



33/80

THE EUROPEAN COMMUNITY AND JAPAN

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THE EUROPEAN COMMUNITY AND JAPAN

The Japanese economy is one of the strongest and healthiest in the world. It is characterized by sound growth, a relatively low rate of inflation, and little unemployment. There seems to be no strain which is probably as much due to the specific attitude of the Japanese, and in particular to their productivity, as to their social system. The Japanese worker lives in close symbiosis with his company and employer - employee relations seem to be less of a problem than in Europe. Strikes are rare and salaries have progressed regularly.

Japan is an essential element on the international scene. Thanks to its discipline and to its work rather than to an "economic miracle" it has attained the level of the world's great industrial powers.

Japan, the European Community and the United States exert a particular influence on the good functioning and development for economic cooperation in the world, not because they have a special status or a different legal position from that of their other partners in the international community, but simply because of the weight and size of their economies. When speaking of a "Community/United States/Japan triangle" it is not a privileged situation which is referred to, but rather the contrary: more responsibilities and therefore more duties. The other countries have everything to gain from an effective cooperation between the three economic giants, whether in general terms (better chances for monetary stability in the world, efficient combating of inflation, etc.) or in specific fields: for example, the United States, Japan and the Community were among the principal protagonists of the commercial negotiations known as the "Tokyo round", but it was the participating countries who benefited from these negotiations in view of the GATT principle according to which the tariff concessions and other negotiations between two countries are automatically extended to all the others. It is in this spirit that the efforts of the Community and of Japan to improve their relations, must be understood.

Although Community-United States relations rest at present on well-established bases, the third side of the triangle, namely the Community-Japan relations, has only recently experienced a parallel development: previously, trade relations were generally limited, monetary cooperation vague, industrial cooperation often nonexistent, the dialogue concerning the development of the Third World very irregular.

The first attempt to correct this anomaly in international relations goes back to 1972. At that time, at the Paris Summit Meeting, the Nine decided to reinforce the dialogue between the enlarged Community and the other industrialized countries. In 1973, the Commission inaugurated regular bi-annual consultations at a high level with the Japanese government. These consultations were similar to those which take place with the United States government. They concern both bilateral problems and important multilateral economic problems. (The Community-Japan negotiations in view of concluding a trade agreement, which had begun in 1970, broke down over the institution of a

Community safeguard clause.

Thanks to a delegation settled in Tokyo in November 1974, the Community as an entity has established a permanent liaison which enables it to intensify the dialogue and to tighten the links with Japan.

BILATERAL RELATIONS: From trade problems to enlarged cooperation attempts .

Relations between the Community and Japan were, for many years, limited to commercial exchanges. The Japanese effort to penetrate the European market was constant and effective. European industrialists did not always make the same effort to penetrate the Japanese market. There resulted an increasing imbalance in the trade balance between the two parties. At the time when the Common Market was created, Japan did not constitute a market which could absorb many European products: in the fifties, product per head in Japan corresponded to less than a third of that of the Community. As other countries, Japan has had to concentrate on exports as a result of its lack of raw materials and energy reserves. Its trade balance has on several occasions been in surplus.

Japan's export policy succeeded in the sixties and the seventies far beyond what the authorities themselves had expected. In 1977, Japan's commercial surplus had reached 17 billion dollars; in 1978, it reached 25 billion dollars.

Since the beginning of the seventies, the Community's trade deficit with respect to Japan increases regularly. It grew from 6,3 billion dollars in 1978 to approximately 7 billion dollars in 1979 when Community exports only covered approximately 47% of the imports (cf Appendix I).

Specific problems which, the Community feels, arise in its exchanges with Japan are:

- the concentration of Japanese exports on a limited number of sectors, which are directly hit by intensive competition: electronic products, sound and television equipment, automobiles and motorcycles,
- the fact that restrictions or technical or administrative impediments exist as concerns for example shoes, pharmaceutical and beauty products, chemical and agrochemical products, sanitary and medical equipment, etc.
- the abnormally low share of manufactured products in the total imports in Japan as compared to the percentage considered as normal: in 1978, for example, manufactured products represented 60% of the total imports in the United States (or approximately 110 billion dollars), 46% of the total imports in the Community (or approximately 105 billion dollars) and 25% of the total imports in Japan (or approximately 20 billion dollars.)

