Relations between
the United States and Japan

and between
the European Community and Japan

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OPINION
of the Economic and Social Committee
on
Relations between the United States and Japan
and between the European Community and Japan
On 27 March 1990 the Economic and Social Committee, acting under the fourth paragraph of Article 20 of its Rules of Procedure, decided to draw up an Own-initiative Opinion on:

Relations between the United States and Japan and between the European Community and Japan.

The Section for External Relations, which was responsible for preparing the Committee's work on the subject, adopted its Opinion on 9 April 1991. The Rapporteur was Mr. ROMOLI.

At its 286th Plenary Session (meeting of 25 April 1991), the Economic and Social Committee unanimously adopted the following Opinion:

In this Opinion the Economic and Social Committee considers the development of economic relations between the United States and Japan and between the European Community and Japan.

The Opinion begins by recalling that recently feelings of distrust, frustration and hostility towards Japan have developed in the United States, in tandem with the increase in the US trade deficit, the penetration of Japanese products and the acquisition by Japanese firms of US industry and real estate (see point 1.1.).

Japan has reacted with equal bitterness, pointing out (point 1.2.) that the deterioration in the United States' economic situation was essentially due to the lack of competitiveness of US exports, an apparently dwindling entrepreneurial spirit and inadequate domestic savings, aggravated by the impact of deficits in the US balance of payments and federal budget and long periods during which the dollar was overvalued.

In 1990, with the aim of removing the main causes of the economic friction which had developed, the US and Japanese Governments concluded an agreement entitled the "Structural Impediments Initiative" (SII) which constitutes an unprecedented experiment in bilateral relations (point 1.3.).

Under the SII, each partner undertakes to take economic and social measures designed to improve the climate and conditions governing relations between the two countries. If successful, the SII may also improve relations with third countries.

On EC-Japan relations, the Opinion examines the situation of imbalance which developed in the '70s and '80s as a result of the sharp growth in Japanese exports and the closed Japanese market combined with the lack of interest shown by EC firms in exporting to Japan (point 2.1.).
The Community’s trade policy vis-à-vis Japan developed mainly through the application of the anti-dumping rules drawn up by the GATT (point 2.2.).

For Japanese firms, the arrival of the Community-wide single market by the end of 1992 continues to awaken fears that they will be hit by discriminatory protectionist measures (point 2.3.).

On the other hand, they are aware of the attractions of a large homogenous market (320 million people) open to cooperation with the countries of Central and Eastern Europe.

The increase in direct investments by Japanese firms in productive plant in Europe is a response to these new prospects (point 2.4.) and gives some indication of their desire to play an active part in the development of the European economy.

Special problems have arisen in the motor vehicle and other sensitive industries concerning the proportion of components and parts supplied by EC firms contained in the final products (point 2.5.).

In January 1990 meetings were held between the Japanese Prime Minister and representatives of the EC Commission, followed by meetings at technical level. The two sides declared their wish to strengthen mutual cooperation and establish close relations on a permanent basis (point 2.5.).

The final part of the Opinion sets out conclusions and puts forward recommendations for the improvement of EC-Japan relations.

The need to deepen understanding of each other’s cultural and social aspects is stressed (point 3.4.).

Japan’s socio-economic structures are changing: the efforts of the Japanese authorities to open up the internal market, boost domestic demand and public investment and improve its population’s quality of life must be followed with interest (points 2.2.5., 3.2., and 3.10.).

EC entrepreneurs should step up their own efforts to establish themselves permanently on the Japanese market (points 3.5. and 3.6.). The rise in direct Japanese investment in Europe should be welcomed, since it involves transfers of technological know-how and organizational methods, and a growth in new jobs (point 3.8.).

Finally, the Opinion points out that the world’s three main centres of political and economic power - the United States, the European Community and Japan - should cooperate more closely in order to solve the problems of the international economy (point 3.11.).
The world scene against which this Opinion is set

From the end of the Second World War up to the mid-1980s the world stage was dominated by two countries exercising virtually absolute power: the United States and the Soviet Union.

The United States enjoyed clear superiority in the political, military, industrial, financial and scientific spheres. In contrast, the Soviet Union’s ideological, military and economic leadership prevailed in extensive areas of the less developed world.

In the space of five years, between 1985 and 1990, this situation radically changed. The Soviet Union saw a rapid decline in its political power on the world stage and is currently torn by dramatic economic and structural upheavals. Nonetheless, its massive military force is still a factor to be reckoned with.

Today the international scene is dominated by three centres of power, each with its broad area of influence: The United States, Japan and the European Community.

The United States is now the only superpower to exercise international military, political and economic influence. However, its leadership is constrained by domestic economic and financial problems and the need to coordinate any international political action with its allies, within the responsible political institutions (United Nations).

Community Europe, reinvigorated by the pending Single Market and reinforced by the reunification of Germany, faces an exciting future with the opening up of Eastern Europe and possibly the Soviet Union too. However, it still lacks political clout.

Japan, which has become a world economic and financial power, is in a similar situation to the EC.

All three centres of economic power, the United States, Japan and Europe, have market economies and already bound by very close ties: 60% of international trade, 90% of world investment, an overwhelming share of world R&D capacity, a virtually exclusive monopoly over new technology and lastly, absolute pre-eminence in the financial and monetary sectors.

Nonetheless, in terms of their economic and social structures and cultural origins these three powers differ substantially from each other. In the economic sector, however, all three adhere to the principles of the free market economy.

Relations between the three powers have had their ups and downs, with phases of productive cooperation and common objectives alternating with periods of friction and sharp clashes of interests.
Nonetheless the partners are united by their increasing interdependence and clear duty to draw up plans, within the framework of the United Nations, for an international order counteracting international instability and tensions and to frame new arrangements for cooperation between the industrialized countries and the LDCs.

The purpose of this Own-initiative Opinion is to shed light on the state of US-Japan and EC-Japan economic relations and to chart the way ahead for more effective cooperation in future on a number of fronts.

1. Relations between the United States and Japan: frictions between partners

   1.1. US anxieties

   1.1.1. In recent years a highly disquieting wave of frustration, distrust and mutual hostility has emerged in the two friendly partners.

   In a recent US opinion survey, 68% of the respondents mentioned Japan as an even greater threat to the United States than the Soviet Union had been in the past.

