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# Japan's Concessions Towards Trade Fairness: Mistaken Western Views

by Radha Sinha, Glasgow\*

**It is now acknowledged even by US officials that Japan's recent efforts to liberalize trade have been remarkable. Our author, who has recently published a book on "Japan's Options for the 1980s", argues that the continuing EEC complaints about Japan's behaviour as a trading partner are unjustified: Japan is simply being made a scapegoat for the EEC's own failures.**

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**A**lthough the history of individual complaints against the Japanese intrusion into the domestic markets of the countries of the European Economic Community dates back to the early 1970s, the major thrust towards a collective EEC action came in the spring of 1979 when a report from the office of Sir Roy Denman, the EEC Commission's Director General of External Relations, called for the imposition of Community-wide restrictions on Japanese imports. No effective action was taken on this report. However, the complaints continued.

Early in 1980 the European television manufacturers asked Viscount Etienne Davignon, the Community's Commissioner for Industry, for restrictions on Japanese television imports. Viscount Davignon met his Ministry of International Trade and Industry (MITI) counterpart in Tokyo in May and protested against the bilateral surplus of Japan with the EEC. With the sudden death of Prime Minister Ohira no real progress was made. In July the same year the Commission worked out another strategy, once again drafted by Sir Roy Denman. The overall aim was to replace national restrictions by uniform Community-wide restrictions on Japanese imports. This report was rejected by the Council in July 1980. The next few months saw frequent exchanges of diplomats, trade delegations and consultations.

## Recent Liberalisation Measures

One of the highlights of the period was a government economic mission, headed by Yoshihiro Inayama, the President of the *Keidanren*<sup>1</sup>. The Mission, consisting of some leading businessmen and officials of the foreign Ministry and the MITI, arrived in Europe in October 1981. On its return the Mission stressed the need for further liberalisation of imports from Europe and the necessity of urgent government action on industrial

cooperation. In response the Suzuki government announced, in December 1981, a five-point package estimated officially to reduce the Japanese current account surplus by US \$ 1 billion<sup>2</sup>. The package included "measures to further open the market by simplifying test and import procedures and to promote emergency imports of crude oil, aircraft, ships, rare metals and other products"<sup>3</sup>. It was also aimed at expediting "industrial cooperation at private levels to moderate exports and to attain the government's target of doubling official development assistance over a five year period" and "called for the establishment of a foreign lending facility of \$ 500 million to finance emergency imports of aircraft, ships and other products"<sup>4</sup>. It was also suggested that the government would stockpile nickel, chrome, tungsten and two other rare metals as well as crude oil. The package also included imports of US surplus grain as a part of Japanese food-aid.

These measures did not satisfy Japan's trading partners and in view of the growing trade surplus, which rose to \$ 13.5 billion in 1981 with the USA and \$ 10.5 billion with the EEC, the pressure continued. In January 1982 the Japanese government announced elimination or reduction of nearly 70 non-tariff barriers, the adoption of the international standards for electrical and other products, acceptance of foreign inspection results and simplification of Japanese inspection and import procedures<sup>5</sup>. The government also promised to consider liberalisation of quantitative restrictions on a

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<sup>1</sup> Federation of Economic Organisations of Japan.

<sup>2</sup> The Japan Times Weekly, Dec. 19, 1981, p. 1.

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

<sup>5</sup> The Japan Times Weekly, Jan. 23, 1982, p. 1.

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remaining 27 agricultural products and to open the Japanese market wider for foreign banking and insurance companies.

These measures, like many others taken in the last few years by Japan to placate her trading partners, did not mollify them, particularly the EEC, which does not stand to gain all that much from the recent liberalisation efforts. In fact, while the Japanese government was still in the process of unfolding their liberalising measures, the EEC invoked Article 23 of the General Agreement on Tariffs and Trade. The EEC claimed that the imbalance in the trade relationship between Japan and the EEC impairs "reciprocal and mutually advantageous arrangements" between the two trading partners. The EEC drew attention to the import procedures, difficult commodity standards and testing procedures, close-knit industrial systems and their restrictive practices as well as the complex distribution system as the main reasons for the growing EEC trade deficit with Japan. The justification for these complaints is examined below.

