

Towards the Further Development of EC-Japan Relations

— A Four-Point Clarification —

By Makoto Kuroda



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In the recent GATT Article 23 consultations, the EC side has asserted that Japan's ratio of manufactured imports is low compared to other industrially advanced countries. This, it maintains, is due to restrictive measures implemented by the Japanese Government and the vertical structure of the Japanese business community, characterized by various industrial groupings.

Behind such claims is the trade relationship between the EC and Japan, which has tilted more and more in Japan's favor in recent years. Taking into account this trade disequilibrium, Japan has announced two rounds of comprehensive market-opening measures. It is and will continue to be Japan's policy to contribute actively to the development of the

The previous issue (July 1982) of the Journal of Japanese Trade and Industry carried an article by Leslie Fielding, Head of the EC Delegation in Japan, entitled "Current Strains in EC-Japan Trade." In the article Fielding frankly presented the EC view of the trade friction and other related problems existing between the EC countries and Japan, and suggested how the problems should be properly dealt with, mostly through efforts on the Japanese side. In this issue, we present Makoto Kuroda, Deputy Director-General, International Trade Policy Bureau of the Ministry of International Trade and Industry, in which he presents the Japanese view on these important problems. Kuroda further cites facts indicating how Japan is making a vital contribution to maintaining the free trade system. —Editor

world economy, and if necessary Japan will continue to modify aspects of its domestic institutions to this end.

However, we wonder to what degree the claims of the EC side reflect an accurate understanding of the Japanese economy. In order to help the EC countries achieve a deeper understanding of Japan, we would like to clarify the following four points:

The Highly Competitive Nature of Japanese Society

The EC side has alleged that the structure of the Japanese economy as seen in industrial groupings like Mitsui or Mitsu-

bishi, distribution network affiliations and ties between major companies and subcontractors has excluded foreign-made merchandise from the Japanese market. This is a serious misperception. On the contrary, it must be stressed that the fundamental structure of the national economy is not one of closed groupings working to eradicate competition, but rather of free market competition between private enterprises. The EC allegation that the Japanese market is one of the most oligopolistic in the world does not accord with the facts.

The Japanese automobile industry developed through intense competition among a large number of companies. While the U.S. has five major automakers and West Germany six, Japan has nine which compete fiercely with each other in domestic and foreign markets. The same can be said of the computer industry: in all of Europe there are only three mainframe computer manufacturers, while there are five wholly Japanese companies that vie with each other for market share.

Moreover, according to available data, the concentration of turnover in the 100 largest companies in the manufacturing sector is 41% in the U.S., 45% in West Germany, but only 26% in Japan.

While traditional culture is still strong in Japanese society, market competition is given free rein.

Japanese manufacturers have tried hard to increase their productivity to win out against the intense competition. Japan's anti-monopoly law was enacted in 1947, earlier than in any of the EC member countries. The act strictly forbids restrictive business activities.

If, as the EC side alleges, Japanese companies had been protected in a "greenhouse" of industrial groupings and affiliations, they would not have acquired the dynamic international competitiveness they now possess. This international competitiveness was born of and fostered by the "practice" those companies had in the home market.

Although the EC side criticizes Japan's 23,000 or so business associations as having a restrictive influence on imports, 70% of the foreign firms in Japan are members of such associations, which are not different from similar associations in Europe. What the EC officials should note is not the 23,000 business associations, but the 137,000 Quality Control (QC) circles active in the workplace, a phenomenon not seen in Europe.

Capital investment and R&D activities of private enterprises are also important factors. Over the past 20 years, 17% to 20% of Japan's GNP was set aside for private capital investment. This is a much higher ratio than the 10% or so in Europe and the United States. Positive responses to changes in the economic environment

have been sought through maintaining a very high level of investment.

Moreover, the share of scientists, engineers and skilled workers in the total labor force has been on the increase in Japan compared to the European countries. It may also be pointed out that the percentage of students majoring in engineering is much higher in Japan than in Europe or the United States.