   Assailed by criticism and accusations, Japanese public opinion reacted with resentment and intolerance reflected in a surge of nationalism.

   1.1.2. The cause of the current unease in the United States lies in the general public's frustration and anxiety fuelled by the incomplete information provided by the press and declarations by certain politicians who find it easy to blame Japan for being the main cause of the woes of the US economy, the persistent trade deficit\(^1\) and the difficulties faced by US exports.

   The US mass media also tend to highlight the acquisition by the Japanese investors of major sectors of US industry and the property market.

   In addition, the Japanese economy is spared the burden of heavy military expenditure.\(^2\).

   1.1.3. In addition, US economic experts and politicians find the Treasury's increasing dependence on financing from Tokyo (which is now vital to cover the federal budget deficit) particularly disquieting.

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\(^1\) In 1987 the US ran a US$ 52,000 million trade deficit with Japan; this dropped to US$ 45,000 million in 1989 and US$ 38,000 million in 1990.

\(^2\) Japan points out that it has stepped up its aid to the LDCs and now heads the list of donor countries (at over US$ 10,000 million per annum). In addition, Japan provides substantial aid to Eastern Europe.
Within a short space, as a result of the cumulative effect of these financial movements, the United States has slid into a state of heavy debt to international financial sources, particularly Japan.

Underlying the above developments is the vague fear current among public opinion, politicians and economists that the United States is gradually losing its traditional technological leadership and hence its "status" as a world economic superpower.

1.1.4. Prompted by these anxieties, US moves have been in progress for some time to tackle the problem of economic relations with Japan by resorting to all manner of bilateral trade instruments and "managed trade" arrangements, even if these breach commitments under GATT multilateral agreements.

Consequently, during the '70s and '80s a large number of general and specific agreements were framed which contained increasingly precise demands by the United States for Japan to liberalize certain categories of products or types of operations in order to give US exports preferential access to the Japanese market. Again and again the Tokyo Government was asked to give voluntary restraint undertakings as regards the export of particular products (cars, steel, semi-conductors, etc.).

The tangible results of these operations proved disappointing and fuelled further mutual recrimination and heated disputes.

1.1.5. Some groups within Congress and Washington intellectual circles have become increasingly convinced that it is wrong to harbour any illusions: the Japanese would never change their attitudes, their industrial policies or their desire to conquer world markets. The only way to fight back and curb such expansionist tendencies is direct, unilateral retaliation in the shape of appropriate legislation.

This line of argument led the US Congress to draft and approve the protectionist Trade Act of 1979, reinforced 10 years later by the Omnibus Trade and Competitiveness Act of 1988, which President REAGAN signed in July that year.

The ESC has had occasion to express its views on these laws, which are inconsistent with the multilateral undertakings given by the United States in international forums and in particular undermined the Uruguay Round of Gatt negotiations.³.

In July 1989 the BUSH Administration took the initiative of proposing to the new Japanese Government headed by Prime Minister TOSHIKI KAIFU that it made a fresh effort on the bilateral front to get trade relations between the two countries off to a new start and improve the climate of mutual relations. This proposal, known as the "Structural Impediments Initiative -SII" will be discussed below (point 1.3.).

³ See ESC Opinion of 20 September 1990 (CES 1062/90) on the final stage of the GATT/Uruguay Round Negotiations.
1.2. **Japanese response**

1.2.1. The wave of criticism and recrimination in the United States, which does not seem to have abated now that the Gulf War has ended, has directly affected Japanese political and economic circles, which remain highly sensitive to US arguments, and triggered heated and conflicting reactions.

Japanese public opinion is still largely favourable to the United States. The assistance provided during the difficult years of post-war occupation and the aid received during the period of reconstruction have not been forgotten.

However, such feelings have recently been marred by bitterness, disillusionment, pessimism for the future and certain symptoms of growing nationalism.

1.2.2. In the first place Japan refuses to accept the argument that it is mainly to blame for US economic difficulties.

Japan explicitly urges the United States to acknowledge that the root cause for its economic problems is the misguided economic policy pursued in the '80s. This period was not only one of proud expansion (as the official propaganda of the REAGAN era has so often repeated) but also one which laid the foundations for the structural imbalances now becoming visible, which indicate that the country has been living far too long beyond its productive means.

The most obvious sign of this plight is the dwindling competitiveness of US exports on international markets, which in the past were further undermined by the policy of an overvalued dollar.

1.2.3. Japanese observers hold that one of the key reasons for this phenomenon is the psychological change that has recently taken place in US businesses, which seem to have lost their traditional creative drive and now focus solely on the mirage of short-term financial benefits and quick profit. This approach is argued to have generated excessive faith in the idea of a "post-industrial society" based virtually entirely on services, at the expense of manufacturing industry and production of consumer goods, which today the United States has to import on a large scale.

Japanese critics also claim that Japan cannot be blamed if the United States has in the past invested far less in plant and research than Japan and even Europe.

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4 The President of SONY, Mr Akio MORITA, in his much-discussed book "The Japan that can say NO", co-authored with the politician Mr Shintaro ISHIHARA, claims that something has gone wrong with US business. Its only concern is four-monthly balance sheets and share ratings rather than long-term investment. Apparently it has forgotten that the creation of real wealth presupposes the creation of new value-added, especially in manufacturing industries able to compete on the international market.
1.2.4. Further, the United States has had to fund its own needs from borrowed capital (a substantial part of which comes from Japan) since its own level of domestic savings was inadequate. It has therefore had to maintain high interest rates. This has sometimes led to an overvalued dollar fluctuating sharply against other currencies. This situation persists.

According to some Japanese (and even US) observers, the declining standards of the US educational system (especially at primary and secondary school level) may also have contributed to the difficulties besetting the country's economy.

1.2.5. However, the theories advanced by Japan were not confined to a defence against US accusations but included an analysis of the internal aspects of Japanese economic policy. This new development is of some importance.

Japan recognized, for instance, that its internal market had effectively remained isolated and sealed off for far too long and that the complaints of other countries are at least partially justified. Japan could not have continued to conduct a trade policy designed solely to boost exports without making space for goods and services imported from third countries.

Consequently urgent action was needed and the Uruguay Round of GATT negotiations are seen by Japanese political protagonists as an opportunity for a general reduction of non-tariff barriers by all contracting parties.