### Japan's Trade with the EEC

The breakdown of Japan's trade with the EEC is given in Table 1. For the sake of comparison the trade figures for the USA and ASEAN are also included.

It is clear from Table 1 that the EEC as a whole takes only 13 % of Japanese exports against nearly 25 % for the USA and as much as 10 % for the Association of South East Asian Nations (ASEAN). Among individual members of the Community only Germany imported as much as 4.5 % of Japanese exports; in the case of Britain the share was nearly 3 %. In all other cases it was less than 2 %.

**Table 1**  
**Japan's Exports and Imports with the EEC, 1980**

Country	Exports (in million US \$)	% of Total Exports	Imports (in million US \$)	% of Total Imports
Belgium- Luxembourg	1.43	1.12	0.37	0.30
Britain	3.78	2.98	1.95	1.56
Denmark	0.43	0.34	0.32	0.26
France	2.02	1.59	1.30	1.04
Germany	5.76	4.54	2.50	2.01
Ireland	0.22	0.17	0.08	0.06
Italy	0.96	0.76	0.94	0.75
Netherlands	2.06	1.62	0.38	0.30
Total EEC	16.65	13.14	7.84	6.29
USA	31.37	24.75	24.41	19.59
ASEAN	13.03	10.28	21.22	17.02

Source: JETRO, White Paper on International Trade, 1981.

The share of the EEC in Japanese imports was only 6.3 % for obvious reasons. The EEC countries have virtually the same kind of factor endowment as Japan. They are all, by and large, importers of raw materials, fuel and food, except that Britain has emerged as a major supplier of fuel and France has a significant grain surplus. As we shall see below, the EEC manufactures are often less competitive than domestically produced manufactures in the Japanese market. Germany and Britain are the only two countries which have succeeded to some extent in supplying to the Japanese market but in relation to total Japanese imports their share still continues to be around 2 % or less.

Although Japan exports more to the EEC than it imports from the latter, in terms of total EEC imports the share of imports from Japan was only about 2.4 % in 1979. If intra-Community trade is excluded then this figure was around 4.5 %<sup>6</sup>. Thus by no stretch of the imagination can one argue that Japanese exports into the EEC are in "flooding" proportions and hurting the prospects of EEC manufactures.

It could legitimately be argued that in looking at the adverse implications of Japanese imports into the EEC one should look at the sensitive items only, rather than at the total trade. Even on this count Japan cannot be faulted too readily. The share of total world exports of the first five major exporters of some selected items of importance to Japan is given in Table 2.

Of nine categories which are subject to trade disputes between the EEC, Japan and the USA, Japan was significantly ahead of its trading partners in five. Germany's share was the highest for two items, including road vehicles, and in another seven items came second. However, the total for the EEC, except in the case of telecommunications, was two or three times the figure of Japan. Even in telecommunications, the EEC's share was 36.7 % against Japan's 26.7 %. In road vehicles Japan came second. In actual numbers Japan accounted for only 8.2 % of total EEC imports of cars in 1978. Japan in 1979 exported 1.55 million cars to the USA alone, against only 0.64 million to the EEC as a whole. Two major importers of Japanese cars in the EEC are Germany and Britain, and in both cases some kind of "voluntary" restraint is operating. In the case of Britain, Japan had already agreed to "voluntary" restraint in 1976, limiting her car exports to 10 % of the British market. The present agreed level is 11 %. Japan also agreed that her car exports to Germany in calendar year 1981 would not be more than 10 % higher than in 1980. Belgium negotiated an absolute decline in the

<sup>6</sup> Japan Economic Institute (JEI Report): Recent Trends in Japan – EC Economic Relations, Feb. 6, 1981, Table 4.

number of cars. Exports to the Netherlands and Luxembourg were to remain the same in 1981 as in the previous year. Italy has maintained a quota of only 2,200 Japanese cars. France has limited the quota of Japanese cars to only 3 % of the French market.

