer from relative slow economic growth due to structural impediments in their economies. Here, by including the effects of GVCs and GPNs on trade patterns between the EU and Japan, the EPA can create an important mutual contribution towards better utilization of comparative advantages and revitalization of key domestic industries, especially as it is assumed that there is an asymmetry existing in the EU-Japan trade relation in the sense that exports from Japan to EU to a higher degree takes place along intermediate partners than in the reverse direction. Indirect trade relations between EU and Japan within the context of a GVC should therefore be incorporated more explicitly and transparently since a stagnating or declining direct trade flow can partly be explained by the fact that trade takes place through intermediate locations along a value chain (Alvstam and Nakamura, 2015).

With the EPA, both parties have foreseen strengthening relations and economic gains in general and more specifically for certain sectors (EU, 2018). In theory, the overall tariff reduction should generate additional trade, but for the long run, the elimination of non-tariff barriers, regulatory harmonization and trade facilitation probably has a more profound effect on trade. This assessment builds on the understanding of the complexity of regional and global production networks and value chains (Coe and Yeung, 2019). Hence, the EPA will potentially create a more transparent institutional setting for firms in both EU and Japan to operate within.

From the European perspective, the EPA negotiations also coincided with the complexity of the Brexit vote in the UK. Over the last decades, the UK has attracted a substantial share of the total investments into the European Single Market, both in the manufacturing and services industries. The long-term implications of Brexit and the subsequent free trade deal with the UK and Japan will be significant for the economic relation to the European Single Market and the trade flows between Japan and the EU. Specifically, possible consequences might be changing industrial footprint in both the UK and EU that could affect trade flows. Several knowledge-intensive professional service firms, banks and financial service providers have already changed domiciles from the UK to other parts of the European Single Market (FT, 2018; Reuters, 2021; FT, 2021).

Geopolitics – Connecting the EPA and SPA

In parallel with the work on the EPA, Japan and the EU also engaged in a new form of negotiations for international agreements. The framework of the Strategic Partnership Agreement (SPA) was set to expand the collaboration interfaces between the parties (Ström et al., 2022). The fact that it was to be seen as a complementing platform to the EPA also stress geopolitical commitment and thus strengthening relations between the EU and Japan. The format of a legally binding agreement also made the SPA stand out from other more “communique” style of agreements in areas other than trade and investments. It established a framework around the concept of a rules-based world order (Nakamura and Ström, 2021). After a relatively slow progress, the areas of connectivity, digitalization, climate change and security have become a special concern. Here, infrastructure investment has also become a vital issue. All these issues are situated in the realm of both geoeconomics and the wider geopolitical setting. In addition, the SPA has become an area of future importance in relation to trade and business connectivity. The pandemic has shown the increasing importance of connectivity and digitalization in relation to data transfers within and between corporate entities. These are spheres within the EPA that are key for the future development of trade in services and related foreign direct investment. With an increasing possibility of data transfer and value being generated at the interface of service content and goods, the economic interconnection through the respective agreements will be vital for the future development of the political economy and business model connectivity.