1.2.6. A number of more recent Japanese studies indicate that the time has come to move to a new phase and away from a trade policy where national export priorities were established and efficient plans as to how targets were to be attained were drawn up by Japan's Ministry for International Trade and Industry - MITI.

It is claimed that the MITI's activities in recent years have been confined to identifying the long-term strategic objectives to be pursued by Japan.

Such claims are viewed with considerable caution in the United States and EC.

Though the MITI has apparently scaled down its direct efforts to guide and influence the various sectors of the economy, close-knit cohesion continues to prevail in Japan's systematic, consistent pursuit of long-term goals, which are invariably attained.

In practice the "Japan Inc." concept does not yet seem to have been superseded. Japanese firms are able, now as in the past, to make substantial profits on the domestic market, which is well-protected and allows the maintenance of high prices. In this way they can "subsidize" their exports and frame long-term expansion programmes, which even allow for sustained losses over a lengthy period, for the ultimate aim of penetrating specific markets (including both the industrialized countries and LDCs)
and establishing bridgeheads in pre-targeted sectors. In this connection, firms can rely on the direct support of government agencies and the cooperation of a powerful financial system which provides them with long-term funding at interest rates well below the rates prevailing on US and EC markets.

However, the Japanese economy seems to be undergoing major structural changes.

One important typical change is the climate of cut-throat competition between Japanese firms within one and the same industrial sector. This very specific form of competition is exclusively based on quality and innovation as opposed to prices (which remain very high on the domestic market).

Such competition extends beyond national frontiers to the markets of South East Asia, North America and Europe.

The large Japanese industrial conglomerates, on account of their size, financial autonomy and "global" approach to the world market, are now de facto "multinational" and no longer heavily dependent on Japanese economic policy.

1.2.7. Other observers and experts have also focused attention on the far-reaching upheavals currently under way in the very structures of Japanese society. They have pointed out, for instance, that demographic indicators augur a significant ageing of the population, together with behavioral changes whereby individuals and families will gradually turn away from the values of sobriety, frugality and acceptance of spartan living conditions towards a higher standard of living.

The rejection of traditional values is particularly marked in the younger generation. It is even claimed that changes are discernible as regards total dedication to work, loyalty to the group and the company and the relinquishing of individuality, all of which distinguished the Japanese worker in the decades from the end of the war to the present day.6

These trends will obviously move very slowly. But, should they become established, could alleviate concern over the continued, unstoppable growth of Japanese economic power, entailing deficits and tensions with both the United States and the rest of the world.

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5 See "The Sun also sets - the limits to Japan's economic power" by Bill EMMOTT, The Economist, London, which received widespread circulation in Japan.

6 Western observers, however, point out that the Japanese industrial workforce still work a far longer week/year than its EC or US counterparts. In some instances, working hours have actually increased if overtime is taken into account.
We should therefore ask ourselves about the future of Japan as a country whose population wishes to model itself more on the behaviour of the affluent societies of the Western world and to derive more direct economic and social advantages from Japan's extraordinary economic success. There is greater willingness to participate and contribute to the world political and economic order while still retaining distinctive Japanese cultural characteristics.

With this in mind, even the large Japanese trade surplus\(^7\) could ultimately be spontaneously reabsorbed as a result of the above phenomena of an ageing population, increased quality of life and domestic consumption and the sharp rise in social welfare costs.

As already mentioned, this will be a slow process and encounter much resistance but it seems reasonable to hope that the western countries (first and foremost the United States and the EC) with which Japan has substantial political, economic and cultural relations will do everything possible to facilitate and encourage the trend in Japanese society that currently seems discernible.

1.3. The "Structural Impediments Initiative": An agreement "sui generis" between the United States and Japan

1.3.1. The SII talks, launched in July 1989 by President BUSH, are unique. Though their stated aim is to remedy imbalances in trade between the United States and Japan, they focus on the root causes of the two countries' economic and social policies and take a new approach to matters previously considered to be the exclusive preserve of the individual governments.

The SII is less a traditional trade agreement than a reciprocal commitment autonomously given by each party on points suggested by the other.

This "sui generis" agreement is therefore an attempt which, if successful, could influence relations between Japan and the entire community of Western countries. As devised, it is an innovatory model which the United States could also propose (or impose) in respect of other countries.

1.3.2. In April 1990 two "ad interim" reports were signed in Washington which separately list the measures that the Japanese and US governments agree to take at the request of the other party. The following June the two provisional reports were consolidated in a single final document setting out in detail the aims which the two parties undertook to pursue.

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\(^7\) The appended Table 1 sets out statistics on Japan's overall trade surplus, which was as high as US$ 82,700 million in 1986 (of which US$ 51,400 million vis-à-vis the United States). Other statistics indicate that the US ran a US$ 52,000 million trade deficit with Japan in 1987; dropping to US$ 38,000 million in 1990.
During the talks, the United States presented an extensive set of proposals and suggestions, which were largely accepted by Japan.

The Japanese Government’s undertakings can be summed up as follows:

— acknowledgement of the need to reduce Japan’s current trade surplus by adopting economic policies aimed at stimulating non-inflationist growth generated by domestic demand;

— substantial increase in public investment (increase of YEN 430 trillion over ten years - approx. 10% of GDP) with priority emphasis on urban infrastructure, housing, construction, airports and ports, environmental protection and conservation of the natural heritage. The stated aim is enhancement of the population’s quality of life and the absorption of a substantial part of the capital constituted in Japan, thereby giving a sharp boost to domestic demand and imports and benefiting the national economy as a whole;

— alleviation of urban land cost discrepancies which are a major obstacle to the siting of foreign firms’ offices and production units, by making more publicly-owned land available for building purposes;

— liberalization of the distribution sector which is now a de facto obstacle to other countries’ exports reaching the end consumer in Japan;

— streamlining of import procedures;

— more stringent application of Japanese legislation protecting market competition from illegal inter-company deals, restrictive practices, cartels, monopolies, barriers to market access and providing for measures to check preferential agreements between large concerns designed to keep out foreign entrepreneurs (Keiretsu relationships);

— gradual alignment of the Japanese working week with practices in Western countries;

— more active and systematic curbs on price differentials between Japanese goods sold on the domestic market and the very low prices at which the same products are sold on external markets.

Lastly, the US negotiators explicitly requested preferential access for specific US industrial and agricultural exports and services (forestry products, satellites, aircraft, supercomputers).