In 1978 Japan's exports of steel products such as universals, plates and sheets, etc. amounted only to 4.1 % of the EEC imports. Steel products are also subject to import restrictions in various EEC countries. In 1979 in telecommunications, Japan provided only 29 % of the British imports, 26 % of the German and 18 % of the French. In the case of Italy it was as little as 4.7 %<sup>7</sup>. Thus there does not seem any genuine ground for arguing that Japan is "flooding" the EEC markets with sensitive products.

### Deficit on Invisibles

Japan consistently has had deficits on her invisible trade. This deficit amounted to only US \$ 7.4 billion in 1978. In 1980, it was as high as US \$ 11.3 billion<sup>8</sup>. A significant proportion of the Japanese demand for services comes to the EEC countries, particularly to France and Britain. In 1979 the Japanese deficit on services with the EEC as a whole, as estimated by the

Bank of Japan, was US \$ 3.4 billion. This point is often ignored by the EEC countries in trade discussions.

It must also be remembered that Japan does not take an "unfair" share of world export trade as compared to any of the major EEC countries. For instance, in 1979, Japan's share of world exports amounted to only 6.8 % against Germany's 11.4 %, 6.7 for France and 6.0 for Britain<sup>9</sup>. In per capita terms Japan exports (as well as imports) much less than the EEC. In 1979 Japan exported \$ 883 worth of goods per capita and imported \$ 948. As against this, Germany exported \$ 2,802 and imported \$ 2,604 worth of goods. In per capita terms British exports came to \$ 1,631 and imports to \$ 1,844. The overall figure for the EEC for exports was \$ 2,221 and for imports \$ 2,324.

### Tariff Rates

The analysis of tariff and non-tariff restrictions and other trade practices also suggests that the EEC case is difficult to substantiate, particularly in view of the pace of

<sup>7</sup> Estimated on the basis of UN Yearbook of International Trade Statistics, 1979, pp. 1128-9.

<sup>8</sup> JETRO, White Paper on International Trade, 1981, p. 28.

<sup>9</sup> IMF, International Financial Statistics, Vol. XXXIII, No. 7, July 1980.

**Table 2**  
**Share of First Five Major Exporters and EEC<sup>1</sup>, 1979**  
(in % of Total World Exports)

	First Five Major Exporters					Share of the EEC
	1st	2nd	3rd	4th	5th	
1. Iron, Steel Primary Forms (672) <sup>a</sup>	Japan (20.9)	Germany (17.6)	Belg.-Lux. (15.7)	France ( 8.1)	Italy ( 3.3)	EEC (59.9)
2. Iron and Steel Shapes (673)	Japan (19.9)	Germany (14.1)	Belg.-Lux. (11.5)	France ( 9.8)	Italy ( 9.2)	EEC (52.6)
3. Iron, Steel Universals, etc. (674)	Japan (27.4)	Germany (17.1)	Belg.-Lux. (12.7)	France ( 9.6)	Netherlands ( 4.4)	EEC (51.6)
4. Iron, Steel Hoops, Strips, etc. (675)	Germany (31.8)	Japan (15.0)	Belg.-Lux. (15.8)	France (13.6)	Sweden ( 7.7)	EEC (68.1)
5. Iron, Steel Tubes, etc. (678)	Japan (28.6)	Germany (20.6)	France ( 8.8)	Italy ( 8.2)	USA ( 8.0)	EEC (46.2)
6. Power Machinery (711)	USA (25.6)	Germany (18.0)	UK (13.5)	Japan ( 8.8)	France ( 8.7)	EEC (48.2)
7. Telecommunication (724)	Japan (26.7)	Germany (13.0)	USA (11.3)	Netherlands ( 5.8)	UK ( 5.3)	EEC (36.7)
8. Electrical Machinery (729)	USA (21.7)	Germany (16.6)	Japan (11.9)	France ( 7.6)	UK ( 6.9)	EEC (42.4)
9. Road Motor Vehicles (732)	Germany (22.3)	Japan (18.8)	USA (13.7)	France (10.7)	Canada ( 8.7)	EEC (51.1)

<sup>1</sup> Value terms. <sup>a</sup> SITC Classification. <sup>1</sup> Value terms.

