

Tuning Up

By Toshio Iwasaki, editor of the *Journal of Japanese Trade & Industry*

With European unification just two years away, the long-sluggish European economies are coming alive again. With a heightening momentum propelling them toward unification, these European countries are putting their economic houses in order and readying to build an economic region that will rival Japan and the United States in terms of vigor, initiative and affluence. Yet there is a sense of European unease about its external relations. For one thing, many Europeans feel they have only a superficial-at-best acquaintance with Japan—politically, economically and culturally—even though Japan is expected to be more involved in Europe than even the United States is.

And for another, there is concern that a pattern may develop of the United States and Japan forging bilateral agreements

exclusive of European input or participation. At the same time, and on the other side of the relationship, there are latent fears in Japan that 1992 may mean the construction of a Fortress Europe bent on excluding nonmembers from substantial participation.

Given the hesitancy and tentativeness of the relationship despite the strong mutual attraction, the Japan Economic Foundation recently joined with the Foundation for Advanced Information and Research (Japan) and the Aspen Institute (France) in sponsoring a meeting of Japanese and European business leaders to discuss the Euro-Japan relationship and the larger issue of regionalism vs. globalism.

Among the half-a-hundred participants from Europe, Japan and the United States at the three-day conference held at

Canisy Castle on the Normandy peninsula from September 8 to September 10, 1989, were (former JEF President) Naohiro Amaya, (French Minister of Industry and Land Development) Roger Fauroux, (former Japanese MITI Vice-Minister) Makoto Kuroda, (Italian Minister of Foreign Affairs) Gianni de Michelis, (*Financial Times* Editor) Sir Geoffrey Owen, (Italian Minister of Foreign Trade) Renato Ruggiero, (Deputy Secretary General of the Office of the French President) Christian Sautter, (Deutschen Bundesbank Vice President) Dr. Helmut Schlesinger, (Japanese MITI Vice-Minister) Naomichi Suzuki and (Japanese Vice-Minister of Finance) Makoto Utsumi.

In the preliminary discussion of macroeconomic trends and structural adjustment, there was broad agreement that Japan has done very well and that Europe is moving forcefully in the right direction. Yet while the European participants were uniformly respectful of Japan's high economic growth rate, the strong Japanese work ethic and entrepreneurial spirit, and very considerable advances in creating employment and developing technology, some speculated that this success will inevitably perpetuate trade surpluses, and called for greater Japanese efforts in increasing imports and promoting continued structural adjustment. The Japanese participants responded by pointing out that strong domestic demand has led to thriving imports, and that Japan has been the fastest-growing export market for most of the EC countries.

At the same time, the European participants noted that the imminence of market unification in 1992 has generated vigorous investment in Europe and infused the European economies with new vigor, and the conference proved helpful in enabling the Japanese participants to develop a new appreciation for 1992 and the way it will fundamentally alter the European economy. Yet despite the drive toward unification, there was Japanese



Experts in a variety of fields from Europe, Japan and the United States at a meeting of Japanese and European business leaders sponsored by the Japan Economic Foundation and other organizations.

concern that the different economies are moving at different speeds, and this asynchronism was acknowledged as a European concern as well.

The global region

The second—and perhaps the main—point dealt with was the relationship between regional unification and global integration. Both sides emphasized that regional unification must not trigger a trend toward blocism and that, regardless of regional links, the multilateral approach rooted in an ever-stronger GATT must be maintained. In this connection, there were two European concerns expressed about Japan that deserve mention here. First, many European participants said that two of the world's three economic poles—the United States and Japan—have very strong ties, and that the third pole—Europe—is being left out and left behind. Accordingly, they felt that a greater effort should be made to include Europe in the various bilateral meetings taking place between Japan and the United States. Underlining this were the hypotheses raised that Europe is being ignored because it is economically weak, that Europe needs to promote regionalism in its positive senses so that European companies will be able to stand up to large Japanese and American companies, and that much of the talk of Fortress Europe is grounded in an awareness of Europe's position of weakness.

The other concern about Japan, and one that came as somewhat of a surprise to the Japanese participants, was the fear that Japanese economic influence in the Asia-Pacific region might lead to Japanese hegemony within the region. To this, the Japanese participants responded that Japan has no intention of creating a sphere of influence in Asia, that the fact that the different Asian economies are at such different stages of development argues against the formation of an Asian economic bloc, and that Japan would welcome greater European involvement in Asia.

Returning to the subject of European integration, Japanese participants asked for clarification on a number of points:

particularly (i) whether the emerging closer ties between the EC and the East European countries as well as between the EC and the European Free Trade Association might not undermine the still-fragile balance within the Community, (ii) what impact the closer ties between the two Germanys is likely to have, and (iii) what the Community intends to do about the economic disparities among its members. Given the radical changes that have taken place in Eastern Europe since this meeting, these questions are being asked not just by Japan but by the entire world.

The third main issue on the conference agenda was that of cooperation and competition. While much of this discussion covered familiar ground in new ways, it was interesting to hear one of the European business leaders say that Japan contrasts very favorably with United States—where the very short-term profit orientation poisons the investment climate—and that, even though costs are higher in Japan than in Europe or the United States, a company that is able to make a profit in the Japanese market is well on its way to becoming a formidable competitor worldwide.

Harmonization

In sum, the meeting was a salad-mix of positive and negative feelings: positive and upbeat with enthusiasm for Europe's rush of economic vigor and confidence in connection with the 1992 unification, yet tinged with European anxiety at being shut out of the U.S.-Japan relationship and concern that Japan has ambitions of Asian hegemony.

While the meeting would have been valuable even if it had only had this exchange of views illuminating the similarities and differences between Japan and Europe, this was enhanced by the strong desire for cooperation that was evident—including European recognition that European subcontractors are not always up to Japanese companies' standards, the need for cooperation between Japan and Europe to go beyond trade and finance and to encompass the technological area of research and development where the



According to a survey by the Export-Import Bank of Japan, some 28.3% of Japanese business firms say they would like to invest in EC countries.

possibilities for synergy are so great, and the need to focus on a few of the more doable themes and to move forward in building a stronger cooperative relationship.

Considering the wave of democratization sweeping across Eastern Europe and its potential impact on European unification, it is imperative that Japanese leaders be on closer terms with Europe's leaders and maintain a constant dialogue with them. Meetings such as this one are even more important as 1992 approaches.

As one European participant noted, there are a variety of affinities and disaffinities that make it easy for some countries to work together and hard for others to cooperate. Given their shared cultural heritage, the European countries find it easier to work with other European countries than with Asian countries—and Japan may be more comfortable with Asian than European partners. Yet the global economic interpenetration and interdependence mandates that Europe and Japan develop the ability to work together for all humankind.

Photo: Nihon Keizai Shimbun