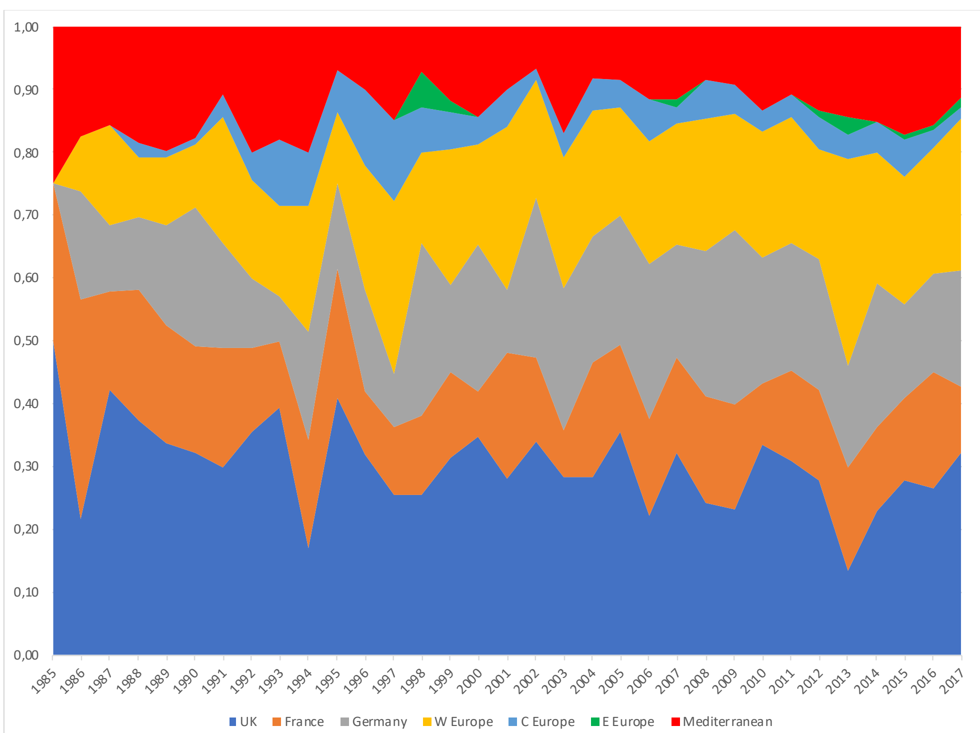
THE JAPANESE ECONOMIC ENGAGEMENT WITH EUROPE

After the Second World War, the economic and political partnership between Europe and Japan has grown into a dynamic cooperation, recognizing the huge benefits from trade and FDI this economic and political cooperation had yielded. Being home of many companies, large and small, with advanced technology and providing a unique access to the internal market of the EU, the European continent presents a plethora of attractive investment opportunities for Japanese multinational corporations (MNCs).

During the 1960s and 70s, the Japanese manufacturing sector became gradually more competitive in the European market, continuously upgrading production from initial low-cost manufacturing and alleged copying of Western technology to a level that in many sectors was equal to and often well above European industry quality standards at a competitive price. Furthermore, the Japanese exports were supported by an undervalued currency with a fixed exchange rate of JPY 360 per USD, which was maintained until the collapse of the Bretton Woods system in 1972 (Flath, 2014). Accordingly, most European countries commenced to suffer ever larger mutual trade deficits with Japan in their respective bilateral balances of trade in goods. One representative European example of this evolution is Sweden, for which Japan grew continuously as a country of origin for Swedish imports to a peak of 6.4 per cent of the total import value in 1988. During this time, the commercial relations were mainly limited to trade through own sales subsidiaries. In the mid-1980s there were about 80 Swedish subsidiaries in Japan, of which 15 with local manufacturing, while there were about 20 Japanese companies active in Sweden, although none with own production. The first three Japanese establishments of manufacturing subsidiaries in Sweden took place during 1985-1987 in the aftermath of the Plaza Accord[3], which pushed the JPY/USD exchange rate to previously unexperienced levels and made foreign direct investment more attractive than ever for Japanese MNCs (Flath, 2014). The number of establishments in Sweden grew thereafter to 19 in 1993 (Alvstam and Ivarsson, 1996). The bilateral exchange rate between the Yen and the Swedish Krona appreciated from JPY 70 per SEK during the pre-1972 Bretton Woods system, to JPY 12 per SEK in 1995 (Alvstam and Ivarsson, 1996). At the same time, the total number of Japanese manufacturing subsidiaries in Europe increased from 117 to 728 (Alvstam and Ivarsson, 1996; Darby, 1996).

The gradual expansion of the European Economic Community, and later the European Union, has increased the opportunities not only for the EU member state companies, but also for investors outside the EU, such as the Japanese MNCs. While taking the Japanese firms' M&A activities as a token for this development (Figure 3), it is obvious that the Japanese attention has broadened in terms of geographic scope. Reflecting a risk-avert or careful expansion strategy of Japanese MNCs, peripheral regions like Sweden were still side-lined by the substantial attention Japanese MNCs paid to establishments in the United Kingdom, Germany and the Netherlands during the first decade after the Plaza Accord.

