

Ichikawa, Hiroya

Article — Digitized Version

## Toward better Japan-Europe economic relations

Intereconomics

*Suggested Citation:* Ichikawa, Hiroya (1982) : Toward better Japan-Europe economic relations, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 17, Iss. 3, pp. 112-116, <https://doi.org/10.1007/BF02927880>

This Version is available at:

<https://hdl.handle.net/10419/139801>

### Standard-Nutzungsbedingungen:

Die Dokumente auf EconStor dürfen zu eigenen wissenschaftlichen Zwecken und zum Privatgebrauch gespeichert und kopiert werden.

Sie dürfen die Dokumente nicht für öffentliche oder kommerzielle Zwecke vervielfältigen, öffentlich ausstellen, öffentlich zugänglich machen, vertreiben oder anderweitig nutzen.

Sofern die Verfasser die Dokumente unter Open-Content-Lizenzen (insbesondere CC-Lizenzen) zur Verfügung gestellt haben sollten, gelten abweichend von diesen Nutzungsbedingungen die in der dort genannten Lizenz gewährten Nutzungsrechte.

### Terms of use:

*Documents in EconStor may be saved and copied for your personal and scholarly purposes.*

*You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.*

*If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.*

the other attempts made at solving this problem. Not only does the proposal ignore the fact that the problem of distributing the financial burdens of the EC-budget is not a specifically British one, but it does not seem to recognise that, given the present budget structure, a long-term solution is needed. Instead of an agreement which, basically, only covers three years, a mechanism should have been created which applied to all member countries, and which could register the need for corrections and make adjustments automatically where necessary.

Furthermore, apparently no lessons have been learnt from the miscalculations of the net transfers for the financial years 1980 and 1981: yet again a fixed refund is to be laid down *ex ante*. The future development of the Community's revenue and expenditure is known to be characterised by considerable uncertainties<sup>16</sup>. Bearing

<sup>16</sup> Cf. on this point, Angela Nottelmann, *op. cit.*, part II.

this in mind, it seems inexplicable that fixed equalisation sums should be opted for, and not some form of percentage figure.

One cannot avoid the impression that the fiscal equalisation planned is to be determined merely by the other member states' willingness to pay and not by reference to relevant economic criteria.

If this proposal, or a similar one, is accepted – the one-year regulation for 1982, agreed on May 25, has merely postponed further negotiations until the end of the year – it could mean the end of hopes kindled by the mandate of May 30, 1980, which tried to develop a systematic fiscal equalisation solution. This would mean that short-term crisis-management thinking of the member states had yet again won the upper hand over attempts at finding medium- and long-term solutions to the problems of the Community. The problems cannot be eliminated, however, simply by stringing together a set of temporary solutions.

## FOREIGN TRADE

# Toward Better Japan-Europe Economic Relations

by Hiroya Ichikawa, Tokyo\*

**Present economic relations between Japan and Europe are marred by misunderstanding and ignorance of one another's positions, Mr. Ichikawa stresses here. Neither side has anything to gain from the continuance of this situation: a new phase – one of understanding and cooperation – must be begun.**

The Japanese of the nineteenth century saw Europe as the epitome of progress. Europe was the symbol of political freedom, new technology and new ways of thinking. Japan and the rest of the world were stagnant and weak. Today, the situation appears to be totally reversed, at least to Japanese eyes. Many in Japan foresee that during the coming decade Western European economic growth rates will probably be lower than Japan's. They do not find it surprising to hear that Western Europe will also probably continue to have higher unemployment and inflation than Japan. The volume of international trade is not expected to show any dramatic increase in the near future, and the newly industrialising countries (NICs) are becoming a threat to the advanced countries. Many who foresee increasing

rivalry among the industrialised nations for markets, resources and investments point out that it will take time for Western Europe to modernize its industries and adapt to the new age. If inflation and unemployment are expected to continue to be especially severe in Europe, and greatly intensified competition among the industrial nations is to be inevitable, with two of the main competitors being Europe and Japan, one might reasonably ask if it isn't time for both Japan and Europe to redefine their relationship by stepping back and taking a long, cool look at the illusions that their peoples hold about each other.

