

THE ECONOMIC AND SOCIAL ROLE OF THE EUROPEAN  
COMMUNITY IN WORLD DEVELOPMENT

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## THE ECONOMIC AND SOCIAL ROLE OF THE EUROPEAN COMMUNITY IN WORLD DEVELOPMENT

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It is my pleasure to stress how much I appreciate the opportunity to address this distinguished audience and to give you a short outline of my understanding of the Community's actual role in world development and the importance that our mutual relations have in this context.

Europe and Japan, although widely separated by geography, are both increasingly aware of our economic proximity and interdependence in the world context. During the post-war period, Europe like Japan has achieved a conspicuous and rapid economic development, and we have both been largely dependent on the United States for our security. Similarly, our economic progress has been based on a strong interdependence with the United States within an open world economic order which has made possible a large expansion of world trade.

The recent deep recession has somewhat upset this rosy picture.

Like most other industrialized regions, Europe is slowly recovering from a period of stagflation, where inflation reached 12.5 per cent last year for the Community as a whole and unemployment reached an unacceptable rate of 4.5 per cent in 1975.

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In this respect, I think that special notice must be taken of the effectiveness of Japan's inflation management, which brought down inflation to 11 per cent in 1975 and with the prospect of achieving single figures in the current year.

As one of the important forces behind this performance, the role of the Japanese business community merits both respect and admiration.

In a number of other respects the European Community and Japan have similarities, both being densely populated areas heavily dependent on the outside world for trade, energy supplies and raw materials.

The oil crisis affected us in the same way.

Being neither superpowers nor self-sufficient, our principal means of influencing the world is through international cooperation.

This is why Japan shares Europe's interest in the maintenance of an open economy, in which each bulks so large and for whose future each has correspondingly large responsibilities.

The European Community, as a post-war creation, is an unique institution in world affairs.

Its final shape is not yet attained.

From being nine separate and distinct elements in the world economy we have in a number of fields achieved an integration which in trade relations has made us an economic force in a remarkably short space of time.

You only have to look at the facts.

For example, the Community accounts for over 20 per cent of the free world's trade (or, if Member States' trade among themselves is added, 40 per cent).

We are the source of over 40 per cent of official development assistance to the Third World and provide a large proportion of private investment and new technology.

It is no wonder that we are increasingly being looked upon as one entity.

The Nine Member States of the European Community have a population of 250 million, and the Community is linked in a free-trade area with other European countries from Scandinavia in the north to the Mediterranean in the south.

Outside Europe, special arrangements have been made through the renowned Lomé Convention with 46 African and other countries. Further afield, we have concluded commercial cooperation treaties with countries as remote as India, Sri Lanka, Mexico, etc.

Thus, the European Community is not only one of the largest markets in the world, it is also a largely open market with low tariff protection for industrial goods (average tariff protection for EC: 8.1 per cent, for US: 11.2 per cent, for Japan: 10.0 per cent) and with the highest level of imports both in total volume and per head of population.

Liberal trade policy is based on the notion that an open world economy is the best way of ensuring an effective division of labour and a just distribution of wealth in the interests of all.

This endeavour to apply the liberal trade concept has been evidenced in our actions for tariff reductions first in the Kennedy Round and more recently in the continuing Tokyo Round of Multilateral Trade Negotiations.

The more economic interpenetration and interdependence increase, the more it becomes necessary to bring about a climate of cooperation rather than one of conflict and confrontation.

This has for long been our principle in relations with the industrialized countries, but to respond effectively to the challenging need for a stable evolution of economies on a world-wide scale, the basis of this principle has been broadened to include the countries of the developing world.

To take account of the special problems of the Third World countries, the Community established, in 1971, the Generalized Scheme of Preferences (GSP) granting preferential treatment to exports from the whole range of developing countries.

In practice it provides for the duty-free entry of almost all industrialized products and preferential entry for a large range of manufactured food products from the developing world into the Community market.

Thus, the Community's policy relating to generalized preferences is based on a progressive attitude and a pragmatic approach.

The Community deems it indispensable that advanced countries accept a constant process of restructuring of their industry in order to improve the economic and social order on a world-wide scale.

However, as the role of the European Community is increasingly taking shape in world affairs, our commitments and obligations cannot be concentrated within limited geographical bounds. It must necessarily be global in character.

As such the Community is engaged in various international fora to make its voice heard.