1.3.3. Here it is clear that traditional trade clauses go hand in hand with measures relating to national economic and social policy which are unprecedented in the history of bilateral economic agreements. Some Japanese circles have condemned them as intolerable interference, infringing Japan’s sovereignty.
Interestingly, however, many of the US demands are based on proposals which had already been tabled and discussed by Japanese politicians and economists in favour of opening up the country to the outside world (cf. the 1986 Mekawa report). This partly explains the favourable reaction of Japanese public opinion to this initiative.

1.3.4. The proposals addressed by Japan to the US Administration and accepted by the latter, also contain a number of new and somewhat surprising features.

Washington is asked to take decisive action to remedy the structural problems inherent in the federal budget deficit, the low US family savings ratio, the failure of US products to compete successfully on the international market, the emphasis placed by US firms on short-term management, the low commitment to R&D and, lastly, the poor standard of schooling and vocational training.

Nor are the unduly tough discretionary regulations impeding Japanese imports into the United States overlooked.

These requests largely relate to US domestic policy and have already been identified by the BUSH Administration as priority aims for the near future. However, they have been adopted as bilateral commitments vis-à-vis Japan, almost as if they exclusively concerned the two partners as opposed to exercising an undoubted influence on the balance of relations between the world's largest economic power and the rest of the world. From this angle, the SII agreement has been criticized by Community observers.

1.3.5. Cooperation within the SII framework has only recently got under way and a number of difficulties and delays are already on the horizon.

Regardless of this undertaking, US-Japan relations are bound to become increasingly close in the near future, especially if the predicted expansion of the "Pacific Area" (which is far more dynamic than the North Atlantic area) becomes a reality.

2. EC-Japan relations

2.1. From initial indifference to the flood of Japanese exports in the '70s and '80s

2.1.1. Immediately after the war, up to the late '60s, relations between Japan and the individual European countries (grouped within the European Communities since 1959) were far from close.

Community businessmen saw no particular reason to take an interest in Japan, which they regarded as a remote, unfamiliar country, grappling with serious economic difficulties.
On the Japanese side, Europe was seen as a region with great cultural traditions, capable of substantial economic growth but of no immediate interest. Attention was focused primarily on South East Asia and on bilateral relations with the United States, which became very close after 1950, as a result of the Korean War.

2.1.2. It was not until 1970 that trade relations between the two areas rapidly gathered momentum, triggered by Japan’s impressive industrial and trade potential.

During the decade 1970 to 1980 trade between the partners shot up from US$ 30,000 million to US$ 250,000. However, the balance was heavily in favour of Japan, which quickly accumulated a large export surplus. European exports offset only 34% of imports from Japan and found it difficult to penetrate the Japanese market.

The Japanese 'economic miracle' therefore became a reality for Europeans as well as the United States.

2.1.3. European concern was soon translated into pressures for the adoption of protectionist-type measures to curb the flood of Japanese products. Several of the Member States’ governments took the step of reactivating the large number of quota restrictions left over from the immediate post-war period. Others adopted new ones.

Such action was demanded by industry and the trade unions, enraged at aggressive Japanese export tactics. Such exports were sold at rock bottom prices (justified only partly by low labour costs) and targeted dangerously on specific sectors and segments of the market, jeopardizing national industrial firms and even forcing their closure.

The EC Commission - which only received full powers to conduct a common trade policy in 1970 - initially stood by passively while the Member States tried to defend themselves in a period of serious economic crisis, inflation and growing unemployment, generated by the 1973 and 1979 oil shocks.

On its side, Japan seemed unperturbed by the absence of a uniform Community-wide trade policy and continued to step up contacts and talks with the governments of the individual Member States, offering pragmatic solutions in the shape of partial voluntary export restraint agreements. For a long time little notice was taken of the EC authorities in Brussels, despite the latter’s right to discuss relations affecting the EC in its entirety on a global basis.

2.1.4. This disjointed state of affairs hindered EC trade relations with Japan from taking coherent shape so that for a long time they continued to be fragmented, with reactions varying from country to country. Hardly surprising in the circumstances that frictions and trade disputes proliferated.
The sectors worst hit by the first wave of Japanese exports were shipbuilding, electronic goods, audiovisual and photographic equipment, cars and motorcycles. In some sectors, the very survival of EC firms was threatened.

2.2. Dynamic phase of EC trade policy

2.2.1. In the '80s the EC Commission started to frame its own trade policy vis-à-vis third countries.

The starting point was effective application of the GATT multilateral anti-dumping agreements. With increasing frequency, procedures were instigated to stop third countries exporting goods at prices below those obtaining on their home markets. While this policy is not specifically directed against Japanese exports, the fact remains that Japanese products are frequently affected.

2.2.2. In 1982 the French Government took the controversial step of concentrating customs clearance operations for Japanese video recorders in a single regional customs office, at Poitiers, (a decision which was subsequently revised following EC intervention). 8

In 1984 the EC instigated an anti-dumping procedure in respect of imports of electronic typewriters. In 1985 it was the turn of photocopiers and, in 1986 microwave ovens, printers and microconductors.

2.2.3. The purpose of these much publicized initiatives was primarily to impress on Japan that the EC would not stand by idly while its traditional or new technology industries were destroyed as a result of trade practices deemed to be unfair. Concurrently, Brussels explored the feasibility of adopting, within the framework of GATT, safeguard measures selectively targeted on specific countries.

The EC Commission has also focused attention on the expediency of supporting the US attempt to give legal substance to the idea that advantages must be equitably balanced in relations between the GATT contracting parties. Legal action and safeguard measures would then have been justified in the event of persistent Japanese structural trade surpluses. (This attempt as we know, was unsuccessful).

With a view to improving its relations with Japan, the EC launched a number of positive measures, including training schemes enabling young business executives from the Twelve to spend extended periods in Japan for the purpose of studying, working and learning Japanese. 9

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8 In Japan the Poitiers episode triggered fierce indignation and for a long time was seen as symbolizing the EC countries' protectionist attitude.

9 See European Community Export Programme "EXPROM" and, in particular, one of its key elements: the Executive Training Programme.
The Commission also made approaches to the Japanese authorities in an attempt to improve market access for EC goods and services.