All in all, Japanese entrepreneurs have been bold in taking risks in the development of new products, in capital investment to develop new markets, and in investment to expand overseas markets. They have also been enthusiastic about quality control and pay close attention to product quality.



EC-made products

The Importance of Reactivating European Industries

Looking at the industries which account for a large part of Japan's exports to the EC, such as automobiles, electronics, and machine tools, it is obvious that a large gap has opened between the competitiveness of Japanese and European industries. The European countries have lagged behind Japan in improvement and innovation in production techniques, as in the introduction of industrial robots on the production line, "mechatronization," and electronics technology.

The EC alleges that European exports to Japan in these fields do not increase because of the closed nature of the Japanese market. Ten years ago, the EC enjoyed a large surplus in its trade with Japan in such areas as machine tools and computers. The European manufacturers, having once penetrated the Japanese market, lost their share to domestic manufacturers.

How should this fact be interpreted? The Japanese market has not rapidly closed its doors over the past decade. On the contrary, the Japanese market has

rapidly become more open. What there has been instead is a change in the international balance of competitiveness, of comparative advantage, a change which drastically reduced the share of the Japanese market held by European manufacturers. They were unable to increase or even maintain their share in such fields as machine tools and computers, despite the market liberalization measures implemented by Japan.

The EC alleges that the complexity of the Japanese distribution network tends to shut out foreign-made merchandise. It is a fact that consumer purchasing patterns show up as differences in the distribution network among countries. However, there is no remarkable difference in the distribution network for capital goods between Japan and the EC. Compared to the distribution network for capital goods, the distribution network for both imported and domestic consumer goods should be longer and more complicated due to the larger number of end users. Yet despite this, the figures for Japan-European trade show a large surplus in the EC's favor in consumer goods, such as foodstuffs, liquor, and textiles, and a surplus in Japan's favor in capital goods.

These facts just go to show that the trade disequilibrium is not caused principally by the closed nature of the Japanese market. Rather, the argument that the disequilibrium is due to the gap in competitiveness between Japanese and European companies stands up more persuasively to scrutiny.

Both sides must face the facts. If and when both sides recognize the actual situation, Japan will be willing and able to cooperate as much as possible in reactivating European industries. What is needed now is not a backward look at history, but a renewed awareness on the EC side that the Japan-EC relationship must be one of forward-looking cooperation.

The Activities of European Enterprises in Japan

While it is true that we would like to see more effort on the part of European enterprises, this should in no way be construed as implying that individual European businessmen have been idle.

Approximately 350 EC enterprises are thought to be active in Japan, with some 2,000 businessmen stationed in the country. In 1980 these enterprises and businessmen worked to export \$8.6 billion worth of goods to Japan. On the other hand, 1,200 Japanese enterprises are active in Europe with 7,000 Japanese stationed there, working to export just less than \$19 billion worth of Japanese goods to

Europe. Simple calculations show that there are \$4.3 million worth of European exports to Japan per annum per EC businessman stationed in Japan, against \$2.7 million worth of Japanese exports to Europe per annum per Japanese businessman in Europe. Such figures are of course based on simplifications—they disregard the fact, for instance, that these businessmen may handle both exports and imports—but they serve to demonstrate the zealous efforts of EC businessmen in Japan. European enterprises that have succeeded in penetrating the Japanese market include such famous firms as Du Pont, Unilever, Olivetti, and BIC.

Far from saying that the way EC enterprises do business in Japan is inefficient, we would propose that many have been remarkably successful in this enormous market. We hope that more people in Europe will come to see the Japanese market as one worth challenging and will start working to create export possibilities here for European merchandise.

Certainly there is disequilibrium in the trade between our two areas, but seen per capita, a European buys \$64 worth of Japanese goods per annum, while a Japanese buys \$55 per annum worth of European goods. There is only a \$9 difference.