Underlying the history of Japan-EC trade relations in the postwar years has been the conflict between Western Europe's discriminatory response to Japanese exports to Europe and Japanese insistence on Most Favoured Nation (MFN) treatment. As trade

\* Keidanren (Japan Federation of Economic Organisations).

liberalization and currency convertibility progressed in the late 1950s and early 1960s, both in Europe and Japan, annual trade or payment arrangements were replaced by normal trade relations based on the free and non-discriminatory principle of GATT. During this period, Japan made persistent efforts to obtain most favoured nation treatment from major Western European nations. When Japan became a contracting party to GATT, fourteen countries refused to enter full GATT relations with Japan by invoking Article 35 of the Agreement (which provides for the non-application of the Agreement between particular contracting parties if either of them does not consent to its application to the other at the time of either becoming a contracting party).

The matter was psychologically offensive to the Japanese since it made Japan a second-class citizen in the world of international trade. Thus, in the early 1960s Japan started actively to pursue "economic diplomacy" towards Western Europe. Finally, Britain withdrew the application of Article 35 of GATT against Japan in April 1963 and the "Treaty of Commerce, Establishment and Navigation" came into force in May 1963. This treaty, however, included two types of safeguard: one, applicable selectively in case of need, under which each government was permitted, after consultation, to impose restrictions on imports of the other country's goods, if those imports caused or threatened "serious injury" to domestic producers; and a second, in which a list was agreed of "sensitive items" on which British restrictions would continue to be maintained after the Treaty came into effect (such items as cigarette lighters, stainless steel tableware, sewing machines, toys and pottery were included), and in addition the Japanese Government agreed to the "orderly marketing" of certain textile products, transistorised radios and television receivers. Following the example of Britain, France and the Benelux countries revoked the application of Article 35 in 1964 in return for Japanese acceptance of similar safeguard arrangements. Altogether, the acceptance of the Anglo-Japanese commercial treaty opened the way for the solution of the irritating unilateral trade discrimination against Japanese goods in Western Europe.

Reflecting the generally favourable economic situation during the 1960s, Western European nations gradually reduced quantitative restrictions on Japanese goods and Britain totally eliminated them by the end of 1967. By 1981, the number of discriminating restricted items had decreased to 3 for West Germany, 27 for France, 38 for Italy and 9 for the Benelux countries. (Items such as textile products, pottery and china table ware and light machines were included). However, the

fear of market disruption by Japanese exports has remained in Western Europe. In accordance with Article 113 (1) of the Treaty of Rome, a dialogue between Japan and the EC Commission was begun in late 1961 to try to reach an agreement by which the EC would adopt a common commercial policy toward third countries based on uniform principles. The strategy of the EC Commission was to conclude a commercial agreement with Japan which would apply to all EC members and supersede bilateral agreements, but to do so only after the problem concerning sensitive items had been solved. However, there was a fundamental difference in attitude between Japan and the Community over the inclusion of safeguard arrangements in a commercial agreement. The Japanese Government strongly maintained that Article 19 of GATT would provide a sufficient safeguard.

### Anxiety in Europe

The speed of penetration of competing imports seems to have been a source of great anxiety in Europe, where traditionally a more conservative philosophy of industrial expansion has prevailed. European fears were reflected in the insistence on safeguards and on the restriction of imports of sensitive items. The Japanese reacted strongly to the European attempt to institutionalise discrimination against Japan and insisted that discrimination was unduly restrictive and that Western Europe's real troubles were not due to imports from Japan, but were caused by European industrial failures or imports from other sources. However, it should be noted that Japanese opposition was not as strong when industrial sectoral difficulties were actually present. Sectoral consultations have been held on automobiles, pharmaceutical products, silk yarn, iron and steel products, shipbuilding, agricultural products, chemicals and marine diesel engines, etc. From mid-1972, as a result of these official and private consultations, self-restricting measures were introduced by Japanese exporters with regard to an increasing number of specific products. While it is often tempting to be alarmed by conflicts in the Japan-EC trade relationship, one should not lose sight of the degree to which the Japanese exercised moderation in exporting sensitive products to Western European markets. The effort made in the Tokyo Round to negotiate a new, more workable safeguards provision ended in failure as a result of unresolved differences between protection-minded European countries and less developed countries that feared a more effective safeguards provision would be used too often against them. However, the problems arising from the restriction