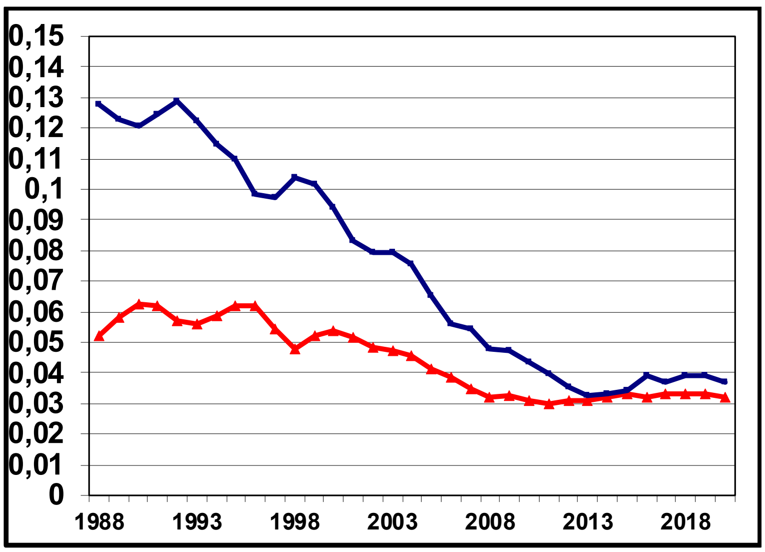
FIGURE 3
THE LOCATION SPREAD OF JAPANESE ACQUISITIONS BY NUMBER OF DEALS 1985 – 2017 (THE RELATIVE GEOGRAPHIC SHARE OF THE JAPANESE M&AS IN EUROPE). W EUROPE = IRELAND, BENELUX, DENMARK, SWEDEN, FINLAND; C EUROPE = POLAND, AUSTRIA, THE CZECH REPUBLIC, SLOVAKIA, SLOVENIA, HUNGARY; E EUROPE = ESTONIA, LATVIA, LITHUANIA, ROMANIA, BULGARIA; MEDITERRANEAN = PORTUGAL, SPAIN, ITALY, MALTA, CROATIA, GREECE, CYPRUS. AUTHORS' CALCULATIONS FROM RECOF DATA (N = 2515)



For the Japanese cross-border M&A in Europe in the 2000s, there is a clear shift in terms of investment targets. Differently from the 1980s and 1990s, the nature of Japanese acquisitions has transformed in two aspects. Firstly, entire companies are acquired and made wholly owned subsidiaries of the Japanese parent firm. Secondly, the European target firms in niche technologies are often transformed into regional HQs or supplier to the entire European market. The latter move marks a changing view of Japanese owners, apparently making the newly acquired European units a strategic part of their global organizations and in many cases have an important role for further expansions in the European Single Market.

In relative terms, the EU trade statistics (Figure 4) indicate a sharp decrease in the direct imports from Japan, which can be a result from the increased Japanese production in the EU. Japan's share of EU's total extra-regional exports has also declined, although at a slower pace.

FIGURE 4
THE EU TRADE WITH JAPAN. SHARES OF TOTAL EXTRA-REGIONAL EXPORTS AND IMPORTS (GOODS) 1988-2020. RED LINE = EXPORTS TO JAPAN; BLUE LINE = IMPORTS FROM JAPAN



Sources: IMF YEARBOOKS; IMF DOTS, JETRO, ITC, UNCTAD, & WTO DATABASES

Later, in 2019, we also experience a significant shift in the institutional trade and investment environment, when the EU-Japan EPA went into effect. Still too early to determine its effects, the symbolic value of enacting general agreements on trade and investments cannot be underestimated.

Understanding the Japanese Trade and Investment Pattern in Europe

We categorize the Japanese export and direct investment pattern in Europe in two main groups. *The first group* represents Japanese exports of intermediate products to Europe for further processing to capital goods to own original equipment manufacturers (OEM) in other European countries. The European firms operate in this case a link in the regional/global value chain of Japanese firms. *In the second group*, which also can be seen as a second stage, a European firm is acquired by a large Japanese company in order to both continue processing to OEM firms *or* to assemble final consumer goods for the European end-market. The role of the European subsidiary may also be to re-export products or patents at later stages in the value chain back to Japan.

Due to the advantages of the European Single Market to create a state-of-the-art specialization, division of labour and manufacturing fragmentation, a variant of this second group pattern is exports of *intermediate* products from Japan to a European country, and thereafter, with or without further processing, send the goods to a Japanese firm in another European country for the next step in the value-chain. This is a stylized way of framing the potential configuration of business activities and relate it to the overall activities of firms active within Europe.

FIRM LEVEL RECONFIGURATIONS IN A CHANGING BUSINESS ENVIRONMENT

Through the combination of strategy and location, it is possible to link our conceptual discussion to the broader perspective of the restructuring of the Japanese business environment. This restructuring is grounded in the development and combination of geoeconomics and corporate strategy. In order to sustain and develop competitive advantage, Japanese firms have been forced to find new ways to counter the global competitive landscape and the change in regional and international trading schemes. The fast-growing role of China in the world trade and investment, the Belt and Road Initiative, and the implications of Brexit for Japanese business, are examples of such development in geoeconomics and geopolitics. These macro-economic changes together with an evolving political economy will also drive the change at the firm level. This reconfiguration has occurred in parallel with the change in geoeconomics and geopolitics, creating a strong position of Japanese firms engaged in trade and FDI with the EU.

