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The European Community aims to dismantle its internal trade barriers by 1992. Although there are many obstacles along the way, this should, in theory, mean a stronger, larger and more vigorous market. Nonetheless, considerable concern has been expressed that the dismantling of internal barriers might be accompanied by the raising of new external barriers—that this larger market might be protected for EC businesses alone and that the result might be a Fortress Europe.

What are the specific concerns on the Japanese side? How does the EC intend to allay these anxieties? What does the EC hope Japanese companies will do to earn a place in the post-1992 EC market? These are just a few of the issues discussed for *Journal* readers by Alfred Dienst, chairman of the Council of the European Business Community and chairman of Hoechst Japan, and Katsuo Seiki, director of the West Europe Division, International Trade Policy Bureau, Ministry of International Trade and Industry.

Seiki: I would like to start by asking what benefits European industry expects to obtain from integration. As I understand it, this is an effort to remove the internal barriers, expand the EC market, revitalize corporate investment, and hence to enhance European industrial competitiveness. But recent events indicate that there are also defense, monetary and other goals—that you want to create a United States of Europe. How does European industry see this?

Dienst: It is impossible to generalize. There are industries that are looking forward to the unified market very positively and others that only reluctantly accept the rules of the unified market. Personally, I think the unified market will mean tremendous opportunities for everybody in Europe, both members and non-members alike.

But this is only a first step toward a

lack of reciprocity and other worries.

Dienst: Reciprocity should not be understood mathematically, but rather as a general spirit of economic relations. Some of your worries are certainly premature. One very strong expectation is that this new entity will not try to overregulate everything, which could hamper industrial progress, free trade and international relations. So we hope that harmonization will leave sufficient room for private business initiatives and activity, and that the progressive forces will be the ones that determine the future of the unified market.

Seiki: Your own industry—the chemical industry—is one of the areas where competition is especially competitive. So it is hard to see why you are free traders. But there are others—such as automobiles and electrical machinery—that tend to be more worried about competition from China and the rest of East Asia. The Commission recently strengthened antidumping provisions to include automobiles, for example, and to include products arriving roundabout through a third country. Regulations of this type are hard to dislodge once they get established. What assurance do we have that the rising tide of protectionism will subside in 1992?

Dienst: As I said, I do hope that the progressive forces will prevail. I do not believe in the definition of dumping as it is used nowadays. To me, dumping is selling for less than cost. It is not selling under so-called fair-market price, or even below your own market price. The threats of unemployment and factory closures—technical considerations—are misleading to sensible people in their thinking about dumping. Progress cannot be achieved behind strong protectionist barriers.

Instead we need close and cooperative contacts between the respective industries with minimal bureaucratic interference. We must counter protectionist demands, and we must keep the markets open.

Seiki: Secretary Cresson of the French government has recently spoken about a new alliance involving the EC, the Asian Free Trade Association

(EFTA), the East European countries, the Mediterranean countries, the countries covered by the European Development Fund (EDF) under the Lomé Convention, and even the Latin American countries with close historical ties to several European countries. She also brought up the possibility of a North American bloc and an Asian-Pacific bloc. I find it difficult to condone such blatant blockism, but her statement is interesting for the questions it raises about the outlook for the EC's external relations.

Dienst: Economic blocs are bad for the world economy. Rather than forming blocs, there must be unrestricted and, if possible, unregulated interchange among all areas, particularly the strong industrialized areas of Europe, the United States and Japan. Politicians should beware of interfering too much with the flow of trade. I think the measures taken by the United States to protect their exports of hormone-fed beef to Germany were very unwise, just as was, for example, the discriminatory liquor tax in Japan.

Seiki: There should, as you say, be a global free flow of trade, and I am also very disturbed by the increasing drift to nationalism and regionalism. Europe, Japan and the U.S. all need to do more to encourage business to act globally.

Global harmony

Dienst: I absolutely agree. But of course, globalization must be done according to a harmonized opinion. You cannot globalize unilaterally. The formation of blocs would be detrimental because it leads to a hardening of the frontiers between such blocs. Japan should be very careful about this in considering a free trade agreement such as proposed by the United States and favored by some Japanese officials.

Seiki: This is similar to a situation where everybody is for peace but we have war. Everybody agrees on the need for globalism, but we get blocs. It is a kind of brinkmanship. I hope the business leadership will speak out strongly against this.

Dienst: Of course, political considerations will always interfere with reason.

ise, I believe Japanese and Euro-business need to do more in the area of industrial and technical cooperation. For example, we need more Japanese companies bringing local parts suppliers into the production system and doing development overseas. It seems to me we need more business contacts at the personal level.

Dienst: Intensified personal contacts are necessary. Much more could be done in this respect. But gestures of goodwill are also helpful. Japan could do a lot to eliminate negative attitudes by eliminating the remaining minor, nontariff barriers here—things that do not really hurt trade but create animosity. This could demonstrate goodwill on the Japanese side.