of imports from specific sources make it imperative to come to an agreement on a new, more workable safeguard provision in the nearest possible future.

Following the introduction of a series of voluntary export restraint measures on the part of Japan, the Europeans' emphasis seems to have shifted to the galloping bilateral trade imbalance and the impenetrability of the Japanese market. It is interesting to note that Europeans seldom took issue with Japanese tariff or non-tariff barriers (NTBs) until quite recently. This was partly a result of a lack of serious interest in the Japanese market. It should also be noted that the Community was also subject to severe American criticism concerning its preferential trading policies and its protective trade measures, particularly in agriculture. Nevertheless, the strong and pervasive European feeling against Japan led them to express their belief that European companies never had a fair chance to penetrate the Japanese market because of import quotas, high tariffs and restriction of investments during the period in the 1960s when the Japanese economy was rapidly expanding. Europeans argued that they did not hinder an expansion of Japanese exports in European markets. As the Japan-EC trade gap continued to widen during the 1970s, European criticism of the impenetrability of the Japanese market grew so strong that the Japanese government had to show "goodwill" to the Europeans.

The various measures taken by the Japanese government included the following: an expansion of the import quota for skimmed milk powder; the sending of a veterinary inspector to France to examine whether Japanese requirements for the importation of French processed meat were being met; the ruling that the number of shipments of passenger cars to Britain in 1976 was not to exceed conspicuously the 1975 shipments; the holding of bilateral meetings with the Community on the shipbuilding question; the simplification of import procedures for manufactured

tobacco products. The Japanese Government, however, pointed out that it would be more appropriate to discuss the reduction or elimination of tariffs or NTBs on the basis of reciprocity within the Multilateral Trade Negotiations. In addition to the measures above, the type-approval system for imported vehicles was simplified from April 1, 1977 onwards. It was also decided to accept a substantial amount of pre-clinical test data on pharmaceuticals prepared abroad from October 1, 1976 onwards. Foreign automobile companies, including the European ones, were allowed three years to adopt to the tougher emission standards which went into effect in Japan on April 1, 1978.

Setting aside the problem of the impenetrability of the Japanese market for a moment, the real problem seems to arise from the speed of penetration by Japanese exports into European markets, and not so much from the Japanese share of these markets, possibly with a few exceptions. The sudden surge in the imports of specific products makes adjustments by the affected industries difficult. Furthermore, it also renders their future so precarious that the industries are unable to work out a sensible strategy for the future. Considering the fact that 60-70 % of Japan's total exports to EC markets are machinery and equipment, and that about half of these exports consist of five items, namely TV and radio receivers, tape recorders, automobiles and ships, the impact of these exports tends to be felt all the more strongly by specific industrial sectors of specific importing countries in Western Europe. Particularly when the economy of the importing country is depressed, such a concentration of Japanese exports, because of its implications for employment, engenders an attitude of outright rejection rather than that of constructive accommodation to the realities of international economic life on the part of the industries affected.

