

A New Phase in EC-Japan Economic Relations

—Report on 6th EC-Japan Symposium

By Minoru Kaneko

On December 4, 1987 the 6th EC-Japan Symposium was held in Tokyo on the theme of "Industrial Strategies for Knowledge Intensification in the Emerging World Economy; Competition and Cooperation." The animated discussions revealed that economic relations between Japan and the EC have entered a new phase. The symposium, which was attended by a capacity audience of more than 300 from both Japan and the EC, also revealed the progress that has been made toward mutual understanding.

The EC-Japan Symposium first convened in 1981 under the auspices of the Ministry of International Trade and Industry (MITI), the Commission of the European Communities and the Japan-EC Symposium Committee. It has since been held alternately in Tokyo and Brussels, usually once a year, to discuss Japan-EC economic relations, and especially industrial cooperation. The sessions normally open with speeches by Japan's minister of international trade and industry and the EC commissioner, followed by panel discussions.

Significant cooperation

At last year's symposium, MITI Minister Hajime Tamura and Karl-Heinz Narjes, vice president of the EC Commission, opened the proceedings, then turned over the stage to eight panelists. Speaking for the Japanese side were Makoto Kuroda, MITI vice-minister for international affairs, Hiroshi Takeuchi, managing director and chief economist of the Long-Term Credit Bank of Japan, Takeo Shiina, president and CEO of IBM Japan and Akio Morita, chairman and CEO of Sony Corporation.

The panelists on the EC side were Fernand Braun, director general for internal market and industrial affairs of the EC Commission, Umberto Agnelli, chairman of Fiat Auto SpA, H. Th. Hokbergen, president of Philips KK and

André Leysen, chairman of Agfa-Gevaert. Kotaro Tsujimura, a professor at Keio University, acted as coordinator for the Japanese panelists. Discussions on the EC side were coordinated by Christopher Howe, a London University professor.

The discussions came at a time of growing world economic uncertainty, and often went beyond the bilateral context to discuss Japan-EC relations within the broad framework of the world economy. Indeed, the panelists seemed to find Japan-EC economic and industrial cooperation most significant in terms of global economic development.

Japan-EC relations were discussed as part of the trilateral economic structure among Japan, the EC and the United States that supports the current world economy, with the Japan-EC economic relationship seen as the one with the greatest growth potential. The panelists argued that closer cooperation between Japan and the EC is essential to building a more balanced trilateral relationship, indispensable for the stable, sustained growth of the world economy. The U.S. economy, they pointed out, has declined in relative strength, as symbolized by the large trade deficit and the sharp fall of the dollar, increasing the need to expand and strengthen Japan-EC economic relations.

This need was also stressed in relation to countries outside the trilateral region, notably the newly industrializing countries (NICs) in Asia. Panelists pointed out that the products of Japan and the EC are more expensive than those of nontrilateral countries, making it more important than ever to strive for higher quality and higher value-added. Japan and the EC have the common task of advancing the frontiers of technological development, they said, a task which is of crucial importance at a time of rapid diffusion of new technologies.

Market integration within the EC, expected to be achieved by 1992, was a major topic in the panel discussions. The EC panelists expressed the strong hope that

the EC would become a truly integrated regional market, while Japanese speakers urged that it be open to countries outside the region.

The discussions also touched on progress in technological innovation, with both sides agreeing in principle on the growing importance of international competition and cooperation in technology. Some panelists, however, expressed concern about possible monopolies in high-tech industries.

Apprehension was also voiced about the threat of trade protectionism and the adverse effects of regional economic blocs on international trade. In this regard, panelists emphasized the need for positive responses to the challenge of industrial restructuring.

Rapid changes

The general impression of the symposium was that mutual understanding between Japan and the EC has increased substantially. In the words of Fernand Braun, the panelists were able to speak a "common language" throughout their discussions. The achievement of better understanding is the primary purpose behind the event.

In his opening address, MITI Minister Tamura stressed that the Japanese economy faces an urgent need to correct its external imbalances through trade expansion and to contribute more positively to the international community. To do so, he said, Japan must seek a sustainable expansion of its domestic economy and develop an industrial structure that is more oriented toward international cooperation.

As for Japan-EC economic relations, Tamura noted that Japan's imports of manufactured goods from the EC are expanding steadily. At the same time, industrial cooperation is making tangible progress. In order to achieve stable and sustainable economic growth in the world economy, Tamura said, it is essential to



Speaking a common language: panelists at the 6th EC-Japan Symposium held in December 1987 in Tokyo

ensure harmonious development in Japan, the United States and Western Europe and build closer cooperative trilateral relationships.