A comparison of imports-to-GNP ratios is equally instructive. The share of imports of Japanese industrial manufactures in the total GNP for the EC countries is about 0.61%, while the share of imports of European industrial manufactures in Japan's total GNP is 0.62%. That is to say, both these industrially advanced areas are buying goods from each other in amounts that accord well with the differ-

ent scales of their respective economies.

The Japanese share of total EC imports of industrial manufactures from non-Community countries was 7% in 1972, rising to 10% in 1980. The European share of Japan's total imports of industrial manufactures was 18% in 1971 and 22% in 1980.

EC exports to the U.S. increased 5.3-fold in the past decade and those to Japan 6.4-fold. The Japanese market has matured rapidly in its demand for foreign-made merchandise.

The EC alleges that the total amount of Japanese imports of manufactured goods is on the same level as that of Switzerland, with an economy just one-tenth the size of Japan's.

We think the situation of Switzerland is so special that it does not make a good standard. For a country with a small population like Switzerland, it is difficult to develop a wide range of domestic manufacturing industries due to the difficulty of achieving economies of scale. Switzerland would tend to have both a higher degree of dependence on imports and a higher ratio of imports of manufactured goods to GNP than would other countries, including not only Japan but EC members as well. Switzerland therefore naturally has a very high ratio of imports of manufactured goods to GNP. It is inappropriate for the EC to use this unique country as a standard for comparison.

When we compare the EC with Switzerland, we find that EC imports of manufactured goods per capita are only one-seventh that of Switzerland, while the EC economy is 26 times that of Switzerland.



EC Headquarters

Our Hopes for European Businessmen

Japanese businessmen work hard at selling Japanese products overseas and at the same time, they contribute to Japanese imports of foreign-made merchandise. The contribution of the 13 largest Japanese trading houses to EC-Japan trade comes to 23% of Japanese exports to Europe and 34% of Japanese imports from Europe. Again, 13% of the turnover of the nine largest trading houses does not directly benefit Japan at all: it comprises exports from one third country to another.

In addition to the daily efforts of these "Sogo Shosha," 124 business consultants were nominated in June to help increase EC exports to Japan.

However, the rather naive question of why there are only 2,000 European businessmen stationed in Japan still remains. Considering demographic factors alone, the total population of the EC countries is 2.3 times that of Japan, so there should ideally be 16,000 EC businessmen conducting their affairs in Japanese cities.

In answering this naive question, diplomats from European Community countries often claim that the closed image of Japan discourages would-be businessmen. However, this image does not accord with the facts. Why does the EC side try to reinforce this obsolete image and discourage more positive marketing strategies? Why doesn't the EC realize that European criticism of Japan will have the opposite effect from what is intended, alienating European businessmen from Japan even further? What the EC Commission and the governments of the Community countries should do is not to put unwarranted pressure on Japan, but rather to appeal to and persuade European businessmen of the necessity of working to penetrate the Japanese market, an enormous market, and one that is quite open after two rounds of market liberalization measures.

The results of one recent consumer sur-



Düsseldorf is well-known for its high concentration of Japanese businessmen.

vey are very encouraging. Approximately 70% of the respondents said they would not discriminate between imported and domestic products, if they found the quality and price agreeable. Meanwhile, the Japanese Government is also seeking to encourage imports. After the announce-

ment of the second package of market opening measures in May, Prime Minister Zenko Suzuki appealed directly to the people in both the public and the private sectors to take a more clear and forthright attitude to foreign-made merchandise and investments from overseas.

The Japanese market, with a hundred million people having a similar standard of living as their counterparts in Europe, in principle welcomes foreign-made merchandise. We hope European enterprises will realize this, and take positive measures to penetrate this immense market.