Source: UN Yearbook of International Trade Statistics, 1979.

liberalisation in Japan in the late 1970s. Both the International Monetary Fund (IMF) and the GATT readily agree that in terms of nominal tariffs Japan is no more restrictive than her trading partners. After the completion of the Tokyo Round tariff cuts, Japan's tariffs will be the lowest among the industrialised nations (cf. Table 3).

On sensitive items such as automobiles tariff rates are now non-existent in Japan, as against 3 % in the USA and 11.0 % in the EEC. In 1967 the import duty on small cars was as high as 40 %, as against only 6.5 % in the USA and 22.0 % in the EEC<sup>10</sup>.

### Non-tariff Barriers

Non-tariff barriers are more difficult to disentangle. Roughly one can distinguish between two different types: quotas and other barriers. So far as quotas are concerned, each country imposes import restrictions on a particular item in the form of "residual import restrictions" which are, in fact, in violation of the GATT. According to the Japanese Ministry of Foreign Affairs, Japan had as many as 466 items under "residual import restrictions" until April 1962<sup>11</sup>. By April 1970, the number came down to 109. In April 1979 it stood at only 27 out of which only 5 were manufactured products. As against this, the same source suggested that in 1979 France had as many as 46 items under "residual import restrictions". Italy had 8, Germany 4, Greece 26, the Benelux countries 5, and Britain only 3<sup>12</sup>. Thus in the EEC there were at least a total of 83 items subject to

"residual import restrictions"<sup>13</sup>. Some of these were exclusively against Japan. However, according to *The Economist*, Italy had 38 bilateral restrictions on Japanese products, France 27 and Benelux 9<sup>14</sup>. Japan does not impose any bilateral restrictions on any product. Her restrictions apply to all countries<sup>15</sup>.

Perhaps the above figures understate the number of items subject to quantitative restrictions of various types. The author's own count of products subject to national quantitative restriction on their entry into free circulation<sup>16</sup> indicates that in February 1982, complete restrictions applied to as many as 101 products in France, 98 in Italy, 67 in Germany, 29 in Britain, 14 in Ireland, 5 in Benelux, 10 in Denmark and 3 in the Netherlands<sup>17</sup>. There were many more products subject to partial restrictions on this list. Thus even in terms of non-tariff barriers Japan is more open than the EEC in both senses: she does not have as many restrictions as the EEC countries; at the same time she does not discriminate on a bilateral basis.

### Public Procurement

Official procurement has been another bone of contention between Japan and her trading partners who accuse her of "Buy Japanese" policies. Preferential treatment to domestic producers is, however, quite common in both the USA and the EEC. Most of the EEC countries use negotiated formulas (and not open bidding or tenders) for procurement of materials and goods by government affiliated enterprises<sup>18</sup>. For instance the British Coal Board buys only 3 % from overseas, and foreign purchases of the remaining 12 nationalised enterprises average around 3.5 %<sup>19</sup>. In the USA the majority of state governments have their "Buy American" policies. The Federal Government also allows preferential treatment to domestic producers. The French and Irish governments are currently being investigated by the EEC Commission for their buying practices which allow for preferential treatment for domestic products<sup>20</sup>. Even the private sectors in the USA and the EEC use preferential buying from domestic sources.

**Table 3**  
**Tariff Rates and Reductions in the Tokyo Round**  
(in %)

	Japan	USA	EEC
Dutiable industrial goods only:			
Average basic rate	9.9	8.2	9.7
Effective rate	6.9	8.2	9.7
Duty after reduction (approximate)	5.5	6.0	7.0
All items including duty free items:			
Average basic rate	5.8	6.0	6.4
Effective rate	3.7	6.0	6.4
Duty after reduction	3.0	4.0	5.0

Source: Appendix to the Report of Japan-United States Economic Relations Group, quoted in: U.S. House of Representatives Sub-Committee of Ways and Means (1981): Report on Trade Mission to Far East, p. 10.