In this context we have established a dialogue with the Arab world in order to tie our mutual interests more closely together.

There is a certain "complementarity" in our economic relations.

The Community cannot live and prosper without oil, and the oil producing countries need, in addition to oil revenue, Europe's market and technology for their industrialization and economic development. And we think that this will increase the prospects for a peaceful development in that part of the world.

In a wider global context, the Community is engaged in the North-South Dialogue in Paris in order to contribute to what we hope will be a better balance in the economic relationship with developing countries. In the endeavour to reach a new consensus in international economic relations, we have come to realize that the poor nations benefit from the expansion of the rich economies, and suffer when they stagnate. A less fluctuating international economic development is therefore of mutual interest to poor and rich nations.

The industrialized countries cannot escape their responsibilities for such a development and the Community has duly recognized its share of that responsibility.

One of the Community's contributions to the new consensus is manifested in the Lomé Convention by which 46 African, Caribbean and Pacific countries are economically linked to the Community.

Although this treaty is limited in geographical coverage its spread is vastly extensive.

In fact, it stands as a model for relations between developed and developing states in that it aims to establish close and continuous cooperation, based on complete equality between partners and carried out in a spirit of international solidarity.

Its provisions concerning trade, financial and industrial cooperation are expressions of that ambition.

In the treaty the STABEX Scheme is acknowledged as a major innovation, and one which offers the possibility of a much wider extension.

In essence, the STABEX Scheme aims at stabilizing the export earnings of developing countries by guaranteeing a certain level of income unaffected by the usual fluctuations due to market forces and the uncertainties of production.

The considerable political and economic implications of this cannot be overstressed, for it provides a first practical answer to a problem which affects the establishment of harmonious and stable relations between producers and consumers of raw materials without disrupting the mechanism of free market forces.

The Lomé treaty provides for duty-free access to the Community market for close to 100 per cent of imports originating from the developing countries party to the treaty.

Indeed, new ground has been broken on a road that ultimately will lead to a better understanding and closer cooperation between the rich and the poor nations of the world.

Just as important as our relations with the developing Third World is our concern with the stability and peaceful development on our own continent, and in the world as a whole.

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The Community is by its signature of the Helsinki Summit declaration firmly committed to working for increased cooperation between the Eastern and the Western halves of our continent in our belief that this will reconcile our own and our European neighbour's interests.

The close links the Community maintains with third countries, however, go beyond pure trade relations or assistance to developing countries, but there exist as well permanent exchanges of views on all mutually interesting questions with other highly developed partners, like the United States.

Japan is an important cornerstone in the framework of these officially established regular dialogues.

Indeed it was in 1973 that your then Minister for Foreign Affairs, Mr. Ohira, and the Commission's Vice-President in charge of External Relations, Sir Christopher Soames agreed to establish a regular twice-yearly dialogue between Japan and the Community. The eighth round of these consultations will take place within a few days in Tokyo and I would like to stress particularly the Commission's satisfaction on the deepening and intensifying implementation of this dialogue, which covers not only bilateral questions but also problems of mutual interest in the international context.

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The Community further stressed the importance attached to the relations with Japan by opening a permanent Commission delegation in Tokyo which was officially inaugurated in October 1975 and, headed as it is by the distinguished former Deputy Director-General of External Relations of the Commission, Herr Wolfgang Ernst, is providing a major contribution towards a deeper and broader bilateral relationship.

The evolution of bilateral trade also proves the growing importance of our mutual relations.

Fifteen years ago the level of trade between our two economies was still very small.

Less than 1 per cent of the Community's imports came from Japan.

Since then, bilateral trade has shown a most vigorous increase.

During the past 10 years, trade between the Community and Japan has risen more than four-fold, whereas the EC external trade with other countries only doubled.

Today, Japan has the sixth rank within the EC's most important trading partners, and the EC is the second most important trading partner of Japan after the United States.

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Despite this rapid growth, however, the trade between Japan and the Community is only a comparatively small part of each side's total exports: still only 1.8 per cent of the EC's total exports go to Japan, the corresponding proportion for Japan's exports is 10 per cent. Under these circumstances, there is still a large scope for expansion in bilateral trade, and in my opinion, it will continue to develop quickly, taking into consideration also the fact that the evolution of commercial exchange of complementary products between highly industrialized countries tends to develop particularly rapidly.

It does not seem that this phenomenon has been substantially changed by the recent developments in the raw material and energy sector.