2.2.4. In 1984, after lengthy debate, the EC approved a regulation (commonly known as the "New Instrument") designed to strengthen EC trade policy to curb illegal trade practices by third parties that were not covered by anti-dumping legislation (Regulation 2641/84). These provisions came as a response to the US Congress measures reinforcing US unilateral trade safeguard powers (Section 301 of the Trade Act of 1979). The "New Instrument", however, was of limited scope and was never applied vis-à-vis Japan.  

Lastly, in 1987 the EC instigated a procedure (subsequently upheld) under GATT against discrimination in the Japanese system of levying duties on imported wines and alcoholic beverages. Here the EC started to turn its attention to the opening-up of Japan's internal market, a matter in which the United States alone had previously been interested.

2.2.5. The Japanese authorities reacted strongly, accusing the EC Commission of interpreting the GATT anti-dumping rules in an arbitrary manner applying devious and discriminatory procedures and introducing new protectionist instruments into its trade legislation.

In addition, the Tokyo Government drew the attention of the Community and the governments of the individual EC Member States to the changes effected in the mid-'80s in Japanese trade policy, reflected in substantial cuts in, and even abolition of, many customs duties, the scrapping of many import quotas and the improvement and streamlining of certification systems and import procedures.

Japan seems seriously committed to assuming a new profile, no longer anxious to push its own exports at all costs but ready to meet US and EC demands for easier access to its internal market. At the same time however, the Tokyo authorities insist that low EC exports to Japan are not due solely to market access difficulties but first and foremost to the indifference and disinterest of Community businessmen, who fail to make the requisite effort.

The EC partners are also asked to bear in mind that Japan's strategies are currently undergoing rapid changes so as to allow considerable scope for direct investment in new manufacturing plant, as is occurring in the United States. Japan wishes the EC to take account of this new desire for cooperation.

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10 The Commission is currently examining, in accordance with this Regulation, an official complaint submitted to it by the European Community Shipowners Association concerning the Japanese Harbour Management Fund. (The alleged illicit practices consist of contributions by the shipowners to a Harbour Fund on the basis of an agreement concluded under the threat of non-handling of containerships in Japanese ports if it was not signed).
2.3. **Japan's position in the run-up to the Community-wide single market in 1992**

2.3.1. The Community's announcement, in June 1985, that it intended to achieve complete unification of the markets of the Twelve by 1992 spurred Japan to review its policies vis-à-vis the "old continent", which it had hitherto regarded as a conglomeration of widely disparate national economies.

Japan became keenly interested in the prospect of a large, economically and legally unified, market of 320 million consumers, once the last barriers to internal circulation of goods and services came down. There was growing realization of the potential advantages of uniform EC rules for imports from non-EC countries, accompanied by the phased dismantling of quota restrictions which, in some Member States, have restricted, and even totally blocked, some Japanese exports.

However, in Japanese eyes, completion of the large Community-wide single market and gradual progress towards greater political union were of even greater importance because they laid the foundations for a pooling of resources that could trigger, throughout the Community area, a surge of growth with huge potential. Commission reports on the general and sectoral impact of economic union are carefully scrutinized by the Japanese Government's economic departments and by the large Japanese multinational concerns, which now regard Europe as an integral part of their global strategies.

2.3.2. Events in Europe since 1985 have increasingly assumed the proportions of a historic change. The EC is the focus of international interest, after a long and troubled period, and is exerting a pull on many countries, both near and further away. Undoubtedly this process is influenced, among other things, by the current upheavals in Eastern Europe, and indeed in the Soviet Union.

Since then, spurred by fears that any new protectionist trends ("Fortress Europe", to quote the expression used in certain US circles) could create further problems for Japanese exports, Japan has recognized the need for a more active presence including the siting of industrial plant in the Community.¹¹

2.3.3. During this period, when the Uruguay Round of GATT negotiations got under way, the EC undertook to look harder at its own trade policy vis-à-vis non-EC countries.

The official stance of the EC Council and Commission (enshrined in the December 1988 Rhodes declaration) is firmly in favour of general multilateral free trade rules based on a substantial reinforcement of GATT.

¹¹ A number of surveys carried out by Japanese government bodies and industrial associations highlight persistent fears that the Community's 1992 target conceals future discrimination against Japanese exports.
On the 1992 single market, the Community authorities stated categorically that the benefits of Community liberalization could not be extended automatically to non-EC countries unless accompanied by negotiations on reciprocal concessions to give Community firms similar access to non-EC markets, preferably within the multilateral framework of GATT, which specifically provides for efforts to achieve mutually balanced advantages. 12

2.3.4. The Community’s position vis-à-vis Japan is set out in its Communication of 15 March 1988, 13 the Commission states its intention of constructing "a balanced relationship" safeguarding reciprocal interests as part of closer cooperation in the fields of trade, industry, services and science and technology.

However, the Commission stressed the need for a "consistent and firm approach" to secure results from discussions with Japan, particularly to convince Japan to place less emphasis on exports and take serious steps to liberalize and reform its economic structures, while opening up its market to Community firms. 14

2.4. Problems connected with direct investment by Japanese firms in the Community: the car industry

2.4.1. The Commission’s cautious and measured language regarding trade relations with Japan was prompted by the wide trade gap and differences of opinion between the two parties on the scope of GATT anti-dumping rules.

The Commission was inclined to interpret these rules broadly and adopted appropriate regulations to tackle a new aspect: the practices deployed by Japanese firms for the purpose of circumventing anti-dumping duties (parts and components are imported and then put together at assembly plants). 15

The concept of a "minimum local content" entitling a product to be considered as being of Community origin (i.e. exempt from the quota restrictions still applied by some Member States to Japanese imports) sparked off an impassioned debate.

However, standpoints differed significantly from one industrial sector to another. Some high technology sectors (e.g. the chemical industry) rejected even the principle of "local content", which was deemed incompatible with GATT rules.

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14 In this connection, Japan pointed out that its GDP growth had for several years been based on increased domestic demand and not on export trends.

15 The parent regulation setting out EC policy on anti-dumping dates back to 1984 (Regulation No. 2176/84). These provisions were later supplemented by Regulation No. 1761/87, which dealt with "screwdriver plants". In 1988 the Council adopted a consolidated anti-dumping regulation (Regulation No. 2423/88) incorporating the previous regulations.
The industrial sectors most directly affected by the all-out onslaught by Japanese firms to conquer market segments are at the opposite extreme. In the motor vehicle sector, in particular, there is much heated discussion about cars assembled at UK plants but which are in fact of Japanese origin and hence subject to quota restrictions limiting sale in some Member States.