The Japanese Ministry of International Trade and Industry's 1981 white paper on international trade

**PUBLICATIONS OF THE HWWA-INSTITUT FÜR WIRTSCHAFTSFORSCHUNG-HAMBURG**  
**NEW PUBLICATION**

**Gerhard Rübel**

**DEISENMARKTOPERATIONEN BEI FLEXIBLEN  
 WECHSELKURSEN**

– Eine portfolioretische Untersuchung –

(Operations on the Foreign Exchange Market and Flexible Exchange Rates –  
 A Study using Portfolio Theory)

Large octavo, 240 pages, price paperbound DM 45,-

ISBN 3-87895-219-8

**V E R L A G   W E L T A R C H I V   G M B H   -   H A M B U R G**

shows that the degree of international horizontal division of labour in Japanese manufacturing industries measured by specialization indexes<sup>1</sup> with respect to imports and exports is far more unbalanced than those of the United States and West Germany. Where Japan has comparative advantages such as in steel, general machinery, electrical machinery and transport equipment, Japan's export specialization indexes of those industrial sectors are far higher than the average of OECD nations. On the other hand, where Japan has comparative disadvantages, Japan's import specialization indexes of such industrial sectors are far smaller than the average of OECD countries. In the case of the United States, where export specialization indexes exceed the average of OECD nations (such as in transport equipment and general machinery), their import specialization indexes of the corresponding industries also exceed the average of OECD nations. Such a trade structure suggests that the US does export as well as import products of industries in which they have international competitiveness. In other words, a higher degree of horizontal international division of labour can be observed in the trade structure of the US economy. It is of interest to note that West Germany's export structure measured by export specialization indices resembles her import structure more than is the case in the USA, largely reflecting the high degree of horizontal international division of labour within the EC manufacturing sector.

One of the most important factors responsible for Japan's present trade structure is the fact that, previously, no highly advanced homogeneous industrial nations existed in Japan's neighbourhood. Lack of natural endowments (resources and energy) combined with this fact to discourage the promotion of horizontal international division of labour in Japan's manufacturing sector until very recently. As a result, Japanese industry had to build up a self-supply system of manufactured goods. However, with the emergence of newly industrialising nations in the neighbouring area, the degree of horizontal international division of labour has been increasing in the field of labour-intensive consumer goods and intermediate industrial materials. A second factor is that Japan's large domestic market has made it possible for mass-production type industries to enjoy the advantages of economies of scale.

Coming back to the question of the openness of the Japanese market, the resentments of threatened industries in Europe were often aggravated by the fact

that many of them felt they had never had a chance to build up a market in Japan in the 1960s while they were licensing technology to Japanese firms. They express the opinion that the closed Japanese market severely hinders European exports; that Japan's accessibility is already limited by geographical distance from Europe, and, added to that, a completely different culture, lifestyle and system of business practice also work against European penetration; that artificial tariff and non-tariff barriers make exporting to Japan frustrating and arduous. The Europeans seem to be of the view that there are "structural barriers" in the Japanese economy which hinder the importation of manufactures. All in all, the pervasive and persistent view is that the European failure to penetrate the Japanese market is largely due to various barriers on the Japanese side and that their removal will substantially increase European exports to Japan, if not immediately restore a balance in bilateral trade.

### Lack of European Effort

Such a perception of the situation contributes to a strongly negative image of Japan as a nation which does not play the international trade game fairly, and it provides ammunition for those in Europe who advocate restrictive measures against Japan. In reply to these views, the Japanese argue that the basic reason for the low level of EC exports to Japan is a lack of European effort. In Japan, the dominant opinion is that Japan's market for manufactured products is as open as any in the world. Moreover, it is widely believed that while Japan has been liberalising market access very rapidly, there are growing signs of protectionism in Europe, the United States, and elsewhere.

In a sense, all national markets are to some extent "closed". As the Japan - United States Economic Relations Group known as "the Wise Men's Group" concluded in its Report of January 1981, "in terms of average tariff levels and quotas on manufactured products, Japan's market at the end of the phasing-in of current reductions will be no more closed than that of the United States. Indeed, given informal US 'quotas' in the form of orderly marketing arrangements, Japan's market may well be less closed". As a result of Japan's tariff reduction commitments during the Tokyo Round, its average tariff level on GATT-bound industrial products (on a trade-weighted basis) will be only 3.2 % by the end of the eight-year period for phasing-in the agreed tariff cuts. Whether GATT-bound or applied duty rates are used as the basis of calculation, Japan's average tariff levels on industrial products will be lower than US tariff levels on comparable products by the end

