

C urrent Strains in EC-Japan Trade

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in Japan, presents the EC view



International trade relations are currently experiencing considerable strain. This strain is largely due to the deepest economic recession which the West has known since the War. But there are other contributing causes.

One of them, in European eyes, is the fact that Japan does not import manufactured products on anything like the same scale as other industrialised countries. People blame this on various tariffs, NTBs, and general bureaucratic 'red tape'; but there are also more fundamental reasons, residing in Japan's post war industrial and commercial structure, the relations between firms in Japan, and Japanese instinctive attitudes towards imports of competing manufactured products. For the EC countries, penetrating the Japanese market is substantially more difficult than entering all other OECD markets.

Part of the evidence for this view is to be found in the following trade statistics. In 1960, Japanese imports of manufactures were 2.4% of GNP. In 1980, they were still only 2.5%. The comparable figures for the EC are 3.3% in 1960 and 6.0% in 1980; for the U.S., 2.0% and 4.3%. In 1980, for manufactured products:

- Japan imported \$27.2 billion, or \$233 per capita;
- the EC imported (from outside the Community) \$215 billion or \$796 per capita;
- the U.S. imported \$124 billion or \$546 per capita.

Japan's imports of manufactured goods are accordingly now the same in value as those of Switzerland, whose economy is one-tenth that of Japan; while, in per capita terms, Japan comes next to last amongst the Member States of the OECD. Thus the significantly increased penetration of the U.S. and EC markets which accompanied the liberalisation of trade as a result of the Dillon, Kennedy and Nixon Rounds of GATT negotiations has not so far been matched by Japan.

This general point shows up clearly in the recent history of Japan-EC trade relations. In 1963, the Ten present Members of the European Community had a trivial \$8 million deficit with Japan, and an import export coverage ratio with Japan of over 98%. This ratio fell steadily to 72% in 1970, to 44% in 1975 and to 35% in 1980. Europe's trade deficit rose to \$500 million in 1970, to \$3.4 billion in 1975 and to over \$12 billion in 1980. The imbalance continued in 1981.

The U.S. deficit, too, has grown in a fashion comparable to our own. Sometimes Europe, sometimes the U.S., has had the higher nominal bilateral deficit with Japan.

The newly industrialised countries (NICs) of Asia have also found it as difficult to conduct balanced two-way trade with Japan as the rest of us. Japan's imports of manufactured products from developing countries as a whole are proportionately under half the EC level (0.57% of GDP in Japan, as against 1.33% of GDP in the EC). In absolute terms in 1980, the Community imported four times as much from developing countries as Japan did (\$69 billion against \$16 billion); the EC gave them a market three times as large for raw materials and food, but six times as large for manufactured products.

Europe's trade imbalance with Japan is therefore not unique. It is not due to a strange entrepreneurial

decline, or some mysterious collapse of industrial flair, peculiar to the EC. Our experience has been shared by most of Japan's trading partners, other than those which supply energy and raw materials.

Now, in a multilateral world, bilateral ups and downs are only to be expected. It would be wrong to expect to balance our books neatly with all our partners. Protectionism in all its forms (including so-called "reciprocity" bills in the U.S. Congress) should be resisted. It may well be that Japan will run a legitimate trade surplus with the EC for some years to come.

But the free trade system as a whole can only survive if there is a substantial *exchange* of goods between the world's major trading partners. And here, the impression has grown up within the European Community that Japan, with her relatively prosperous economy and her domestic market of 120 million consumers, is now in a position, if she so wishes, to make a bigger contribution, in terms of imports from other developed and developing countries, to the expansion of world trade.

It is a historical fact that Japan was a closed society for longer than most other industrialised countries; and that trade restrictions were removed more slowly in Japan than in Europe in the 1950s and 1960s. At that time, before Japan's economic miracle had been completed, it did not seem fair to expect a major international economic contribution from Japan. Leadership was then exercised by the U.S., and to some extent by Europe, who together created the post-war open world trading system.

Today, however—even if individual Japanese citizens may not be particularly conscious of it as they go about their daily lives—Japan has become the most powerful single industrialised country after the U.S., accounting for 10% of world GNP. A more positive role is consequently hoped for from Japan in the 1980s, than was expected in the 1960s, in sustaining two-way trade and in moving away progressively from her autarkic and self-sufficient economic behaviour pattern of past decades. It could prove increasingly a source of international strain for the Japan of the future to remain an importer chiefly of raw materials, energy and certain foodstuffs, self-sufficient in most other respects, yet an exporter of finished goods to her GATT partners along a largely one-way street. More give-and-take is called for; more need for what the GATT terms "mutually advantageous arrangements."

