

Haferkamp, Wilhelm

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## EUROPEAN COMMUNITY

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# Japan and the European Community: An Uneasy Partnership

by Wilhelm Haferkamp, Brussels\*

**Bewildering advances of Japanese production into many fields of European industry are a cause of grave concern in the EC. Calls for protection are growing louder as a mixture of fear and impatience spreads throughout the Community. Wilhelm Haferkamp, EC Commissioner in charge of external trade relations, explains why trade war practices are no solution to the problem.**

Trade relations between Japan and the EC have always been strained. In the late fifties and early sixties it was Japan's – at that time – powerful textile and clothing industry that frightened its European competitors. In the sixties and early seventies Japan conquered half of the world's shipbuilding market, largely at the expense of European shipyards. In the second half of the seventies Japanese industry made inroads in the European markets of consumer electronics, ball-bearings and steel. 1980 finally was marked by an extraordinary advance in fields like motor cars and machine tools.

During the past 10 years the EC trade deficit vis-à-vis Japan has kept growing, from 1.1 bn EUA in 1973 to 3.5 bn EUA in 1980 (Jan.-June). This is a larger trade deficit than vis-à-vis other trading partners with the exception of the United States (9.8 bn EUA) and Saudi Arabia (7.6 bn EUA Jan.-June 1980).

No precise data are available on the current account balance between the Community and Japan. However, there is no doubt that Japan's surplus in trade by far exceeds that of the Community in invisibles (licence fees, insurance, interest, dividends, tourist receipts, etc.).

Japan's emergence as a formidable competitor on the European market had been long foreshadowed (or ought to have been) by European industries being pushed out of many of their traditional overseas markets: first the textile industries, then the steel and car industries and more recently the equipment

machinery manufacturers have been feeling the increasing pressure of Japanese competition in international markets. The greater the geographical distance from Europe, the more complete the Japanese market penetration.

### Japanese Challenge Overlooked

European industry has been slow to grasp the full extent of the Japanese challenge. For a long time the signals on the wall were misread, or worse, simply ignored. It was only when Japanese industry seriously started taking higher market shares in the European market that industry seemed to realize the full extent of the danger. But by then precious time, indeed many years had been lost. And even then the reaction was by no means combative, but rather defensive. There was more rhetoric than heart-searching analysis of what had gone wrong. Action both on the company and on the government level was slow to come and mostly uncoordinated.

There seemed and still seems to be an extraordinarily strong tendency among Europeans to blame the Japanese rather than to find fault with themselves. There are hardly any blames that Japanese industry or administration were not reproached with:

- ☐ counterfeiting and imitating foreign patents or inventions;
- ☐ launching concentrated sales offensives in specific sectors – zips, ball-bearings, cars, steel, radios, TV sets, watches, etc.;

\* EC Trade Commissioner.

- ☐ trying to build monopoly positions through cut-throat competition;
- ☐ practicing price cartels in international biddings;
- ☐ dumping, including social dumping through low wages;
- ☐ subsidising exports;
- ☐ artificially keeping the Yen value low;
- ☐ protecting the home market by tariffs and non-tariff barriers;
- ☐ preventing foreign direct investment in Japan.

Still, it has proved hard to substantiate such blames. Japan has not been found guilty of dumping more often than other trading partners. Nobody has been able to demonstrate that the Yen has been manipulated by the government or that the Japanese government indulged in more export promotion activities (e. g. through Jetro or Ex Im Bank) than other countries.

The plain fact is that Japanese industry has been able to outpace its European competitors in many sectors, that it has become able to produce the same or even better products at lower cost.

It is quite understandable that industry does not want to admit any competitive inferiority. It is therefore quite normal if present Japanese competition is being presented as something "unfair" or "magic", as something against which industry ought to be shielded. Who would like to be outrun by a competitor through better management methods, a higher degree of automation, better long-range sales strategy, better quality control, better labour relations, or the like? Who would not tend to impute the responsibility for inadequate sales success in the Japanese market to high protective walls rather than to unadapted product design or simply to high prices, i. e. to lacking competitiveness?

### Roots of Success

There is no use in searching for scapegoats or culprits. We simply ought to recognize that Japanese industry (and technology!) has become superior – so far only in some fields – to our own. We will just have to live with that fact, and it is therefore up to us to try to catch up with Japanese advance, as we did some 20 years back with American superiority.

We know where the Japanese are doing better than us, and we know why they are doing better. Our opinions may differ on the relative weight to be attached to individual causal factors. Among the most

important factors accounting for the Japanese miracle are undoubtedly the following four:

- ☐ high individual motivation for work and achievement;
- ☐ high standards of learning and training;
- ☐ high ability to work within groups; therefore good labour relations and collective research capacity;
- ☐ high ability for utmost precision and miniature work, a byproduct of Japanese culture, including script.

International competitiveness of a company is to a certain extent always the result of the "efficiency" of the society in which such a company operates. There is no doubt that, on the whole, today's average West European society is much less geared to economic achievement and success than Japanese society. In that sense, Europe (and also North America) finds itself confronted, for the first time since the Renaissance, with a model of society which appears to be more successful than its own in turning out sophisticated technical products at low costs and in building large, highly efficient industrial organisations. Europe's competitive inferiority towards Japan is an indirect consequence of our changing system of social values: how can a society successfully compete internationally if "work", "achievement", "discipline" and other values of Max Weber's "protestant ethics" are put in increasingly low esteem compared to values such as "leisure" or "individual enjoyment"?

