

Need for Exchanges

By Akio Tanaka

The European Economic Community is charging full tilt toward market integration with its rebirth in 1992 at stake. Japanese, too, welcome the burgeoning moves toward a single market as heralding the advent of a new economic sphere, though some harbor fears that a unified market could lead to the formation of a new economic bloc.

The generally favorable Japanese stance on EC market integration stems from a recognition that a more prosperous Europe means not only a better market, but will also accelerate the expansion of economic ties among Japan, the United States and Europe, and help foster a balanced tripolar relationship.

At present, the link between Japan and Europe is the weakest leg of this tripolar structure. The trade volume between Japan and Europe in 1987 was still only half that between Japan and the U.S., and 1/2.6 that between the U.S. and Europe, even though the gap has narrowed con-

siderably since 1970 (Fig. 1). Mutual investment between Japan and Europe also lags far behind that between Japan and the U.S. or the U.S. and Europe (Fig. 2).

The greatest single problem in Japan-Europe economic relations is the trade imbalance. Over the past several years, Japanese imports from Europe have been increasing more rapidly than its exports to the region. Nonetheless, the export/import ratio is still as much as 2.1-to-1 in Japan's favor, as Japan's trade surplus with Europe continues to grow (Table 1).

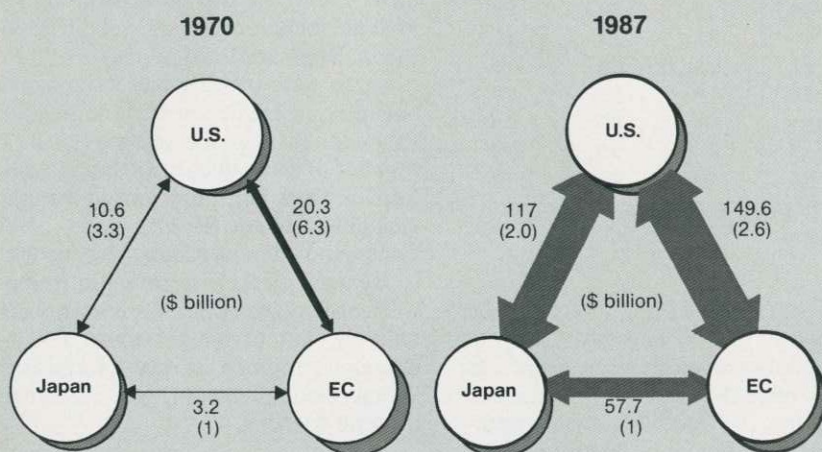
The trade imbalance between Japan and Europe arises from differences in export structures. Machinery and equipment, particularly such high-tech products as cars, computers, videocassette recorders and facsimile machines, account for 81.2% of Japan's exports to Europe, while machinery and chemical products account for only 30.8% and 21.9%, respectively, of Europe's exports to Japan. In contrast, cars, objets d'art,

antiques, pork, diamonds, gold and woolen goods rank high on the list of items Japan buys from the region (Table 2).

Japan and Europe have similar industrial structures, but Europe has lagged behind Japan and the U.S. in reorienting this structure away from heavy and chemical industries toward electronics and other high-tech industries. The result has been a declining share of the world export market in value terms for such European high-tech products as cars, electric machinery and other machinery and equipment. It has been especially difficult for European products to make headway in the highly competitive Japanese market. Yet no matter the reason, it is not desirable for one country to run a continuous surplus in its bilateral trade. Japan's trade surplus with Europe has irritated the EC, which now refers to the issue as the "Japan Problem."

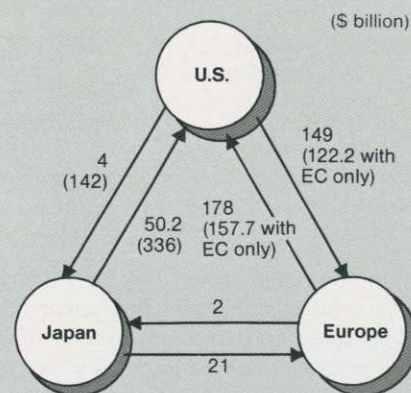
Accusing Japan of failing to contribute to the free trade system proportionate to

Fig. 1 Evolution of Japan-U.S.-EC Trade Relations



Note: Figures in parentheses denote ratio of bilateral trade volume to Japan-EC trade volume.
Sources: IMF, DOT

Fig. 2 Japan-U.S.-Europe Direct Investment Balance (aggregate as of 1987)



Notes: 1. Figures for Japan-U.S. and Japan-Europe investment based on Ministry of Finance registration statistics (FY1951-1987 aggregate)
2. Figures for U.S.-Europe and those in parentheses for U.S.-Japan investment based on U.S. Department of Commerce SCB statistics (1987)

Table 1: Japan-EC Trade Value

(\$ million)