<sup>13</sup> Ibid.

<sup>14</sup> *The Economist*, April 24, 1982, p. 82.

<sup>15</sup> Ibid.

<sup>16</sup> At present there are no Community restrictions, although a regulation (Council Regulation (EEC) No. 288/82 of Feb. 5, 1982, on common rules for imports) has been passed.

<sup>17</sup> Based on the Official Journal of the European Communities, L35, Vol. 25, Feb. 9, 1982, Annex 1.

<sup>18</sup> *Asahi Shinbun*, April 4, 1979.

<sup>19</sup> *Financial Times*, March 2, 1982.

<sup>20</sup> Ibid.

### Export Promotion

It has often been contended that Japanese products succeed in foreign markets because of relentless sales promotion and export financing programmes. The US Congressional Research Service looked into such practices in the USA, Japan and the EEC. Its report, published in 1978, indicated that the British Government programme was "the largest and the most intensive promotional program"<sup>21</sup>. It showed that per \$ 1,000 of exports the official promotional expenditure in Britain was nearly \$ 2.1, Italy 1.7, and France 1.4 against only 0.9 for Japan<sup>22</sup>. In export financing, expressed in terms of total outstanding credit and credit authorisation, Japan in 1976 spent significantly less than the UK, France and the USA<sup>23</sup>. It was only in terms of insurance cover that the Japanese programmes came out somewhat better. In terms of credit supplied by official and unofficial sources and the interest charged Japanese official supports were not very different to those of the other industrialised nations<sup>24</sup>. Even with respect to tax incentives either through rebates on

indirect taxes or by deferring direct taxes on earnings from exports, the Japanese record is not worse than those of the other trading partners. Allowing rebates against indirect taxes on export earnings is not illegal under the GATT provisions. The GATT rule was recently challenged in the US courts by the Zenith Radio Corporation in a case against Japanese electronic importers. The US Supreme Court gave the verdict that a rebate on the Japanese Commodity Tax was neither a bounty nor a subsidy<sup>25</sup>. The deferring of direct tax on export earnings is not permissible under the GATT rules but most industrialised countries including Japan have such arrangements. Recently the Belgian, French, Dutch and US governments were found by the GATT to be violating GATT rules<sup>26</sup>.

### Distribution System

There is no doubt that the Japanese distribution system is complex and cannot be easily understood by foreigners, particularly if they do not try hard to do so. People brought up in European-based cultures have taken for granted that the world should be remodelled to suit their perception of the world. If the Japanese

<sup>21</sup> US Congressional Research Service: Export Stimulation Programs in the Major Industrial Countries: The United States and Eight Major Competitors, 1978, p. CRS 11.

<sup>22</sup> Ibid, p. CRS 18.

<sup>23</sup> Ibid, p. CRS 47.

<sup>24</sup> Ibid, p. CRS 59.

<sup>25</sup> Ibid, p. CRS 71.

<sup>26</sup> Ibid, pp. CRS 76-77.

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distribution system does not fit their perceptions, it must change. In the 18th and 19th century the West tried to remodel the world by sheer brute force of arms, now it is doing the remodelling by political pressures under threat of trade reprisals. It is now being agreed even by the salesmen from the West that the Japanese consumer is very discerning and quality conscious, and that many foreign salesmen are not prepared to put in the amount of effort required. Those who do so have achieved significant success. A number of European firms including some British, such as British Oxygen, British Engineers, Cadbury, Davy International and Marks and Spencer have made their presence felt. Japanese officials, businessmen and scholars do concede that the complexities of the distribution system are discouraging to foreign salesmen but they rightly argue that the distribution system of a country is the product of historical tradition and culture and therefore cannot easily be changed.