In view of this situation, the two parties have initiated a dialogue, which has sometimes proved to be difficult, in order to create a better balance of conditions. Among the principal phases of this dialogue are:

the visit to Tokyo of the President of the Commission, Mr. Roy Jenkins in autumn 1977; the visit of Vice-President Haferkamp, in charge of foreign relations, in March 1978 which ended in the adoption of a "joint declaration" covering all trade questions; the visit to Brussels of the Japanese Prime Minister Fukuda in July 1978; the declarations and conclusions of the Council and the European Council particularly during 1978. These declarations and conclusions defined the broad lines of a 'common Community strategy', centered on the theme: Europe will endeavour to develop its exports. Japan was invited to adopt three courses:

- an economic policy based on expansion of internal consumption (therefore, of demand both for national and for imported products) and on a decrease in the balance of payments surplus;
- the opening of its market by removing all the barriers;
- temporary moderation in exports in the sectors which are experiencing a crisis at international level and which consequently require a certain degree of cooperation (shipping, iron and steel, certain electronic products, etc.).

Although achieving these objectives takes time and some of them have not yet been achieved, on the whole the Japanese authorities have given a positive answer to Community requests. They have introduced a certain measure of self-discipline in a few export categories: they have ensured that the rules of international trade be respected (by accepting restrictive Community measures in the case where violations have been observed), and they have taken a certain number of internal steps to increasingly to open their market, even if on this last point, Community authorities feel that the situation is not yet entirely satisfactory and demand further action. The overall surplus in Japan's balance of payments has been substantially reduced or has disappeared, largely due to the rise in the cost of products which Japan must import at all cost: oil, raw materials, certain agricultural products. As regards the Community, there has been some stabilization of the deficit in 1979 but no "trend reversal" as yet. With the decline of the yen in relation to the European currencies, it is to be feared that the deficit will increase in 1980.

Although customs duties have been reduced as a result of the Tokyo round, and certain barriers have been removed, a market as difficult as the Japanese market is not conquered in a few months: years of effort are needed. In view of this, the Community has budgeted an ad hoc allocation to promote knowledge of the Japanese market, the specialized training of junior executives, and commercial exchanges. The European Commission has given out study grants for periods of 18 months which include the study of the Japanese language and a 6 month training period in a Japanese firm: it has chosen a consultant living in Tokyo, who organizes seminars for exporters in Community countries (providing them, among others, with sector by sector studies of the Japanese market), as well as "sales missions" to Japan. Several sector studies are already available. If, in the past, European products known in Japan were by and large luxury products (French perfumes, Italian leathers and skins, British travel articles, etc.) efforts are now concentrated on mechanical products, food products, anti-pollution equipment, etc.

The Commission and the Member states are, however, conscious that the objective aiming at "reinforcing the third side" of the Community-United States-Japan triangle cannot be achieved by exclusively concentrating on the commercial aspect: it doubtlessly takes priority, but it cannot be exclusive. It is striking to compare the numerous links in all sectors which exist between the European and American economy, and the almost total absence of joint ventures, participations, joint subsidiaries, etc. with Japanese industry.

BILATERAL RELATIONS: An economic cooperation to be extended progressively to all spheres

The possibilities for industrial cooperation are already being studied by the "Nine", upon the initiative of Mr. Davignon. Naturally, in liberal economies such as those of the Community and of Japan this cooperation cannot be achieved by government authorities and institutions: it is a task for the business world. The task of government authorities is to prepare the conditions in which business firms may act without useless hindrances and complications. The development of the industrial cooperation could provide an answer to trade problems by developing reciprocal investments (rendering useless certain exchanges of merchandise) and should naturally include technological cooperation particularly in sectors of advanced technology: Japan can contribute much to Europe in the electronic and data processing sectors, and Europe can contribute much to Japan in - for example - the aeronautical and nuclear technology sectors. It is evident that the cooperation effort should respect the rules of competition and avoid the constitution of cartels and of dominant positions.

A reciprocal flow of investment and technology also implies the opening of financial markets. Japan has traditionally had a rather closed banking system and a controlled financial market; in May 1978, the person in charge of these spheres in the European Commission, Mr. Tugendhat flew to Tokyo to discuss with the local authorities, the various aspects of a simplification and an easing of banking regulations and a broader access to the financial market. This reform cannot take place in a few weeks nor in a few months; but measures have already been taken and a new banking law elaborated.

THE COOPERATION BETWEEN THE COMMUNITY AND JAPAN WITHIN A WORLD CONTEXT

The Community and Japan would not be meeting their world responsibilities if they would limit their cooperation to bilateral relations. In the world of today, where the richest and most powerful countries have become conscious of the need for international solidarity, the Community and Japan have a particular role to play.