It is necessary at this point that I should say a word about those barriers to trade which take the form of quantitative restrictions.

It is true that there continue to exist within the Community certain selective restrictions on imports from Japan.

Your government and industrialists frequently draw our attention to this matter.

I do not now want to discuss the merits of the arguments on either side but I think it is right to draw attention to three factors which are sometimes overlooked.

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First, the general question of remaining non-tariff barriers is a part of the Tokyo Round of multilateral trade negotiations.

It is true that some years ago the Community sought to negotiate a bilateral trade agreement with Japan which would have covered solutions for the problem of residual quantitative restrictions.

But it is our view that progress on this front is now best attempted in an MTN context.

Second, the fact is that a substantial part of the trade which is still not liberalised for import throughout the Community is in the textiles sector. And it is in that sector of textiles that a dramatic break-through in terms of bilateral relations was achieved in negotiations which took place last year between the Community and Japan under the provisions of the GATT Multifibre Arrangement.

The agreement which was initialled last December is now almost ready for signature. It provides for a virtually complete de facto liberalisation in this sector.

We can accordingly claim that the Community has indeed demonstrated that it is ready, in appropriate circumstances, to modify and bring up to date its trading rules as they affect Japan.

Third, I suggest that the growth of bilateral trade to which I referred a moment ago serves to put into perspective the issue of residual quantitative restrictions.

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The growth of your exports to us in recent years has been dramatic and indeed sometimes seriously preoccupying - and it has taken place despite the existence of some residual quantitative restrictions.

Looking ahead, I would stress that the expansion of our bilateral trade must be based on increasing and diversifying exports and imports on both sides. At present we experience an ever growing deficit in our trade with Japan and this is perhaps the principal subject of concern for the Commission in bilateral EC/Japan trade.

The Community has run a trade deficit with Japan since 1967 and this gap has widened considerably increasing from \$ 0.3 billion in 1970 to \$ 2 billion in 1974 and reaching \$ 3.2 billion in 1975.

Thus, over the last five years the Community has accumulated a total deficit with Japan of about 7.5 billion US dollars.

To turn from the general to the particular, it is indeed a real question to know how we can live with a situation in which, as last year, Japan exported 370,000 cars to the Community while Europe sold only 26,600 units to Japan.

It is regrettable but it is nonetheless the case that the pressures which this situation inevitably creates are bound to have their effect upon the Community's capacity to fulfil its own responsibilities towards that open world economy in whose continuance both Europe and Japan share such an important stake. ....

So long as such an imbalance continues - and particularly so glaring an imbalance as that which exists in such fields as the motor trade - Japan is inadvertently sowing the dragon's teeth of protectionist pressure in her Community markets.

In the Community we have, of course, resisted these pressures with great determination and certainly we do not insist on a strict equilibrium in bilateral trade.

To do so would be a negation of multilateralism. Moreover, we recognize that in particular cases of great sensitivity Japan has shown a degree of understanding and cooperation which has helped us to avoid the worst.

However, the general trend can lead to an intolerable situation and we must call for a far more harmonious balance in our trade relations with Japan.

I think it should be pointed out that the Community's liberal stance on trade matters has been reflected by our willingness to allow high market penetration in certain sectors, e.g. up to over 60 per cent in the electronic calculators' sector for Japanese imports only and over 80 per cent for total imports.

But trade is a two-way transaction, where the undeniable potential benefits should also actually be seen to accrue equally to those involved.

While specialization does lead to some concentration of export efforts, too much concentration in a few sectors will unavoidably give rise to discomfort for the importer.

We hold the view that the best way to improve the Community's trade balance is to develop Japanese imports from the Community. It is trade expansion and not trade restriction which should as far as possible be our watch-word. But for the necessary increase in our exports to occur, it is essential not only that our exporters should redouble their efforts; but also that the Japanese Government and Japanese business community should come to share our view that the present imbalance is not healthy, and that it is in the interest of both of us to do our best to bring it to an end. Let us hope that the months ahead will supply concrete evidence that our view is getting across.

The Japanese market is indeed a challenge to any foreign businessman, but a difficult one as well.

It does take a real effort to get established here. This is so not because there is any general reluctance towards foreign business operations or very many quantitative restrictions on foreign trade; rather it is the existence of so called non-tariff barriers, including cumbersome customs procedures, and the many unwritten rules on which this market operates.

