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European Community in a Glasshouse

Right at the very beginning of the new year, the Japanese Foreign Minister, Shintaro Abe, came to Europe to conduct high-level talks on current mutual trade problems. He already had experience in this question, having been in Europe no less than four times last year for the same reason, at that time in the function of Minister for Trade and Industry. The problems are apparently coming to a head.

His journey was intended as a gesture of appeasement. This is clear from the cabinet decision, published unexpectedly shortly before his departure, that as of April 1st of this year drastic reductions in customs tariffs are to take effect for 44 agricultural products and 28 industrial products which are of particular interest to the EC. But the EC did not appear to be very impressed by the fact that such a decision shortly following a government reshuffle is an unusual happening in Japan and stuck to its threatening gestures of the previous December. At that time, the EC had emphatically demanded serious steps towards a "precisely defined and effective mitigation" in sectors which were under pressure from Japanese exports and had repeated the demand for a permanent opening-up of the Japanese market to European products. If these demands were not met, the consequences would be tough. The EC underlined its resolve by announcing that the previous "statistical surveillance of imports" of certain sensitive goods would be not only maintained, but extended. The Council of Ministers also decided to initiate anti-dumping proceedings for video recorders.

The European displeasure expressed in these measures was confirmed to the Japanese Foreign Minister in tones which were sometimes rather loud. At the same time there was remarkably little to be found in the newspapers regarding the concessions he had made or promised to consider. Did he hold up a mirror in front of those with whom he was discussing and show them their own protectionism? No one could have blamed him for it.

The European Community entered upon the scene 25 years ago not only in order to bring Europe politically closer together, but also in order to foster the liberalisation of world trade by means of a speedy reduction of trade barriers within the industrial centre of Europe. The GATT rules on the formation of free trade zones and customs unions can only be interpreted in this way. Today, the Community is – as the skirmishes with Japan and the USA show – on the point of becoming a protectionist pest due to its uninhibited bilateralism. Whereas the attempts on the part of the EC to seal off markets were originally concentrated on the agricultural sector, during the course of the 70s more and more industrial products were included in this policy.

The EC's bilateralism led at first to a flood of preferential agreements. Shortly before the end of the GATT Tokyo Round not even 40 % of total EC imports were still covered by customs duties conforming to the most favoured nation principle. Japan belongs, along with the USA, Canada, South Africa, Australia and New Zealand to the non-privileged countries.

The exports of these nations were burdened on average with a customs duty of 8.3 %, whereas the favoured countries had only to suffer customs duties of on average 2.7 %. Although the Tokyo Round led to a reduction of customs duties, nothing has changed in principle. European customs policy is gradually acquiring a discriminating character.

But in spite of all this customs duties, with the exception of a few particularly high ones, no longer play a decisive role. The main problem is that of non-tariff barriers. If the official GATT list of non-tariff barriers is taken as a basis, it turns out that the EC attempts to curb 5.4 % of imported finished products by means of such measures, and Japan only 3.1 %. In the case of the EC the most important items are textiles and shoes, whereas the Japanese put restrictions primarily on leather and leather goods, and on transport equipment.

It may very well be surprising how small the difference is between the EC and Japan. But the picture changes dramatically when we take into account the official statements on this question to be found in national sources. According to these, in the EC 22 % of imported goods are subject to non-tariff barriers, in Japan 5.2 %. It is characteristic that in Japan only 0.2 percentage points of these are of a discriminatory nature, i.e. they are directed only against certain particular countries, whereas in the EC the figure is 19.7 percentage points. In the EC, imports from Japan are frequently the addressees of discriminatory import restrictions. This is an obvious case of someone who lives in a glasshouse throwing stones.

This impression is reinforced further when developments during the 70s are taken into consideration. While the EC continually introduced additional non-tariff trade barriers either for individual member countries or for the Community as a whole, Japan invariably liberalised its foreign trade. Between 1973 and 1980 the Community resorted as many as 17 times to protective measures under Article 19 of GATT or Article 113 of the Treaty of Rome. Japan, on the other hand, took anti-dumping measures at the end of 1982 for the first time in a long time, and these were directed against cotton from Korea and Pakistan.

All of this does not mean that Japan is without fault. The complicated customs procedure, which requires a large number of documents for the calculation of duties, as well as specific technical inspection procedures, are certainly trade barriers which could be removed or reduced. Japan will, of course, also have to free itself from the tradition on which it has obviously set such great value ever since the appearance of the Black Ships from America in the last century, namely that of opening up its markets only under threat of force.

The facts listed above show, however, that the Japanese market is more open than is commonly believed. A successful penetration of this market is certainly possible. An increasing number of examples, particularly of German firms, offers impressive proof of this and responsible businessmen and politicians are pointing out this fact more and more frequently.

Nevertheless, the opinion still appears to be dominant in Europe that a distribution system which has arisen in the course of history and which, furthermore, is also a part of the social security network, a language which is not spoken in Europe and the renunciation of a few days holiday a year are enough to constitute protectionism.

Both firms and the Administration in the EC are going to have to recognise that bilateral trade imbalances are not necessarily, and certainly not exclusively, the result of unscrupulous trade policies and therefore cannot be taken as an excuse for protectionist measures. The European cash-registers will not ring automatically in Japan but, rather, the lucrative Japanese market will only be captured by high performance regarding technological standards, quality and service.

The sooner Europeans get used to this idea, the faster they will be able to put their trade balances in order. There is no time to lose, for the newly industrialising countries, with Korea, Taiwan and Singapore in the vanguard, are preparing to copy, or even to outdo, the Japanese success story. It simply cannot be that the established industrialised nations, led by the EC, wish to demonstrate to the late-comers of industrial development, as they are presently trying to demonstrate to Japan, that the effort just isn't worth it.

Manfred Holthus