This role has been exercised in the last few years within the framework of the Western "Summits" where Japan and the Community along with other leading world powers take decisions which are to guide the world's economy.

Situations such as those in Iran and Afghanistan emphasize the necessity for Japan and the Community to coordinate their attitudes as well as with those of the other countries.

As concerns aid to the developing countries, the Community has a long tradition in this field which harks back to its creation: Yaoundé Agreement, the Lomé 1 and 2 Agreement, and increasingly important food

aid and cooperation programs with the Third World.

Since 1978, the Japanese authorities have made a special effort both as concerns the volume of the aid and its "quality", that is to say, the relationship between the loans (which must progressively decrease) and the gifts (which must represent an increasing share of the total aid). Japan and the Community regularly consult each other during their semestrial bilateral talks and their meetings at international level within the OECD and the Aid and Development Committee).

Another important field of international cooperation is that of freedom of trade and the measures which must provide for it. The Community and Japan have been, with the United States, among the leading protagonists of the trade negotiations known as the Tokyo round, and (even if the possible objectives have not all been achieved) they have been the basis for a substantial progressive reduction in customs duties throughout the world. They have also provided "codes" which define, among others, the rules for international exchanges in matters of subsidies, compensation duties, anti-dumping norms, opening of government markets.

In the energy sector, the United States, Japan and the European Community have adopted a joint strategy, which was discussed in detail at the Tokyo Summit (June 1979).

"Currency" is the focus of United States-Community-Japan multilateral discussions. The dollar is no longer alone in the international monetary scene: the creation of the "European Monetary System" (EMS) and the importance of currencies such as the yen or the DM, make it necessary to reinforce the cooperation between the policies of the governments who control these currencies. Any reform of the international monetary system implies their cooperation. In addition to these problems handled by the ad hoc world organizations (such as the International Monetary Fund), periodical meetings between the leading "Financial Experts" of the principal monetary powers provide valuable exchanges of views.

The cooperation between the Community and Japan also applies to other more technical fields, such as for example:

- export credit . the necessity of avoiding escalation of credit conditions has led the Community, the United States and Japan to define certain disciplines in matters of interest rates and credit duration, to which almost all the Western nations have subsequently subscribed. The reviewing of these regulations is presently under way within the framework of the OECD,

CONCLUSION

By patient efforts, and by overcoming obstacles which were not always easy to overcome, the Community and Japan have laid the foundations of a cooperation which should progressively:

- eliminate in the '80s bilateral disagreements and the present imbalances (which does not necessarily mean in the system of free multilateral trade which is that of the free world, the search for a greater stability in the balance of payments). There will always remain, which is normal, subjects of contention, but the structure of the dialogue and the consultation procedures which have been set up, should make it possible to avoid that they degenerate and to progressively reinforce the cooperation and

collaboration,

- equalize the Community-UnitedStates- Japan triangle by reinforcing the "third side",
- enable the parties to assume, with full knowledge of the facts, under optimal conditions and with increasing efficiency, their "world responsibilities", to the advantage of the entire international community.