### Responding to the Challenge

Europe should certainly not try to imitate or to adopt the Japanese set of cultural values. To succeed in doing so would be utterly impossible and, what is more, would be quite unnecessary. Japanese entrepreneurs have demonstrated that the transfer of their technological and organisational skills to the European social environment is perfectly possible – even to the United Kingdom which does not enjoy the reputation of being what might be styled a "Japanese type of society". But this should not lead us to think that Europe is hopelessly lost in the competitive struggle with Japan, because its value system seems less adapted to the efficient mass production of material goods than the Japanese one.

Instead, we simply have to learn from the Japanese those methods of organizing large-scale business units (size of companies, labour relations, research, quality control, etc.) which we can adopt without revolutionizing our societies.

☐ Japanese companies use robots in assembly plants; European industry can do so as well.

☐ Japanese industry has merged its R & D efforts in order to catch up with the American lead in the field of computers and micro-electronics; there is nothing except national egocentricities to prevent European industry from successfully going ahead with similar attempts.

☐ Japanese workers, far from being afraid of technological change and resulting manpower economies, actively support their companies' drive for innovation and automation; what really prevents the European trade unions from convincing their affiliates that automation and technological progress are in the workers' interest, because it is only they that can guarantee high real wages?

The response to the Japanese challenge can only be multi-faceted, as no ready solution exists. Here are some of the responses that we see taking place:

☐ The European and American automobile industry is engaged in the biggest investment programme of its history to streamline production and cut production costs.

☐ European and Japanese motor companies are developing forms of cooperation which would have

been unconceivable 10 years ago (BL and Honda, VW and Nissan, Alfa Romeo and Nissan).

☐ The European TV industry is being progressively merged into a few viable large-scale companies with production concentrated in larger more economic units.

☐ The European Community has launched Japanese language training and marketing programmes for European companies.

☐ The number of European top managers and trade missions visiting Japan is greater than ever before.

### **Role of Companies**

In our decentralized system of market economy the response must necessarily come from millions of entrepreneurs and workers. The role of governments is limited. They can offer incentives and advice; they can contribute to the general economic climate in which the economic, social and technical adjustments take place, and nothing more. But they share that role with their social partners who remain — exclusively — responsible for fixing the level of wages, which is still the most important single cost factor in determining international competitiveness.

The European Economic Community is even less powerful than national governments for helping to

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meet the Japanese challenge. It cannot tell European companies to regroup, to join their R & D efforts or to cooperate with Japanese partners. Nor does it possess the policy instruments for spurring economic mobility and growth. The Community disposes, however, of the trade policy instruments. It can impose higher duties or import quotas, if certain industries become jeopardized. It can request the Japanese Government to impose "voluntary export restraints". It can impose anti-dumping or countervailing duties if cases of dumping or export subsidies arise.

In actual fact, the Community – and in some cases also individual Member States – have resorted to various trade policy measures in order to obtain more balanced trade between Japan and the Community:

- ☐ Several anti-dumping investigations were launched against Japanese firms.
- ☐ Some Member States have maintained import quotas on products, such as motor bicycles, motor cars, radios, TV sets and tubes, chinaware and toys.
- ☐ Japan has agreed to limit certain exports to the Community.
- ☐ Japan has lifted or eased a number of restrictions on imports (e. g. taxes, testing procedures) or investments.

### Growing Impatience

More recently, under the increased pressure of Japanese imports in 1980, the Community has asked Japan to take measures, including export restraint, in order to redress the adverse trade balance (cf. Council Declaration of November 25, 1980). So far the Community has stopped short of protectionist devices. No member state government advocates such measures. But patience is running out. The Japanese challenge is being regarded less and less in cool analytical terms but rather in emotional terms. In such a climate nobody could exclude unwise, irrational action. If every day thousands of jobs are being lost in the Community, if industrial production is going down, while Japanese industry keeps increasing its market share, irrational reactions are all but too natural.

Everybody knows that protection is no answer to Japanese pressure. Europe must, after all, be able to compete successfully with Japan (and other newly industrialized countries) in order to be able to import oil and other indispensable raw materials. It cannot retreat within its own shell. Everybody knows that to restore competitiveness the main efforts must come

from our industry itself, from its managers, its foremen and workers.

Still, Japanese industry and Government should play their part in this necessary process of better balanced relations. They should not, as happened in 1980, count mainly on other countries for insuring full employment and growth. Such a strategy, even if not in itself blamable, may come dangerously close to what is traditionally called "Beggar Thy Neighbour Policy". And such policy is being less and less condoned with by the international community.

### Immediate Strategy Requirements

What we therefore sincerely hope for in 1981 in Nippon-European relations are the following five positive developments:

- ☐ Stagnation of Japanese exports to the European Community, at least in real terms. Another push like the 30 % export growth in 1980 could be fatal to our harmonious relations with Japan.
- ☐ A boost of European exports to Japan, comparable to the one we have had in 1979. Hopefully, European competitiveness will have improved as a consequence of the strong appreciation of the Yen in 1980.
- ☐ A regression in the Community's heavy balance of trade deficit.
- ☐ A surge in Japanese direct investment in European manufacturing.
- ☐ A substantial increase in joint ventures or technical cooperation agreements between European and Japanese companies.

Europe and Japan are two essential pillars of the free world. Japan can have no interest in destroying or weakening essential sectors of European industry. Neither side would gain from a trade war. Both sides are politically condemned to join hands, to learn from each other and to compete with each other for higher standards of knowledge and a humane society. But this requires a constant "Give and Take" between the two partners. If Europe were to get the feeling that it is losing out to Japan, constantly and on a massive scale, it would rightly consider that the basic rules of the game are no longer correct. Europe cannot, à la longue, live with a massive trade deficit both with respect to its main oil suppliers and to its two main industrial competitors, Japan and the United States.

The key words for 1981 should therefore be:

"Moderation" on the Japanese side, "Effort" on the European side.