One must confess that the distribution system argument is essentially unsound. If the failure of foreign products to make significant inroads into the Japanese market were rooted exclusively in the complexities of the Japanese distribution system, Japanese manufactures should not have done so well in the domestic markets of the USA and the EEC. The fact is that Japanese salesmen prepare for a foreign market thoroughly by acquainting themselves with the culture, language, etc.; Japanese products are attractive and reliable; packaging is neat; delivery dates are punctual; and after sales services are readily available. Many of the European producers cannot outmatch the Japanese in these matters.

### Productivity Increases

Japanese manufactures compete strongly with foreign products within both domestic and foreign markets. There are several reasons for this, but not those which are commonly believed. Japanese wage levels are no longer much lower than those of the EEC. They are certainly a little lower than in Germany, but much the same as in France and a little higher than in Britain. The same applies to Japanese welfare payments, which are comparable to those of Germany but better than in France or Britain.

The main strength of Japan lies in the cohesiveness of the Japanese system, consensus decision-making by management and non-combative attitudes to industrial relations. The mutual trust between government, big business and trade unions has meant that official initiatives in the "growth" sectors can bear fruit more

**Table 4**  
**Value-Added Labour Productivity**  
**in Manufacturing**  
(Japan = 100)

Year	Germany	USA	Britain	France
1970	110.1	154.6	69.7	112.6
1974	106.3	137.6	64.1	106.5
1978	89.6	114.9	52.9 <sup>a</sup>	95.3 <sup>a</sup>

<sup>a</sup> 1977.

Source: JETRO: White Paper on International Trade, 1981, p. 15.

easily. Trust between labour and management means that industries can get out of declining sectors more easily than in the West. Trade unions are not as opposed to automation and structural change as they are elsewhere. As a result, the increase in labour productivity in manufacturing in recent years has been substantial. Between 1960 and 1973 Japanese labour productivity increased by 10.7 % against 5.9 % in Germany, 6.5 % in France and only 3.5 % in Britain<sup>27</sup>. During 1974-78, labour productivity in Japan continued to grow by 5.3 % against 3.7 % in Germany, 3.9 % in France and only 0.8 % in Britain. The progress in labour productivity in relation to Japan's trading partners is given in Table 4. According to a Japanese official estimate, in 1970 labour productivity in manufacturing in Japan was lower than in Germany, the USA or France, reaching two thirds of the USA figure and only 91 % of Germany's. By 1978 it had exceeded German labour productivity by nearly 12 % and was 87 % of that of the USA.

Such labour productivity gains cannot be achieved without the active cooperation of the trade union movement. According to International Labour Office sources, in 1977 the Japanese lost only 13 days in strikes per 1,000 of population against France 69, UK 183 and Italy 294. It was only Germany whose strike record was much better than that of Japan. The workers' cooperation in structural changes has meant that the pace of automation in Japanese industries is much faster than in those of her trading partners. For instance, the number of industrial robots in Japan in 1979 was around 14,000 against 850 in Germany and only 185 in Britain.

There is no denying that the pace of structural change in Japan is hitting some regions and some categories of workers badly. Small enterprises have failed in large numbers. Recent estimates indicate that as many as

<sup>27</sup> Economic Planning Agency (Japan): Economic White Paper, 1980, quoted in: United States - Japan Trade Council Report No. 39, Oct. 10, 1980, Table 2.

47,000 small enterprises are not as well protected with life-time employment and pensions as those of the large enterprises. The recent recession, trade liberalisation under foreign pressures, and the rapid pace of structural change have meant that unemployment is much higher than the officially accepted figure of 2 %. Independent estimates suggest unemployment levels up to 9 %. Middle-aged workers and particularly women workers are reported to have suffered most. Contrary to the common belief, life-time employment is not available to a significant proportion of the Japanese labour force. Many women workers fall into the category of temporary workers. Even trade union protection is not available to them. If Japan were pressurised unduly to liberalise imports while her trading partners, particularly the EEC, continue to add to their trade barriers, the social and political consequences for Japan would be intolerable. A time might come when Japan would decide to go it alone as it did in the 1930s. This would be catastrophic not only for the West but for the world as a whole.