Attention gradually shifted to the percentage of EC-manufactured components and parts (60-80%) needed if such products were to qualify for Community origin.

In addition, the Commission pointed with concern to a dangerous trend emerging in Member States, prompted by a wave of competition to attract Japanese investment in certain manufacturing sectors.

2.4.2. Given the Community's hesitancy and internal dissension, Japan took action on two separate fronts.

Firstly, the Tokyo Government formally invoked GATT to challenge the legality of Community regulations on the circumvention of anti-dumping duties via the device of "screwdriver" assembly plants.

After an investigation lasting several months, an arbitration panel supported the Japanese complaint and declared the EC provisions incompatible with Articles III and XXX(d) of the General Agreement. The Commission appealed against the procedure and validity of the panel's conclusions. The entire matter has now come within the scope of the Uruguay Round since the new anti-dumping code being framed should encompass the problem of circumvention of anti-dumping duties.

Secondly, Japanese car producers in the Community are tackling the roots of the problem. In an effort to enhance their image, they accept the substance of the arguments advanced by Community manufacturers and are losing no time in launching programmes for revamping their industrial plant sited in the Community in order to step up the proportion of EC-manufactured components and parts.

These decisions show that Japanese firms are anxious to reappraise their role and become "good corporate citizens of Europe".

2.5. Top-level EC-Japan meetings in January 1990 herald the dawn of a new phase in cooperation

2.5.1. In January 1990 a Japanese Government delegation, led by Prime Minister TOSHIKI KAIFU, held a meeting with the responsible Commission officials.

The cordial and constructive atmosphere of these talks highlighted both parties' willingness to achieve a quantum jump in their joint relationship, putting narrow clashes of short-term commercial interests behind them and espousing a broader, more far-sighted approach.
Institutional cooperation between the Community and Japan entered a new phase. Official statements stressed the need to establish close relations on a permanent basis, on a par with longstanding Japan-US and Community-US relations.

2.5.2. These talks were not confined to (often controversial) aspects of trade relations but embraced other broader issues such as the upheavals in Eastern Europe, EC economic and political union, North-South relations and relations with the US.

On behalf of his Government Prime Minister TOSHIKI KAIFU wholeheartedly welcomed the completion of plans for EC economic and political union as conducive to the progress and development of trade relations and to international stability.

Japan acknowledged the key role played by the Twelve within the "Group of 24", whose task is to provide practical aid and assistance to the fledgling democracies of Eastern Europe. Japan was already an active contributor to the group's programmes and stated its intention of coordinating its projects in Eastern Europe with Community operations.

Further, as regards relations with the developing countries (LDCs), the Community and Japan proposed to coordinate implementation of their development aid and technical assistance policies more closely.\(^{16}\)

2.5.3. As to the future, the meeting in January culminated in the decision to place EC-Japan bilateral relations on a permanent footing operating at three levels: (a) meetings, at a personal level, between the Commission President and the Japanese Prime Minister, (b) regular annual meetings at ministerial level and (c) at a technical level, closer liaison and consultations in the economic, science and technology, environment, cultural and social sectors.

A ministerial-level meeting took place in Brussels in May 1990 and addressed key aspects of bilateral EC-Japan relations. A "standing working group on trade questions" was set up with the task of identifying impediments to satisfactory two-way trade and discussing possible action and solutions in the individual sectors concerned.

The Japanese delegation confirmed that the measures envisaged in the US-Japanese "Structural Impediments Initiative" would not be exclusively bilateral but applied "erga omnes" so that they could also be extended to the EC.

In response to Japanese anxieties the Commission representatives gave assurances that the future Community-wide Single Market would be open to non-EC partners (i.e. including Japan).

\(^{16}\) Japan now tops the development aid league table to the LDCs ($ .... in ....).
2.5.4. On removal of the remaining barriers to the Japanese market, the Commission announced a Community export drive to go hand in hand with a Japanese Government programme to promote Community imports.

Both delegations were particularly exercised by the matter of direct investment by Community firms in Japan, which is still very small. Proposals and suggestions for action will be framed in the near future.

An agreement was signed on cooperation in the field of nuclear safety and protection. Other joint schemes are planned to step up future cooperation in the fields of science and technology, the environment, social affairs and cultural exchanges.

2.5.5. The vexed issue of imports and Japanese investment in the car industry in the Community was not broached directly at the ministerial meeting in Brussels but discussed at separate talks both before and after the meeting.

The discussions, which are still going on, focus on the following points:

1) definition of a "transition period", running at least until 1991, to enable the Community car industry to restructure and boost its competitiveness in preparation for an entirely open Community car market;

2) during this period Japanese industry will restrict and monitor the number of vehicles exported to the Community; cars manufactured within the EC will also be included;

3) the quota restrictions on Japanese cars in a number of Member States will be phased out.

In a more general context, global trade reciprocity is another discussion topic.

2.5.6. High-level meetings between the Community and Japan will continue in 1991.

At the end of May, Commission President Jacques DELORS will pay an official visit to Tokyo.

The Committee understands that the matter of a future joint declaration on EC-Japan relations is currently under discussion both in the Commission and in the Council.

A further ministerial-level meeting between EC representatives and the Japanese Government is planned in the autumn for the purpose of re-examining matters that are still unresolved and stepping up economic and political cooperation.

Additional bilateral contacts are scheduled in order to break the deadlock in the GATT Uruguay Round negotiations, which are of vital importance to both the EC and Japan.
3. **ESC conclusions and recommendations on EC-Japan relations**

3.1. In the light of the Committee's studies and deliberations on EC-Japan relations over the past years, a number of conclusions can usefully be drawn, in the shape of recommendations addressed to the Community authorities with a view to bringing about a speedy and substantial qualitative improvement in this relationship and translating hopes for closer cooperation into reality.

3.2. First, implementation of the decisions already taken or announced by the Japanese Government for an overhaul of Japan's economic and trade policy and structures will clearly require much time and effort.

However, it is encouraging to note that there have already been tangible signs of a change in direction. We will have to wait for these trends to be consolidated.

Increased Japanese domestic demand, due to greater public investment and a rise in personal consumption has become the key factor in national economic growth and is pushing up imports generally, and manufactured imports in particular.