Goodwill and Reciprocity

Seiki: I quite agree if you are talking about general goodwill, but the EC has been advocating specific reciprocity on a number of things recently. They have been saying that they want to have the same access to Japan that they have at home or that they will not accord Japanese companies special treatment. This is a very dangerous trend. Are they advocating a blanket reciprocity of attitudes or a case-by-case reciprocity of details?

Dienst: Reciprocity in the sense of goodwill on both sides is necessary, and a blanket view of reciprocity done tit-for-tat hurts no one. It is impossible to have complete reciprocity in each and every area. The two sides have to get together and look at not only the problems but also the reasons. If such discussions are held, I think that, with a lot of effort and good understanding, can be achieved in a number of cases.

Seiki: Investment is another area of concern about EC unification. We appreciate that the European countries recently have the welcome mat out for these and other foreign investors. But there is a tremendous rush of investment into Europe—from the United States, from Japan, and probably from the newly industrializing economies (NIEs) as well. I wonder if European governments

and industry are not at least a little nervous that this could result in excess capacity in some sectors.

Dienst: I think there must be absolute freedom of investment. There exist some anxieties, but I feel they are unwarranted. One reason for strong Japanese investment in Europe as well as in the United States is the value of the yen. If countries are happy about how a weak currency assists their exports, they cannot complain about the investment resulting therefrom. To build access capacities that offer no advantages would certainly be unwise.

Seiki: Specifically, there are demands for more and more local content, as in automobiles. There was even some question of whether or not the Nissan cars made in Britain could be imported into France as EC cars or would be restricted as Japanese cars.

The French are talking about requiring 60% local content in home electrical appliances as well. Too many local content laws could divert desirable investment away from Europe to other regions.

Dienst: If investors maintain close contacts with local industry, then the local content problem will disappear as relations are developed with local parts suppliers. Of course, the investing company has to import if it cannot get what it wants domestically, but it should do its best to become fully integrated into the local business community.

Seiki: You seem to be saying that local content levels should be settled not by the government bureaucracy but by the investor and local business working together.

Dienst: All regulations are bad if they cannot be applied flexibly. In certain countries it may be impossible for an automaker to get all the parts it needs, whereas in others it may have no difficulties. There must be room for maneuver.

Seiki: As the president of the EBC, you are concerned on a daily basis with access to the Japanese market. We like to think, and the European business community in Japan seems to agree, that there are already fewer institutional barriers—tariffs, quotas, and what have you—in Japan than in Europe and the United States. What are the remaining problems?

with the other industrial countries. The franchise system is also changing. Matsushita shops now sell more Matsushita products.

Of course, we are working on restructuring, and there are more changes to come. But I sometimes wonder if exporters are really trying to take advantage of developments as they occur. In many cases, we are past the stage where the government should do something to facilitate access and to the point where exporters have to take better advantage of access opportunities they have.

Moving irritants

Dienst: I am not advocating revolution. Saying you should remove the minor irritants. It does not make sense to say you cannot let in more ski boots for historical and cultural reasons. It is not these historical and cultural reasons that are blocking ski boots. I understand that there are certain problems in the leather sector that small business is a stable constituency for the ruling party, but this has been explained. The more open and honest dialogue there is, the better because that will let us concentrate on the real issues. I agree that exporters have to make efforts and take advantage of new access opportunities.

Seiki: One of the things that bothers me about Japan-Europe business relations is that the large flow of Japanese investment into Europe is not being matched by European investment in Japan. There are problems, of course, such as the high cost of real estate in Tokyo and the difficulty of finding capable staff, but I believe there is great untapped potential in this area.

Dienst: I have been in Japan for three-quarters of a century now. Drawing on your experience, what advice would you give for European companies considering investing in Japan?

Seiki: Everybody has a chance here in Japan. But he has to have money, patience, perseverance, and, most importantly, products that meet market demands. There are a lot of possibilities, and those who really want to succeed can succeed. But they have to understand that

the approach to the Japanese market differs from the approach to other markets.

Seiki: It is, of course, just as difficult for smaller Japanese companies to invest overseas. But even many big European companies seem to be shying away from investing in Japan. One noteworthy exception is BMW, which is now reaping the rewards of the perseverance, patience and investment of financial resources that you mentioned.

The opportunities are clearly here if a company is willing to invest the time, money and effort it takes—and conversely a company that ignores this need will not succeed in Japan.

Dienst: Looking at the triangle of Europe, the United States and Japan, it is clear that the Japan-Europe side is the weakest link. I think people in Japan need to reassess this situation once more. There seems to be a feeling in Japan that Europe is over the hill, but that is not the case. There may be specific sectors where Europe lags behind, but there are many other very strong and upcoming industries in Europe—the space industry, for example, which supplies the U.S. with some of its space equipment.

I would like to see a Japanese-European businesspeople's group established that would meet more often than once a year and discuss the real day-to-day problems on a personal level. If such contacts can be intensified, then business relations will improve and we can strengthen this weakest link.

Alfred Dienst