The world economy is witnessing rapid structural changes through progress in technological innovations and competition from developing countries, Tamura said. He cautioned that while nations can temporarily alleviate the problems they face by isolating themselves from these international changes, in the long run this attitude can only delay necessary industrial adjustments and technological innovations at the cost of serious economic stagnation. Exchanges across national borders are essential to economic development, Tamura argued, although a reasonable balance should be maintained between competition and cooperation in order to maintain and expand international economic exchanges.

Investment between Japan and the EC is seriously out of balance, Tamura added, citing recent statistics that showed EC investment in Japan to be disproportionately small compared with Japanese investment in Europe. He termed the situation regrettable, expressing his strong hope that investment from the EC would grow.

In his address, EC Vice President Narjes said significant changes are taking place in the economic power balance among major countries. The turmoil that hit world financial markets in October 1987, he said, reflected serious problems in the world economic system.

Economic mismanagement is pregnant with possibilities for major political change, Narjes said, citing the rise of protectionism in the United States as a case in point. Protectionist legislation now before the U.S. Congress will deal a heavy blow to the GATT system if it is enacted, he warned, saying that U.S. attempts to pressure its trading partners on a bilateral basis run counter to the GATT principle of multilateralism. The Japan-U.S. agreements on semiconductors and machine tools are examples of this, Narjes said, adding that U.S. moves to deny foreign firms access to certain research programs

for national security reasons also are a form of protectionism.

Narjes observed that thanks to recent arms control agreements with the United States, the Soviet Union is now in a position to divert more of its economic resources to nonmilitary activities. The diversion of sophisticated electronics to the civilian sector of the Soviet economy in particular is expected to have a great impact on the world economy, Narjes said, predicting that, barring major political hitches, Soviet economic development will continue.

China, the fifth "dragon" in Asia after the four "dragons" of the Asian NICs, also has the potential to become a major economic power, Narjes said. He pointed out that China has both abundant low-cost labor and a vast domestic market—two factors contributing to stable long-term economic development.

On the other hand, Japan and the EC are becoming high-cost producers, a development Narjes said makes it imperative to promote cooperation with increasingly competitive low-cost countries. Japan and the EC countries will have to produce more sophisticated products with higher value-added, he said.

Serious friction

The EC vice president said cooperation between Japan and the EC is indispensable at a time when the relative economic position of the United States is on the decline. Without such cooperation it would be impossible to maintain the world economic system, he said, urging the two parties to resolve their conflicts one by one. The EC is running a \$20 billion deficit in trade with Japan as a result of Japanese "laser beam" exports to the region, Narjes said, causing serious problems in terms of the international division of labor.

The EC vice president noted how Japanese semiconductor makers have been able to rapidly expand their market share in parallel with the commercialization of new generations of memory chips as an example of the impact of shortening

product life cycles. However, the softening market has now resulted in surplus production capacity, creating serious investment and trade frictions, Narjes said, observing that moves to raise product sophistication or apply knowledge more intensively can also cause trade problems.

Japan needs to push structural changes, according to the EC vice president, who said that while the Japanese market is becoming more open to imports, it is still important to accelerate follow-up action on the policies laid out during the Nakasone administration. The EC, meanwhile, has the mission of creating a truly integrated market by 1992, a date he said is mentioned in the Treaty of Rome and is thus more than merely a political deadline. The treaty, which established the European Economic Community, was signed in Rome by the six original members in March 1957.

While cooperation is essential at the macroeconomic level, Narjes said, competition is necessary at the microeconomic level. He said the momentum for structural change in Japan and the EC needs to be maintained if effective solutions are to be found to present-day economic problems. He also urged the promotion of industrial restructuring in knowledge-intensive fields, a move he termed inevitable in light of the likely reinvigoration of the American economy, the rise of the NICs and the emergence of China as an economic power. Only sound competition can provide the stimuli needed for such industrial reformation, he said.

The vice president noted that Japan's trade with the EC had been growing faster than its total trade since the start of 1987. While cautioning that it is premature to call it a turnaround in Japan-EC trade, Narjes said the rapid growth of Japan-EC trade suggests new directions for the economic relationship. Cooperation between Japan and the EC was essential to promoting their mutual interests. ■

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