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EC - JAPAN TRADE STATISTICS

	Imports from Japan		Exports to Japan		Balance		Imp. Exp.	Imports from Japan		Exports to Japan		Balance		Exp. Imp.
	Mio EUA	%	Mio EUA	%	Mio EUA	%		Mio \$	%	Mio \$	%	Mio \$	%	
1973	3,399		2,306		-1,093	67.8	4,180	42	2,835	71	-1,345	67.8		
1974	4,376	28	2,769	20	-2,607	63.2	5,219	25	3,306	17	-1,913	63.3		
1975	4,826	10	2,227	-20	-2,599	46.1	5,981	15	2,767	-16	-3,213	46.3		
1976	6,399	32	2,722	22	-3,678	42.5	7,153	20	3,043	10	-4,112	42.5		
1977	7,668	19	3,092	13	-4,576	40.3	8,750	22	3,528	16	-5,222	40.3		
1978	8,711	13	3,726	20	-4,986	42.7	11,100	27	4,746	34	-6,354	42.7		
1979	9,792	12	4,632	24	-5,160	47.3	13,421	21	6,348	33	-7,073	47.3		
1978														
Jan	621	21	255	18	-366	41.0	760	33	312	29	-448	41.1		
Feb	671	19	280	22	-391	41.7	828	32	346	35	-482	41.8		
Mar	695	5	303	14	-392	43.6	860	16	388	31	-472	45.1		
Apr	711	10	260	8	-450	36.5	891	23	325	21	-566	36.4		
May	772	14	306	13	-467	39.6	943	24	374	22	-569	39.6		
Jun	742	7	345	33	-397	46.5	916	17	426	46	-490	46.5		
Jul	694	13	312	18	-382	44.9	934	32	401	32	-533	42.9		
Aug	685	7	290	19	-395	42.3	881	20	373	33	-508	42.3		
Sept	793	19	326	27	-467	41.1	1,029	36	424	44	-605	41.2		
Oct	806	24	340	25	-467	42.1	1,101	46	464	47	-637	42.1		
Nov	789	16	348	30	-441	44.1	1,044	32	460	46	-584	44.0		
Dec	714	8	358	17	-355	50.2	908	16	456	25	-452	50.2		
1979														
Jan	716	15	339	32	-377	47.3	972	27	460	47	-512	47.3		
Feb	630	-6	323	15	-307	51.2	852	3	437	26	-419	50.2		
Mar	847	21	420	38	-427	49.5	1,145	33	568	46	-577	49.6		
Apr	825	16	383	47	-442	46.4	1,103	24	512	57	-591	46.4		
May	887	15	417	36	-470	47.0	1,172	24	551	47	-621	47.0		
Jun	798	8	423	23	-375	53.0	1,067	16	566	33	-501	53.0		
Jul	822	18	424	36	-398	51.6	1,140	22	588	46	-552	51.5		
Aug	779	14	428	47	-351	54.9	1,077	22	592	59	-485	54.9		
Sep	759	-4	350	7	-409	46.1	1,061	3	489	15	-572	46.0		
Oct	949	18	403	19	-546	42.5	1,293	17	559	18	-744	42.8		
Nov	898	14	377	8	-521	41.9	1,226	17	525	12	-711	42.0		
Dec	814	14	348	-3	-466	42.7	1,116	23	487	5	-639	42.7		

APPENDIX II

JAPAN'S MAJOR COMMODITY EXPORTS TO THE EUROPEAN COMMUNITY

1979	% =	
	Increase or diminution relative to 1978	
	MIO \$	%
<u>All Commodities</u>	12.685	+ 14
<u>Foodstuff</u>	96	+ 2
Fish, shellfish	72	+ 6
<u>Textiles</u>	318	+ 15
Synthetic Fabrics	106	+ 31
Clothing	44	- 14
<u>Chemicals</u>	605	+ 26
Fertilizers	-	-
Pharmaceuticals	54	+ 21
Plastic Materials	112	+ 24
<u>Non-Metallic Minerals</u>	121	+ 17
China Ware	57	+ 15
<u>Metal Products</u>	163	+ 39
Iron and Steel Products	435	+ 48
Non-ferrous Metals	109	+ 94
Metal Products	219	+ 9
<u>Machinery and Equipment</u>	9.316	+ 11
Power Generating Machinery	124	+ 0
Office Machinery	485	+ 21
Metal Working Machinery	173	+ 91
T.V. Receivers	190	- 14
Radio Receivers	566	- 2
Thermionic Valves Trausters	295	+ 22
Motor Vehicles	2.162	+ 20
Motorcycles	449	- 3
Vessels	436	- 45
Scientific, Optical Equipment	1.287	+ 20
Watches, Clocks	178	+ 11
Taperecorders	700	+ 33
Bearings	91	+ 23

JAPAN'S MAJOR COMMODITY IMPORTS FROM THE EUROPEAN COMMUNITY

1979	% = Increase or diminution relative to 1978	
	MIO \$	%
<u>All Commodities</u>	7.581	+ 25
<u>Foodstuff</u>	904	+ 42
Meat	191	+ 66
Fish, Shellfish	22	+ 42
<u>Textiles</u>	189	+ 43
Textile Materials	40	+ 11
Textile Products	749	+ 45
<u>Metal Ores, Scrap</u>	40	x 8
<u>Raw Materials n.e.s.</u>	161	+ 43
Wood	2	+ 29
<u>Mineral Fuels</u>	118	+ 180
Coal	33	+ 4
Crude Oil	-	-
<u>Chemicals</u>	1.525	+ 30
Medical Products	404	+ 12
<u>Machinery, Equipment</u>	2.269	+ 4
Non-Electric machinery	1.060	+ 21
Electric Machinery	378	+ 17
Transport Equipment	174	- 62
Passenger Cars	385	+ 27
Precision Instrument	294	+ 25
Toys, Musical Instruments	100	+ 21
<u>Non-Ferrous Metals</u>	177	+ 24

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