Foreign businessmen have great difficulty in understanding these rules, since they are inherent in your life and work style.

Therefore, people easily become frustrated, although they try very hard initially.

It should not be like that, for if international co-operation has any meaning, I feel that members of the Japanese business community could favourably assume some responsibility in aiding their foreign business counterparts to establish entry points into the Japanese market.

After all, business dealings usually mean give and take, but trade does carry with it the notion of reciprocity and this can be done in many ways.

As a concrete example of a sector where non-tariff barriers may play an important role, I would like again to quote the automobile sector where we observe an almost strictly one-way traffic from Japan towards other countries.

Whereas Western Europe and the United States accept between 20 to 30 per cent of imported automobiles on their domestic markets, imported cars only take up slightly more than 1 per cent of the Japanese market. I have a feeling that Japan can do much better than that.

For instance, if a 10 per cent import share of automobiles occurred, it would mean an entirely different and an improved situation for foreign and European car exporters.



It might mean increased competition on the Japanese market, but, as you, being businessmen, surely recognize, competition is a way of life in any free market economy.

It is basically sound and healthy and it does have long-term advantages to both producers and consumers. Therefore, it might not be too unrealistic to hope for your cooperation and useful advice on the best distribution channels, on joint ventures, on how to meet anti-pollution standards, on how to facilitate testing procedures or how to utilize transport facilities economically.

With respect to changing standards it is naturally of paramount importance that such changes are known well in advance of their implementation.

I am glad to say that some useful progress in the recent talks between the Japanese authorities and a Community expert delegation has been made.

This is but one example of how the overall balance in our commercial relations could be greatly improved and I am convinced that sales of the Community towards Japan can still be promoted in many other sectors such as investment goods, agricultural products and pharmaceuticals, as well as "quality" consumer goods, textiles and clothing.

An economic sector which today gives rise to some discomfort is that of shipbuilding.

This is a sector where we have been impressed by the efficient and strongly competitive position of Japan, particularly in the construction of super-tankers.

The shipbuilding sector also represents large economic interests in the Community, and in the present situation where it appears that the sector will have a surplus capacity for a period of time it is essential that the burden such a situation involves is shared on an equitable basis between the shipbuilding countries.

It is essential that this grave situation does not lead to unfair trading practices as they can only result in mutual disadvantages.

We must examine the problems together and find a reasonable solution which can help our industries over the period until supply capacity again is in line with demand.

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A further improvement of our relations in the field of trade would not only be helpful in the bilateral context but also in the multilateral framework.

Japan and the Community by their economic and social conditions are in the same boat as far as multilateral matters are concerned. They have common goals to achieve and similar interests to defend:

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First of all, we are both determined to pull out of the current world recession and revive our economic vigour on which the world economy is so dependent. Not only is it necessary for ourselves, but, even more, we have a responsibility to do so in view of our importance in the international economy and taking into consideration our responsibility for a stable evolution of less developed countries.

Furthermore, we do want to preserve and promote the free market system and free world trade, as have been signified by our adoption of similar views and attitudes in the current Tokyo Round of the MTN in Geneva, not only in order to find solutions to our own problems in a wider context, but also because we believe that this is the best way to promote world-wide prosperity.

In addition to this the establishment of a stable and reliable world monetary order is increasingly regarded as a necessary, basic condition for success in these fields.

Finally, we want to achieve increased stability in the raw material markets so that we may ensure a smooth economic development for ourselves and the world at large.

This must be done through means of cooperation rather than through confrontation with the Third World countries, whose legitimate interests we duly recognize as this is being outlined in the current North-South Dialogue in Paris and in UNCTAD IV in Nairobi.

In all these endeavours, closer and more harmonious relations between the Community and Japan are truly desirable; in fact, they are essential for exploring new avenues of further progress.

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As evidenced by events of the recent past the European Community is increasingly speaking with one voice in world affairs.

Out of nine separate and sovereign nations an image of an entity is slowly but surely emerging, based on the idea of unity and a common cause, strong in appeal and broad in scope.

Our commitments and responsibilities as a Community have many dimensions.

As Europeans we are committed to peace and prosperity on the European continent.

As an economic power, we are committed to bridging the gap between the rich and the poor nations of the world.

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As a Community, we are committed to our own ideas of freedom, unity and solidarity as an inspiration for our peoples and for others.

It is pioneering work and therein lies the challenge. And it is only as a Community that we can fulfil our responsibilities.

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