For the first time for many years, the overall picture is one of Japanese imports rising faster than exports in terms of both value and volume, i.e. the overall Japanese trade surplus is contracting.

This welcome trend is reflected in the reduction of Japan's trade surplus vis-à-vis the US and EC. Although it is difficult to compare EC and Japanese statistics, they would seem to bear out this downward curve.\(^{17}\)

Japanese commentators take for granted that Japan's external trade patterns are becoming more mature (increased room for imports from the West of finished manufactures and consumer goods and from South-East Asia of semi-finished products and components for use in Japanese industry, plus of course continuing imports of raw materials and energy).\(^{18}\)

Trade relations between Japan and its Western partners could improve rapidly if, as is hoped, this trend is consolidated in the near future. The US, Japan and the EC could then focus their attention and efforts on a substantial expansion of cooperation in all areas.

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\(^{17}\) Official Japanese statistics indicate that Japan's trade surplus vis-à-vis the EC dropped to US$ 19,700 million in 1989 compared with US$ 22,800 million in 1988. EUROSTAT figures show an EC deficit of 21,200 million ECU for the first ten months of 1989, as against 24,500 million ECU in 1988. It is unfortunate, however, that the two parties cannot agree on a uniform method for quantifying such important data.

3.3. The Committee warmly welcomes the outcome of the latest meeting between Japanese Government and EC Commission representatives, which culminated in a joint decision to achieve a quantum jump in their joint relationship and espouse a broader, more far-sighted approach.

The Committee would welcome the issuing of the mooted joint declaration on EC-Japan relations, especially if it reinforces high level institutional contacts.

This new phase will have to be underpinned by institutional cooperation at top level between the Japanese Government and the Commission, and at technical level. But there must also be regular liaison and consultation in the economic, scientific, cultural and social sectors.

The Committee fears that this second facet of cooperation may progress too slowly or that unexpected difficulties may arise when it comes to implementing the requisite projects, with the risk that official declarations will ultimately prove no more than empty words. That would be most unfortunate since the hoped-for improvement in EC-Japan cooperation cannot conceivably be reduced to a formal list of dates.

The Committee calls for immediate steps to establish the planned contacts at all levels and in particular stresses the importance of determining arrangements to bring the socio-economic groups together in order to study their problems and compare notes.

With this in mind, the Economic and Social Committee could play a key role and assume significant responsibilities.

3.4. Appraisal of Japan-EC relations highlighted several cases where mutual ignorance of the other’s cultural and social values proved a serious obstacle.

Europeans in particular are ignorant about Japanese society, which is rooted in spiritual and practical values that differ radically from European traditions.

In Japan, a considerable effort has been made for many years to study and understand the European (and US) past and present, with particular reference to economic and cultural (and, perhaps, to a lesser extent, social and political) aspects.¹⁹

Europe therefore has to be better briefed about the distinctive characteristics of the Japanese population as a whole (including its culture, history and institutions), and the detailed workings of Japan’s economic, manufacturing, financial and services sectors.

¹⁹ It has been pointed out that one reason for successful Japanese penetration of EC and US markets is the meticulous research carried out by Japanese entrepreneurs into Western consumers’ requirements and preferences. EC firms by no means have a comparable insight into the Japanese consumer market.
The Committee hopes that immediate plans will be made for constructive schemes on all fronts, starting at school and university, with the emphasis on direct contacts between EC and Japanese businessmen and ordinary citizens and stressing the value of meetings, visits and seminars facilitating a wide-ranging interchange of experience at all levels.

For instance, it would be useful to explore ways of exploiting fully the presence of thousands of families of Japanese businessmen and officials working in EC Member States. Similarly, ways should be found of awakening the interest of the waves of Japanese tourists and encouraging them to play their part in promoting two-way information.

3.5. EC-Japan economic and trade relations continue to be dominated by the need to boost the volume of EC exports to the Japanese domestic market.

Here it must be remembered that Japanese rules and regulations are changing fast: many formal obstacles and constraints have already been scrapped while the most obstructive non-tariff barriers are slowly being relaxed.

The Committee feels that the EC Commission must play a dynamic role in pinpointing the remaining direct or indirect obstacles and reach agreement with its Japanese counterpart on what action is required.

That does not mean that the Japanese market will be easily accessible to EC industrial firms. On the contrary, in the immediate future it will become increasingly clear that the main hurdles stem from the highly competitive Japanese domestic market, cutthroat competition both between local firms and against newcomers, strict rules and local practices and the psychological inhibitions of Japanese customers vis-à-vis foreign products.

Following the example of those Community firms which have already gained a foothold in the Japanese market, all Community businessmen eager to succeed in Japan will have to make a special effort to tailor their products and sales tactics to the dictates of an economic and social climate that differs in many respects from the situation in the Member States.

The EC Commission must give its backing and assistance to such drives which, over the next few years, will have to focus on improving the EC-Japan trade balance.

3.6. The dearth of EC manufacturing plants in Japan is clearly a source of concern.

Past explanations for this state of affairs are now well-known. However, as already mentioned in the case of EC exports to Japan, the situation is rapidly improving, partly as a result of the steps being taken by the Japanese government to liberalize trade, both on its own initiative and in connection with the Structural Impediments Initiative.
The Committee urges the Commission to conclude with its Japanese counterpart a set of rules and specific incentives to encourage the establishment of EC firms in Japan and to flesh out the concept of "reciprocity", which has so long been the subject of discussion.

Concurrently, the Commission should endeavour to persuade Community businessmen to try harder to export to Japan's large and fast-expanding domestic market.

3.7. The Committee is concerned by the virtual absence of joint EC-Japanese business ventures in third countries, particularly the LDCs, which cater for these countries' development needs.

The increasing competitiveness of Japanese products on such markets, undermining long-established EC exports, highlights another weak link in the Member States' economies.

The EC authorities should keep a keen eye on the question of industrial cooperation in third countries at future talks with their Japanese counterpart and press for studies, seminars and practical proposals.

3.8. Particular attention should be focused on the problems associated with direct investment in Japanese manufacturing plant set up in the Community, partly because of the sharp increase in the number and size of such plants.

In principle the Committee would stress that direct Japanese investment in the Community must be welcomed, especially when it means a boost in "technological value-added of Community origin" and the creation of new jobs.