In a recent attempt to position the change of Japanese firms Schaede (2020) calls the last two decades of change Japan for the *Business Reinvention of Japan*. After a prolonged period of economic challenges in the wake of the so-called lost decade and continuously increasing competition from firms based in Korea, Taiwan and China, Japanese firms have embarked on a path of industrial upgrading and strengthening their competitiveness. In a similar vein, Watanabe (2020) also stresses the change in management practices such as human resource policies, overall restructuring of the Japanese economy through *Abenomics*[4], and the emergence of a new competitive landscape in Japan.

Through the combination of the macroeconomic change and the firm level operational view, Schaede (2020) discusses the concept of what she calls the Aggregate Niche Strategy used by the reinvented Japanese firm. This process is driven by two parts; strategic repositioning and organizational renewal. In order to meet new competition in Asia, the large Japanese firms and conglomerates need to re-evaluate their business configuration and disconnect from lower ends of the production chain. Selling parts of corporations that have been regarded as origins of the company has proven to be a painstaking process, but over the last decade this divestiture practice has finally come to the forefront of Japanese management and corporate governance restructuring measures. To be successful, however, a profound shift in the corporate mentality is also pivotal. This involves issues such as R&D structures, promotion and payment, and working with ambidexterity (e.g., Gibson and Birkinshaw, 2004; O'Reilly and Tushman, 2013). This concept has also been discussed within the International Business Studies literature as a way of handling both well-functioning business areas along with managing new business ventures, and thus constituting a dynamic capability and where globalization of firm activity is done under uncertainty (Vahlne and Jonsson, 2017; Vahlne and Johanson, 2020; Liu et al., 2021).

The Aggregate Niche Strategy has implications for the internationalization of Japanese business. The ongoing reconfiguration that has been taking place on the domestic market, exiting nonperforming sectors such as low ends of consumer electronics and increasing competitive advantage in advanced manufacturing also change business activities in the global market. Japanese firms are now to be found as leaders in areas of advanced systems solutions and high-end intermediary products vital to the value chains of firms in the global market (Schaede, 2020). Large industrial groups such as Hitachi and Mitsubishi stress the complexity of systems such as smart electricity grids and sustainable urban solutions in their respective fields. Together with a strong drive towards increased digitalization across industry and upgrading of possibilities through Internet-of-Things, Japanese firms now enter the global market from a new vantage point. Changing governance structures together with solid financing possibilities creates opportunities for conducting large-scale M&As in the global market. Here, firms that fit the new strategy are being integrated into the larger international operations. This type of internationalization is different to earlier time periods where Japanese firms mainly ventured abroad through setting up subsidiaries. This process is done in relation to the trade and FDI opportunities that exist in the market. Hence, the future of Japanese industrial presence and locational footprint in Europe rest on the access to the European Single Market driven by strategic intent of existing and recently acquired businesses.

In order to illustrate this pattern, we highlight two European examples: Hitachi's reconfiguration of its global corporate structure and composition, and the emergence of the international fork truck industry, which is now dominated by two Japanese MNCs, Toyota Material Handling and UniCarriers. The empirical examples show the targeted choice of companies and market segments. The acquired firms, which in all cases have been responsible for their own business development also after the Japanese acquisition, have been building long-term competitiveness through a combination of firm-level strategy and repositioning due to change in geoeconomics. Typical for the Japanese M&A was a strong emphasis on sectors where the target country industry already had a strong international competitive advantage. Accordingly, Japanese FDI in Europe was from the very beginning aiming for acquiring technology, strategic assets, and natural resources. Including the Japanese M&A pattern, this feature of FDI is still the characteristic feature in Japanese investments 30 years later.