	Exports to EC	Imports from EC	Balance
1986	30,675 (53.3)	13,989 (57.3)	16,686
1987	37,693 (22.9)	17,670 (26.3)	20,024
1988 (Jan.-Sept.)	34,909 (30.0)	17,822 (42.6)	17,087

Note: Figures in parentheses show percentage increase from previous year.
Source: Ministry of Finance customs statistics

Table 2: Top 10 Items in Japan-EC Trade (1987)

Exports to EC		Share (%)	Imports from EC		Share (%)
Passenger cars (finished)		16.2	Passenger cars		10.5
Computers		7.5	Objets d'art & antiques		3.6
Auto parts		3.2	Pork		2.7
Communications equipment		2.6	Diamonds		2.5
Videocassette recorders		2.5	Heterocyclic compounds		2.0
Tape recorders		2.3	Gold		2.0
Motorcycles (finished)		1.9	Nuclear fissionable materials		1.9
Photocopiers		1.8	Woolen products		1.3
Audio and videocassettes		1.6	Medical equipment		1.1
Facsimile machines		1.6	Personal goods		1.0

Source: Ministry of Finance customs statistics

Table 3: Regional Breakdown of EC Trade

		Change from previous year (%)			Share (%)		
		1985	1986	1987	1985	1986	1987
Exports	Internal	10.6	-1.1	5.5	54.9	57.2	58.7
	External	7.9	-9.7	-0.8	44.6	42.4	40.9
	U.S.	16.0	2.0	-4.3	10.1	9.3	8.7
	Japan	11.9	8.8	19.5	1.2	1.4	1.6
	ASEAN	-5.0	-12.6	-0.02	0.7	0.7	0.6
	Asian NIEs	15.0	-5.8	33.9	1.6	1.6	2.0
	China	90.7	-9.0	-15.3	0.8	0.8	0.7
	EFTA	11.0	2.9	3.6	10.0	10.8	10.9
Eastern Europe	6.3	-14.0	-5.1	2.8	2.5	2.3	
Imports	Internal	11.8	-1.5	6.0	53.4	57.8	58.8
	External	4.0	-17.7	-1.6	46.5	42.0	41.0
	U.S.	2.7	-17.8	-2.5	7.9	7.1	6.8
	Japan	11.4	16.2	4.6	3.3	4.2	4.2
	ASEAN	5.1	-14.2	7.5	0.9	0.9	0.9
	Asian NIEs	1.2	14.4	25.3	1.6	2.1	2.5
	China	18.4	7.3	24.1	0.4	0.5	0.6
	EFTA	8.2	-4.1	5.1	9.4	9.9	10.0
Eastern Europe	-4.1	-26.8	-1.6	3.9	3.1	3.0	

Notes: ASEAN figures are for only four nations: Thailand, the Philippines, Malaysia and Indonesia.
Asian NIEs include: Singapore, South Korea, Hong Kong and Taiwan.

Source: The EC Commission's Eurostat Apr./June 1988

its economic strength, since 1985 the EC has been strongly demanding that Japan correct its trade imbalance with the region and open its market wider to European goods.

Moreover, for the past several years, the EC has been drawing up a clear-cut trade strategy vis-à-vis Japan. When the EC fails to win concessions from Japan in bilateral negotiations, it now brings the case before GATT to put pressure on Ja-

pan in a multilateral forum. Recently the EC appealed to GATT to order Japan to lower its duties on alcoholic beverages, as the U.S. once did over semiconductors. The EC has also turned lately to sector-by-sector negotiations, a departure from its traditional approach to seeking wider access to the Japanese market. At the same time, it has become more stringent in its application of antidumping regulations in an effort to check the sharp in-

crease in imports from Japan. Among the items singled out recently for antidumping action have been electronic typewriters, electronic scales, copying machines, printers and excavators.

In July 1987, the EC went a step further when it decided to impose duties on parts and components by revising antidumping regulations, which impose duties on Japanese-made parts for electronic scales, electronic typewriters, copying machines and printers produced by Japanese companies in Europe.

Fortunately, Europe has already begun to ready itself for greater industrial and technical cooperation with Japan, including mutual investment, technical ties and joint research. The EC apparently has high hopes of an infusion of Japanese industrial, technological and management expertise, particularly in high technology industries.

To strengthen and further develop its economic relations with Europe, Japan must open its market wider and increase imports. Although it may take time, Japan needs to encourage the horizontal division of labor between the two parties. Imports from Europe have increased in recent years in response to Japan's import promotion efforts and Europe's own export promotion efforts. But exchanges of capital, people, technology and management know-how also must be promoted to build better economic relations between Japan and Europe.

There were 392 Japanese companies operating in Europe at the end of 1988, 110 more than in the previous year. A number of companies also embarked on R&D projects in Europe during the year, including Nissan Motor, Kobe Steel, Canon and Yamaha Motor. This increase in Japanese direct investment in Europe will help revitalize Europe's economy and industry. Yet exchanges must also be developed through mutual efforts. Unilateral solutions can only give rise to new bilateral frictions.

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