Similarly, cooperation agreements and joint EC-Japanese business ventures, which are frequently accompanied by technological innovation and modern business leadership and management practices, should be encouraged.

Japanese manufacturing plant set up recently in the Community has frequently led to extensive transfers of know-how and organizational methods to the small and medium-sized EC sub-contractors who provide parts and components meeting the buyers' strict quality control rules.

20 The Commission has already started to study the matter: see the recent publication - Guide to EC investment in Japan.

21 "Technological value-added of Community origin" seems a more relevant criterion than "minimum local content".

22 The Japanese government agency JETRO's International Economic and Trade Information Center undertakes periodical in-depth surveys of direct investment by Japanese manufacturing firms in the Community, the reasons prompting such investment and problems that have arisen. Its 6th Report "Current situation of business operations of Japanese manufacturing enterprises in Europe", was published in March 1990. In this connection, the moves by Japanese businesses to set up Research and Development centres and "Design Centres" in Europe are of interest; these centres seek to pinpoint the actual requirements of the Community market.
However, careful Commission supervision will be needed to avoid distortion of competition caused by Member States trying to outbid each other in offering incentives. In addition, the Commission should ensure overall "cohesion" between non-EC plants and Community-aided regional development schemes.

3.9. On the agricultural front, the EC and Japanese stances have many points in common. Both are under pressure from the US (whose agricultural policy is strongly protectionist) and other food producer countries to open their borders and cut-farm subsidies.

The EC and Japanese replies to such pressures have much in common. They can be summed up as follows:

— agreement to an all-round, but gradual, balanced and reciprocal reduction in subsidies;

— agreement in principle to the framing of multilateral rules governing international agricultural trade;

— willingness to review existing agricultural policies, while protecting the basic principles that underpin them. In both cases, these policies safeguard principles unrelated to the trade negotiations, such as preservation of the traditional rural values, regional and environmental protection and prevention of excessive dependence on food imports (particularly acute in Japan where the immediate post-war period is still a vivid memory).

Both the EC and Japan are convinced that the way ahead lies in strengthening the multilateral instruments concluded within GATT; both disapprove of the proliferation of calls for bilateral partial agreements on trade in specific agricultural products.

3.10 The Committee observes that EC and Japanese socio-economic problems in the long run have vital points in common.

For instance, the MITI, in presenting its internal reform programme to be implemented in the 1990s, listed among its key concerns improvement of quality of life, consumer protection, the emerging needs of an ageing society and protection of women.

These matters also receive considerable attention in the Community. The two parties could therefore profitably cooperate closely in organizing a continuous two-way flow of experiences and monitoring the effectiveness of the chosen solutions.

The same holds good for the long-term development of the Japanese economy, flexible industrial structures, promotion of small and medium-sized businesses and energy and environmental policies.

In the Committee's view, exchanges of views and experiences in these fields could be accompanied by joint research and projects.

3.11. On the broader issue of economic relations and international policies, the Committee calls for a deepening and widening of EC-Japan relations to place them on a par with current EC-US and US-Japan relations.

The world's three main centres of political and economic power should also embark on a strategy of cooperation and coordination aimed at achieving the "new international order" - on which the security, harmony and prosperity of all peoples hinge.

Done at Brussels, 25 April 1991

The Chairman of the Economic and Social Committee
François STAEDELIN

The Secretary-General of the Economic and Social Committee
Jacques MOREAU

N.B.: Appendices overleaf.
## APPENDIX

### TABLE 1

**JAPAN's MERCHANDISE TRADE BY AREAS**

(1977-1989)

(US$m - Customs clearance basis)

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Exports</th>
<th>Total Imports</th>
<th>Trade Balance</th>
<th>with USA Exports</th>
<th>with USA Imports</th>
<th>Trade Balance</th>
<th>with EC Exports</th>
<th>with EC Imports</th>
<th>Trade Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983</td>
<td>146.927</td>
<td>126.393</td>
<td>20.534</td>
<td>42.829</td>
<td>24.647</td>
<td>18.182</td>
<td>18.523</td>
<td>8.120</td>
<td>10.403</td>
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<tr>
<td>1989</td>
<td>275.175</td>
<td>210.847</td>
<td>64.561</td>
<td>93.188</td>
<td>48.246</td>
<td>44.942</td>
<td>47.908</td>
<td>28.146</td>
<td>19.762</td>
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### TABLE 2

**DIRECT INVESTMENT: EUR 12**

Unit: Million ECU

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<td><strong>Outward Flows</strong></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>USA</td>
<td>- 11,650</td>
<td>- 10,063</td>
<td>- 17,662</td>
<td>- 23,901</td>
<td>- 20,074</td>
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<tr>
<td>Japan</td>
<td>- 295</td>
<td>- 36</td>
<td>- 116</td>
<td>- 18</td>
<td>- 187</td>
</tr>
<tr>
<td>EFTA</td>
<td>- 929</td>
<td>- 760</td>
<td>- 9</td>
<td>- 1,826</td>
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<td>Total World¹</td>
<td>- 17,395</td>
<td>- 15,349</td>
<td>- 22,164</td>
<td>- 30,780</td>
<td>- 30,711</td>
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<td><strong>Inward Flows</strong></td>
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<tr>
<td>USA</td>
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<td>1,766</td>
<td>2,484</td>
<td>2,356</td>
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<td>Total World¹</td>
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<td>5,637</td>
<td>6,840</td>
<td>12,578</td>
<td>14,278</td>
</tr>
</tbody>
</table>

¹Excluding intra EUR 12 investments

Source: XEUROSTAT, Unit C3, Direct Investment of the European Community 1984 to 1988, Luxembourg 1990, pages 73 and 75 (EUROSTAT estimates)

Notes: Outward Flows A positive figure indicates a net disinvestment
A negative figure indicates a net investment
Excluding reinvested profits

Inward Flows A positive figure indicates a net investment
A negative figure indicates a net disinvestment
Excluding reinvested profits
### TABLE 3
DIRECT INVESTMENT: EUR 12 - USA - JAPAN

(unit: million ECU)

<table>
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<td>6,840</td>
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<td>230</td>
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<tr>
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<td>-14,483</td>
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¹ These data are investments recorded in the Balance of Payments by the Bank of Japan, and not investments "notified" to the Ministry of Finance.