#### Japanese Direct Investment in the EEC

Recent efforts to liberalise trade by Japan have been remarkable. This is now acknowledged even by US official sources<sup>28</sup>. Now a long-term improvement in the bilateral trade imbalance of the EEC with Japan will largely depend on the improved performance of EEC industries in making themselves more competitive. As Arthur Dunkel, the Director General of the GATT, warned recently, Japan is unjustifiably being made a scapegoat for the failure of the West to set its own house in order. He rightly stressed that the "problem of competition with Japan has begun to assume the proportions of a crisis, though in reality it is only a symptom of more general problems – Japan is only the forerunner of a series of highly efficient newcomers in the world markets for manufactures"<sup>29</sup>.

The fact is that the EEC countries can learn a great deal from Japanese industrial management and labour relations, if they care to do so. Japan has shown great willingness to enter into industrial and technical cooperation with foreign countries. Even on this front the EEC response is rather luke-warm. Cumulative Japanese direct investment in the EEC countries until March 1980 was only about 10 % of total Japanese direct foreign investment<sup>30</sup>. Much of this investment is concentrated in Britain. The idea of a joint venture between Nissan and Alpha Romeo in Italy, for instance,

was disliked by many. And in recent months the Italian and French car-makers have come together to limit the import of British Leyland's Triumph Acclaim car built in Britain under license from Honda<sup>31</sup>.

Last year, when Nissan was considering building a car manufacturing plant in Britain, the EEC car manufacturers including Fiat, Renault, Peugeot, Volkswagen and British Leyland started lobbying for changing the EEC rules on "source of origin" and rigorous enforcement of the EEC rules which require 80 % of the car to be manufactured within a member country. This would have inhibited Nissan's coming to Britain because initially they were hoping to aim at a 60 % import content<sup>32</sup>. In 1977 Hitachi Colour Television planned to build a factory in Britain and was opposed both by the trade unions as well as local television manufacturers. A few years ago Italy tried to limit the import of Sony television sets made in Britain<sup>33</sup>. Nippon Seiko had to agree to restrict its production of a certain kind of bearing at its plant in Britain<sup>34</sup>.

#### European Options

The structural change in the economies of the EEC, particularly in those in which there has been a long tradition of feather-bedding domestic industries through captive markets in the colonies, is bound to be slow. Under the circumstances, their industries will continue to be less competitive in the Japanese as well as in third markets. Therefore, the trade deficits will continue or may even get worse. Some short-term solution to the problem of deficits can be attained through revaluation of the yen, but this cannot be a long-term answer. Contrary to the popular belief in the EEC that the Japanese government engineered an undervalued yen in 1979 and 1980, the Bank of Japan's intervention was almost always to prevent the yen from falling<sup>35</sup>.

The medium-term solution has to be found either in increasing trade barriers or by allowing Japanese foreign investments. The first option will, inevitably, be suicide for the EEC as the EEC countries depend much more on foreign trade for their prosperity than Japan does. Therefore there is no other option but to allow Japanese foreign investment to come in in a much bigger way. The EEC's reluctance to do so spells disaster for the member countries' own economies as well as for world trade.

<sup>31</sup> The Economist, May 1, 1982, p. 53.

<sup>32</sup> S. Alexander: Europe unites to put skids under Nissan, in: Sunday Times, Business News, Feb. 8, 1981.

<sup>33</sup> The Economist, May 1, 1982, p. 53.

<sup>34</sup> JEI Report, Feb. 6, 1981, p. 7.

<sup>35</sup> JEI Report, Feb. 6, 1981, p. 5.

<sup>28</sup> US House of Representatives, Sub-Committee of Ways and Means (1981): Report on Trade Mission to Far East, p. 9.

<sup>29</sup> Financial Times, March 8, 1982.

<sup>30</sup> Japan Economic Institute, JEI Report, Feb. 6, 1981, p. 7.