<sup>1</sup> Export (import) specialization coefficient is defined as follows:

$$S = \frac{\text{Commodity A's share in Country X's total exports (imports)}}{\text{Commodity A's share in total exports (imports) of OECD Nations}}$$

of 1987. As for quotas, Japan now has quotas for only five manufactured products, the most significant being leather goods. Because Japan has agreed to orderly marketing agreements or voluntary restraints on some of its exports to Western Europe and the United States, "the Wise Men's Report" concluded that Japan now is far more the victim of other countries' formal and informal quotas than a perpetrator of quota restrictions in international trade in manufactured goods.

### European Complaints

Behind the ongoing trade disputes between Japan and the Western industrialised countries seem to lie considerable psychological elements which make the problem all the more complex and potentially extremely dangerous. While the EC and the USA are losing patience with the "unfair", "sneaky", "inscrutable" Japanese who "only sell but refuse to buy", the Japanese are getting just as uneasy about what increasingly seems to be an abusive stance on the part of those "presumptuous" Westerners.

Repeatedly threatened and told off by the Americans and the Europeans, Japan has been tackling what are alleged to be less formal official import barriers, such as the practical administration of standards, customs, procedures and investment approvals as well as intangible national cultural attitudes toward foreign trade, in the hope that they will be able to satisfy overseas critics. Yet many Japanese suspect that Western Europe and the United States will not be fully satisfied with Japanese efforts as long as economic and industrial gaps remain. They believe that the Europeans will keep pressing Japan to do "something". They suspect that the Western demands on Japan could be endless. And this suspicion may make the Japanese look sneaky and inscrutable. In Japanese eyes, it is always the Westerners who speak loudly and high-handedly in an attempt to win the argument, while the Japanese remain silent instead of shouting back.

The European Community's bilateral trade deficit with Japan increased from \$ 8 billion in 1979 to \$ 12 billion in 1980 according to EC statistics (\$ 5 billion in 1979 and \$ 8.8 billion in 1980 according to Japanese statistics), the \$ 4 billion increase coming solely from increases in Japanese exports; EC exports to Japan were stationary in 1980. The latest figures available<sup>2</sup> for 1980 show a \$ 5.4 billion surplus in Japan's favour during the period of January-June 1981. In the light of the structural nature of the problem of the imbalance of trade and of the difficult situation, Europeans unanimously make the following points: the European economies are afflicted by unemployment, inflation, stagnant growth and external trade deficits; in the face of the deterioration in economic conditions, the rapid growth of Japanese exports in some sectors is giving rise to political and social problems; if the trade imbalance continues unchecked, protectionist pressures will intensify to an uncontrollable level. For this reason, Europe wants Japan to exercise moderation in exports, to open the Japanese market further to imports and to expand the imports of manufactured goods.

Europe's specific requests include a lowering of the relatively high tariffs applied in Japan to certain products, the expansion or abolition of quota controls on agricultural and other products, as well as the improvement or removal of the so-called non-tariff barriers including the import inspection procedures for chemical and pharmaceutical goods. It is also frequently suggested that Japan should get rid of its "buy Japanese" mentality.

### Conclusions

Some of the European complaints, such as those concerning complicated import procedures and quota controls of farm products, deserve Japan's serious attention. Japan must study concrete measures to further improve access to the Japanese market,

<sup>2</sup> Japanese Ministry of Finance statistics.

### Balance of Payments between Japan and the EC 1975-80

(US \$ million)

	1975	1976	1977	1978	1979	1980
Current Balance	500	1,838	2,686	3,014	1,355	4,959
1. Trade Balance	2,500	3,907	4,703	5,451	4,751	9,313
2. Invisible Balance	-1,987	-2,058	-1,981	-2,401	-3,359	-4,311
3. Transfers	-13	-11	-36	-36	-37	-43
Long-term Capital	1,306	1,151	478	996	-1,469	4,220
Overall Balance	1,806	2,989	3,164	4,010	-114	9,179

Source: Bank of Japan, Balance of Payments Monthly, calculated on the basis of IMF formula.

because supporting the open international trading system and closing the trade gap through import expansion is a sheer necessity for Japan.