Now, I am privileged to meet a wide range of Japanese people in my daily diplomatic life; and in the process of so doing I have encountered possibly four types of reaction to the issue of trade friction.

The first type of reaction I sometimes meet is one of very polite indifference. It is to argue that the problem does not exist; or that, if it does exist, it is not important; or that, even if it is important, it will nevertheless soon go away, e.g. when the world economy emerges from recession, the U.S. interest rates fall, the yen strengthens or whatever.

I myself suspect, however, that trade friction is not just cyclical. The facts suggest that it is a fundamental

problem which can only be dealt with on a long-term basis.

The second type of reaction, which is slightly more widespread, is one of equally polite indignation. Other countries are merely jealous of Japan's success. Japan is being made a scapegoat for the shortcomings of others, perhaps so as to justify unwarranted protectionism in Europe and America.

I find this more human, and more understandable, than the reaction of indifference. But foreigners are not being unfriendly, nor are they seeking to make Japan a scapegoat, when they ask for assistance and understanding. Everybody welcomes the fact that Japan is a democratic, stable and prosperous member of the Western community of nations. No one belittles the efficiency of the more dynamic sections of the Japanese economy, sections which offer international consumers a reliable and innovative product, and help to advance the frontiers of applied technology to the ultimate benefit of all mankind. Japan is not a culprit in these respects. Japan's success is admirable and exemplary.



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But the Europeans, far from being protectionist, in practice hold their markets open to all comers much more widely than Japan (or even than the U.S.). It also happens that Europe devotes a higher proportion of GNP to overseas aid; that beneficial European industrial investment is spread world-wide; that Europe is bearing much of the cost of international economic adjustment in terms of dangerously high unemployment (currently 11 million). It is arguably therefore the Europeans, rather than the Japanese, who might with some justice claim to be the "scapegoats".

A third and quite common Japanese reaction is to resort to reasoned argument as to why Japan is unable to do much about the problem. As a country poor in natural resources and energy, she must import raw materials, and export manufactured goods, paying for the former by selling the latter. A fragile craft tossed on stormy international seas, Japan is too vulnerable herself to be able to do all that she might wish to help her partners.

On the surface, this may seem a reasonable explanation of Japan's trade pattern; but it does not hold water on two counts. First, Japan is not unique in her dependence on imported energy and raw materials. The EC as a

whole imports almost twice as much of them as Japan. Individual Member States such as Italy and Germany and France have to import all or almost all their oil. Second, the large increase in world trade which made possible post-war prosperity grew essentially out of industrialised countries exchanging the manufactured goods they all produced. The economic theory behind such exchange goes back to Adam Smith himself. But this positive development of international trade might well never have happened if everyone had followed the example of Japan.

The fourth style of reaction, which happily seems to be the most widely supported in Japan, is the one that I admire, and find more in keeping with the power and responsibility which Japan now possesses. It is that Japan should seize the initiative; should take the problems of the EC and the U.S. as seriously as they deserve; and should consider what more she can do to preserve the existing free trade system. I encounter this statesmanlike reaction in Government circles, in the National Diet, in the highest ranks of the bureaucracy, and in the serious news media. I see signs of it in the various measures (on tariffs, on non-tariff barriers, and in the creation of the "Office of Trade Ombudsman") which the authorities have already decided on, or have under contemplation, including the package announced on 28 May. These various measures cannot themselves bring about an immediate and lasting solution to the problem of trade friction; only an on-going, longer-term effort can hope to achieve that. But they are politically significant and economically constructive; and as such constitute steps in the right direction which deserve to be cordially acknowledged.

Please meanwhile be assured that we in Europe fully understand that you too have difficulties; and that there are limits (political and social, as well as economic) to the pace of change possible in Japan. Those of us who live in this country, and count ourselves your friends, see this very clearly. Europe has no right to expect revolutionary action instantly to change the whole economic and social structure of Japan. What we do hope for, however, is an evolutionary approach, with speedy and worthwhile initial results and a clear political commitment to substantive change in the longer term. This in turn will clear the way for the wider co-operation—industrial, technological, scientific, financial and monetary—which both sides increasingly wish to develop, and which offers bright prospects for tomorrow, but which tends to be lost sight of in the current preoccupation with the trade problems of today.

At the Western Economic Summit at Versailles in June, Japan, Europe and North America pledged themselves to strengthen the open multilateral trading system, to resist protectionist pressures and to work towards the further opening of their markets. Clearly, continued sacrifice and endeavour will be required from all three of us to redeem this pledge. But I am confident that, together, Japan and her partners will be successful, since the alternative to success would not be to the advantage of any of us.