FIGURE 5
HITACHI'S GLOBAL RECONFIGURATION PROGRAM: ACQUISITIONS IN EUROPE

Hitachi's global reconfiguration – the European activities
In 2000s, Hitachi suffered from a series of heavy losses, prompting it to reconfigure its global organization in a profound manner. In 2010, Hitachi decided to launch a restructuring program, where a series of sell-outs of consumer electronics units and corporate support functions, such as its financial services arm, was initiated. Instead, Hitachi launched a 10 year-long acquisition program firms in industries that reflected Hitachi's new focus on core B2B activities that faced less international competitive pressure, and yielded higher margins and profitability. This program is expected to be completed by 2021.
2012: Acquisition of The Railway Engineering Company (UK) – Railway technology
2012: Acquisition of Horizon Nuclear Power (Germany/UK) – Energy generation
2013: Acquisition of Celerant Consulting (UK) – Electric engineering consultancy
2014: Acquisition of Valkom S.r.l. (Italy) – Engineering and construction
2015: Acquisition of Ansaldo Breda (Italy) – Railway equipment
2017: Acquisition of Temple Lifts Ltd (UK) – Elevator equipment
2018: Acquisition of ABB Power Grids (Sweden) – High voltage transmission
2020: Acquisition of Perpetuum (UK) – Rail transport management solutions
2021: Acquisition of Thales's (France) GTS railway signalling unit – Railway equipment

Source: EU-JAPAN.COM, HITACHI.EU, RAILWAY TECHNOLOGY, EUROTECHNOLOGY JAPAN KK

FIGURE 6
THE EXPANSION OF TOYOTA MATERIAL HANDLING AND UNICARRIERS INTO THE EU THROUGH ITS ACQUISITIONS IN SWEDEN

Toyota Material Handling and UniCarriers – Sweden as the host location for the Japanese forklift giants' European HQ
Toyota Material Handling (TMH) acquired the successful Swedish forklift manufacturer BT in 2000 as a first step into the European market, where the TMH had a weak presence. The acquired unit in Sweden, now renamed TMH Europe, is now the regional HQ for the entire European market, employing about 9,000 persons. The organization consists of manufacturing units in Sweden, France and Italy, and about 30 sales subsidiaries around Europe. Since the Japanese acquisition, TMH Europe has implemented the Toyota Production System and has increased its production output by 450%. The ambitions of TMH Europe are to expand its service offer at par with its forklift business, and already the company has been designated developer for TMH's global telematics services, cooperating with Microsoft. The two main R&D units are located at the HQ, and one in the Western Sweden innovation cluster for vehicles.
Nissan Diesel's forklift manufacturing division targeted the Swedish competitor to BT, called Atlet AB, in 2007. In 2011, the acquired company merged with the Japanese forklift manufacturer TCM, forming UniCarriers Europe. Again, in 2017, the company underwent yet another merger, this time with Mitsubishi Nishiyu Forklift. Also in UniCarriers' case, the Swedish unit represents a successful niche

actor, having the ultimate responsibility to cater the entire European logistics sector. The production units are located in Atlet's original production facility in Western Sweden, and also in Finland and Spain. UniCarriers Europe has also concentrated its R&D to Sweden, but differently from TMH Europe, there exist similar technology development activities at its corporate sister companies in the US and Asia, forming a matrix R&D structure in the global organization.

Source: Alvstam et.al., 2019

In terms of the geographical market reach and importance of the specific situated location, our empirical examples point towards two outcomes. Japanese firms seem to value not only the capabilities and market position of the targeted firms, but also their location due to heritage, well-established logistics infrastructure, local commitment and resources. It is worth to note that these investments build on the industrial heritage at these locations. Furthermore, there has been no sign of geographical relocation from the traditional sites or closures in favour of other locations. These features are also evident in the empirical examples in the Figures 5 and 6.

This move can also be seen as a strategic location decision by the Japanese MNCs to get inside the tariff wall that surrounds the European Single Market. Thus, acquisition of overseas firms, regardless of its locational position in the centre-periphery geography, it can also be part of a global strategic position. The 2018 acquisition of ABB Power Grids in Sweden by Hitachi, is an example of this development. Firm level business reconfiguration and a changing business environment enables the firm to establish itself as one of few global energy grid suppliers.

Thus, the investments in Europe should not be seen merely as a market entry strategy, but they all have a wider and deeper implications for the Japanese firms. In relation to the strong position of R&D within the larger group structure, the acquired firms' independent position has been the primary outcome. However, there are good reasons to believe that capabilities will be built over time, and in due time be integrated into the wider global strategy of the Japanese MNCs along the proposition made by, e.g., Schaede (2020). This also ties into the connection to a wider set of physical and immaterial resources for the acquired firm, being part of a larger organizational structure with a more diverse set of resources and potentially also financing possibilities.

CONCLUSIONS AND FURTHER RESEARCH

On the basis of our discussion, it is possible to revisit the stipulated research question "*How is the Japanese economic engagement with the EU evolving from macro and firm level perspectives?*" and put forward a set of concluding remarks.