The latest action taken by the Suzuki government was the improvement of import inspection procedures. The Japanese government also decided to establish a new headquarters (the so-called Ombudsman) for resolving grievances pertaining to the opening up of Japan's market. It is noteworthy that the Japanese government could take these actions in a fairly short period of time after it had decided on advance implementation of tariff reductions for 1,653 items. However, as long as the huge trade imbalances between Japan and the other industrialised nations remain unchanged, the dissatisfaction of these nations with Japan's efforts will be left unabated. Any substantial improvement in the balances cannot be expected without parallel efforts by Japan's trading partners to penetrate the Japanese market. It will take a formidably long time before the latest non-tariff barriers can be reasonably effective in alleviating criticism against Japan's trade policies.

There is a strong sense of scepticism among Japanese economists and businessmen that Japan's bilateral trade imbalance with the EC would be corrected, even after the complete elimination of all NTBs in Japan. Instead, many in Japan believe that promotion of direct investment, technological exchanges and cooperation in third markets would be a more promising course of action leading over the medium and long term to the development of more solid Japan-Europe economic relations. The Japanese and the Europeans must begin by recognising that their societies, politics, and economies all share the same values and common interests. Direct investment in each other's economy is extremely useful in promoting industry and deepening understanding into the bargain. Many economists in Japan point out that trade between Japan and Europe will never balance out unless the two regions develop a horizontal division of labour in their industrial set-up. Neither Europe nor Japan has anything to gain if Europe reverts to protectionism and closes its markets to try to resolve the trade problem. Both parties must join forces and reach a common solution.

### **The Need for Cooperation**

As one peers into the future of Japan-Europe relations, it should be observed that there are factors which could shake the basic structure of the Japan-Europe relationship. With the disappearance of the international system based on Pax Americana, the management of the international order has to be carried

out through coordinated efforts of a number of states whose behaviour can affect the order in a material way. Today, many nations are tempted to pursue their own individual policies, and a basic consensus on a concrete common policy objective is hard to achieve. If both regions (Japan and Europe) do not pay constant and careful attention to these factors and confront them squarely, they could affect the prospect of a substantial development of a healthy and constructive relationship.

If the Japan-Europe economic relationship is viewed only in terms of trade, there will be only limited means to solve the problems and the prospects for constructive development will be lost. Broader and closer economic relations must be promoted not only in trade but also in the industrial field and economic interests must be coordinated. Japan and Europe will be able to base their economic relations on a solid foundation only by expanding exchange in technology and investment in addition to the exchange of goods. The promotion of exchange in investment will result in increasing employment, while technological exchange will facilitate the modernisation of industry and help strengthen international competitiveness. Japan once introduced scientific techniques from Western European countries to create a modern industrial nation. Even today, the Western European countries are still ahead of Japan in such fields as aircraft and nuclear energy, while technological progress is seen in electronics and other fields in Japan. Japan and Europe must promote exchange and cooperation in research and development in the field of such frontier technologies for the prosperity of humankind as a whole.

Their cooperation in third-country markets is also very important. It is possible for Japanese and European enterprises to increase their economic efficiency by sharing risks inherent in major projects in third countries through the formation of international consortiums, etc., seeking the optimum combination of mechanical equipment, manpower, technology, know-how, funds, etc., while specialising in those fields where they excel. These efforts will provide new opportunities for cooperation in the economic development of third countries and lead to the expansion of trade for both Japan and Europe, instead of causing their existing interests in third-country markets to diminish. In coping with the present situation and its economic difficulties, misunderstanding and ignorance of one another's positions contribute only to worsening the economic relationship between the two sides. The political system as well as the economic system in both regions must somehow find a way to build up a constructive relationship.