SUMMARY OF THE REPRESENTATION BY THE EC UNDER GATT ARTICLE 23

1. The benefits of successive GATT negotiations have been impaired or nullified owing to a series of factors peculiar to the Japanese economy, which have discouraged manufactured imports.
2. Over the past twenty years, the trade disequilibrium with Japan has worsened Japanese imports as a percent of GNP have remained largely unchanged.
3. Import testing, standards and acceptance procedures applied by the Japanese authorities are seen as "application of another contracting party of ... measure(s) whether or not (they) conflict with the (GATT) provisions" that nullify or impair the benefits of another party.
4. The industrial groupings built into the Japanese economy, the vertical ties between the major enterprises and subcontractors, business associations, affiliations and the complex structure of the distribution network, the close inter-relationship between industry and finance and the close links between the public and private sectors, as seen in Japan's protectionist past and administrative guidance, are all considered to fall under the "existence of any other situation" that nullifies or impairs the benefits under the GATT.
5. The specific requests put forward by the EC are:
 - i. adoption of manufactured imports targets
 - ii. government guidance to promote imports based on the above
 - iii. fulfillment of the requests set out in the paper handed to the Japanese authorities in December 1981
 - iv. additional improvement in standards, testing and acceptance procedures
 - v. improvement of conditions in the banking and insurance sector, internationalization of the yen, and creation of a climate of opinion agreeable to the purchase of Japanese companies
 - vi. effective moderation of the export drive towards the EC as a whole

Highlights of the Japanese Market-opening Measures

1. Prime Minister's Statement
On May 28th, Prime Minister Suzuki appealed directly to the people in the public and private sectors to take a clearer and more forthright attitude to foreign-made merchandise and investment from overseas. In this statement, the prime minister stressed that what is necessary is an attitude welcoming foreign manufactured goods or foreign investment in actual administrative man-

agement and economic activities. He also mentioned that even today, perceptions of Japan abroad are not without misunderstandings and mistaken images.

2. Tariff
 - i) Tokyo Round Agreements

(See tables 1 and 2.)

- ii) The First Round of Market-Opening Measures

Across-the-board accelerated cuts were implemented in April 1982, two years ahead of the schedule established in the Tokyo Round of Multilateral Trade Negotiations.

- iii) The Second Round of Market-opening Measures

A decision was reached to reduce tariffs on 215 items, including 96 items on which the tariff was cut to zero, effective April 1983. As a result of these drastic tariff cuts, the average tariff level for Japan, already the lowest among the industrially advanced countries, will reach a record-breaking low.

3. Non-Tariff Barriers

The Ministerial Council on Economic Policies (MCEP) on January 30, 1982, reviewed 99 complaints and decided to respond to most of them by improving trade related procedures. These 99 items

were all the complaints known to the Japanese Administration, which were alleged to cause inconveniences in exporting to Japan. The MCEP at the same time decided on the establishment of the Office of Trade Ombudsman (OTO) to deal speedily and precisely with complaints on import inspection and other procedures.

The door of the Japanese Government is open. We hope that EC businessmen will fully utilize the OTO if they encounter any obstacles to trade.

4. The Business Consulting System and Other Measures

A "mediation" system for transactions with the Japanese market was created on June 9 and 124 business consultants were appointed in London, Paris, Hamburg, Dusseldorf and Milano from June 14 to provide free consulting services for any applicant.

The Japanese Government is also seeking to promote imports of manufactured products by sending import-promotion missions to the U.K., France, Austria and other countries to explore exportable commodities to Japan, by lending Exhibition Rooms of MIPRO (Manufactured Imports Promotion Organization) to exhibitors free of charge, and through other positive measures.

Table 1. Effective Average Tariff Rates

	Pre-Tokyo Round Implementation	Post-Tokyo Round Implementation
Japan	3.7%	approx. 3%
U.S.	6%	over 4%
EC	6.4%	under 5%

(1976 Trade Volume Weighted Average)

Table 2. Cumulative Tariff Rates Coverage (Post-Tokyo Round Basis)

Tariff Rates (ad valorem)	0%	5% or less	15% or less	30% or less
Japan	48.5	78.8	98.7	100.0
U.S.	27.4	73.3	93.9	98.2
EC	33.3	55.2	95.8	100.0

(1976 Trade Volume Weighted Average)