The shift in geoeconomics and geopolitics shows that it has become difficult to separate these concepts in relation to the EU-Japan relation. As the geopolitical context becomes more complicated, it is natural that this creates a blur with how firms develop strategy on the backdrop of trade deals. Hence the consequences can be seen from a multi-level perspective, where various stakeholders need to carefully navigate the business environment. Hence, Japanese firms seem to strive for a balance of industrial reconfiguration within the European Single Market, and at the same time aim at building their global competitive advantage. With the COVID-19 pandemic, the interrelation between the EPA and the SPA has become more evident. In the post-pandemic economy, the implications of the EPA and the SPA combined on international business and political relations will most likely become more important for building the long-term geoeconomic and geopolitical relations between the EU and Japan.

In relation to the firm-level implications of Japanese companies active in the European Single Market, there are signs that the ongoing macro-level shifts also impact the industrial configuration and business reinvention. One the one hand, it connects to the wider context of the international political economy. Japanese firms naturally operate on the basis of strategic considerations based on their global competitive advantages and capabilities, respectively. The fact that the European Single Market has been a key economic entity generates an impact of the industrial footprint based on the political economic status. On the other hand, the investments in Europe can also be said to have both a global niche perspective, where the acquired firms have a specifically strong market position, and to configure current or future European operations. Hence, the work on strategic reconfiguration and business reinvention conducted by Japanese multinational enterprises exists in parallel with shifts in the global business environment. One conclusion is that firms with a clear strategic industrial configuration and agile corporate structure are able to use these capabilities in a changing geoeconomic context. Frameworks such as the EPA and SPA could thus facilitate a more stable institutional setting for the benefit of strategically more viable firms. The two empirical cases indicate such a development.

The UK's role as the European base for substantial Japanese FDI over the years might change in the aftermath of Brexit. This could have indirect positive spinoffs on smaller and open economies in the European Single Market hosting strong firms in advanced manufacturing or with a high service content. With the EPA, it is also likely that the changing political economy makes it less necessary for Japanese firms to have a manufacturing presence within the European Single Market, if it is not needed from a very specific competitive advantage perspective. Instead, exporting from Japan could be the favoured option. Thus, the reason for entering the EU through FDI will likely be shifting, and for finding new answers, we need to go beyond an export-focused logic behind Japanese FDIs.

With a reduced focus on barriers for trade in goods thanks to the EPA, the investments of Japanese firms within the European Single Market are more likely to be done in consideration of building long-term competitiveness in areas such as advanced, high value-added, manufacturing and combination of intangible attests and services content in the value creation process. This development can also be seen in the way the two empirical case examples continuously work with value chain upgrading, moving towards a complete solution for customers rather than only selling a product.

With an increasingly important share of service value content in GVCs and GPNs, the issue of catching this value becomes vital (Jones and Ström, 2018). With the complexity of measurement and time lag of data, this will be needed to study from a longitudinal perspective. Hence, the EPA framework supports the possibility for Japanese firms to take advantage of intangible assets and build service content as part of their business reinvention, starting in the domestic market. In this context, the connectivity discussion situated with the SPA will be vital for economic resilience in the post-pandemic economy. Therefore, moving future negotiations of these agreements in parallel is the key to achieve a larger positive geoeconomic outcome.

In a similar vein, the series of large-scale acquisitions during the last 25 years by Hitachi and other large Japanese industrial groups as a part of their global reconfiguration are well in line with what we observe from the niche-oriented strategy development carried out by the firms discussed in our study. These industrial giants build on the strategy of business reinvention by using the existing strong position of the acquired firms. At this point, it is still too early to draw any general conclusions from the recent Japanese M&As, but they show great potential for future studies of Japanese investments in relation to the aggregate niche strategy and connection to digitalization and service content. In order to obtain a deeper understanding how the changing business environment will impact the industrial footprint of Japanese firms established in the EU, in-depth case studies are ways forward. This would include firms from different sectors and with different locational bases with the European Single Market.

ENDNOTES

1. The EU-Japan EPA consists roughly of two parts, each associated with complicated structural regulatory framework. Free trade is permit-based, where individual firms are required to register at national authorities to engage in tariff-free trade. Investment agreement is still subject to further negotiations, where some disagreements between the European Commission and the Japanese government regarding, e.g., disputes, exist.
2. Goods that have not yet reached their final shape or consists of machinery and equipment aimed at generating added value in production of final consumer products.
3. In this 2nd wave of endaka corresponded to a 54 per cent appreciation versus the USD.
4. The Japanese comprehensive economic reform program launched by the former Prime Minister Shinzo Abe in 2012.

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