

EUROPE AND JAPAN  
PROSPECTS FOR INTERDEPENDENCE

Speech by  
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The prospects of Euro-Japanese trade after the GATT Conference

I welcome the opportunity to address this distinguished gathering at a particularly propitious moment in the relationship between the European Community and Japan. The fact that this conference has been convened at all is in itself a token of the new importance with which our bilateral relationship is viewed both in Japan and in Europe itself.

The timing of this conference is right for two reasons. First, those of us whose everyday work is in the field of international trade are now actively concerned in the implementation of the decisions taken at the recent GATT Ministerial Conference held in Geneva in November 1982. The importance of a successful follow-up to this - the first GATT Ministerial Conference to be held since that in Tokyo in 1973 - hardly needs underlining. The stakes, both for industrialised and developing countries, are high and the price of failure will be the collapse of the international economic order as we know it today. Secondly, we in the Commission have recently concluded perhaps the most crucial bilateral trade negotiation which the Community as such has ever undertaken. I refer of course to the negotiations in February this year between Vice-Presidents Haferkamp and Davignon and MITI Minister Yamanaka. The importance of these negotiations lies not so much in the products or volume of trade covered, but rather in their significance for the development of relations between Japan and the Community in general. The fact that our negotiations were successful almost certainly averted a chain reaction of protectionism throughout the industrialised world. But, more importantly, it opened the door to closer cooperation in a wider number of fields than has hitherto been possible between the Community and Japan.

I would like to dwell at some length today on the importance of these negotiations for our future relationship, but perhaps I might begin, by way of background, with some thoughts on the GATT Ministerial itself, which inevitably provides the backdrop to our bilateral relations.

The GATT Conference

Given the almost unprecedentedly gloomy state of the world economy and the disparity of interest amongst participants, only a supreme optimist

could have expected miracles in Geneva. The fact that the conference was held at all was remarkable in current conditions. It demonstrated above all a general recognition amongst the world's trading partners that the GATT - as a symbol of free trade - needs more than ever to be upheld and strengthened. The moment was not right for ambitious reform. Rather the task was one of consolidation (particularly of the comparatively recent results of the Tokyo round of trade negotiations) and of cautious building for the future. Thus, in Geneva, after much bitter wrangling, Ministers patched up their differences and agreed to a common programme of action in their, fortunately unanimous, Declaration.

Now that the ink on this common declaration is dry, all contracting parties should buckle down to the day-to-day task of strengthening cooperation in those areas in which the GATT has traditionally played a major role in international trade (safeguards, dispute settlement, agriculture, etc.), taking full account of the six years' negotiating input which constituted the Tokyo Round. In addition, there seems to be no reason why less traditional areas of international cooperation should not also be explored - gradually and consensuously - in accordance with well-tried GATT customs. I have in mind particularly fields such as international trade in services. All this is in hand and progressing, slowly it is true, in the various GATT Committees set up to implement the Ministerial declaration. If I may sound one note of caution it would be this. The world trading community has cause to be grateful to the United States for the far-sightedness and imagination with which U.S. negotiators (Bob Strauss and his colleagues) contributed to the successful culmination of the Tokyo Round. But whilst a constant flow of new ideas on the reputation of international trade is always welcome, this hardly seems the moment to envisage radical new proposals involving structural reform of the GATT. Proposals such as those for a "two-tier" GATT (differentiating between those who accept the full obligations of the General Agreement and others) would seem to sow the seeds of division - just at the time when maximum cohesion is indispensable.

Having uttered this conservative note, I must add that the Community is fully prepared to contribute constructively towards making progress in the various sectors currently under study in Geneva. As a "founder-member" of the GATT it is in our own interest to do so and I look forward to a closer and more dynamic relationship with the EC and Japan in the discharge of our mutual responsibilities in this work.

One prominent outstanding issue, unresolved during the Tokyo Round negotiations is that of safeguards. Here, the target date for the drawing up of a "comprehensive understanding" on the matter remains this year's session of the GATT Contracting Parties. Time is short and the gulf between various interested groups wide. But the issue is key to the efficient and effective functioning of the world trade system. In the current international economic environment the danger is that, without a workable safety-valve, the GATT system will inevitably continue to be subjected to strain from protectionist pressures. This would weaken the GATT in two ways. First, it would lead to a polarisation of interests between importers and exporters (frequently synonymous with industrialised and developing countries). Second, the absence of a realistic safeguard clause will unfortunately but inevitably add to the "grey zone" of voluntary export restraints, "weather forecasts" or other euphemistic measures currently outwith GATT's purview. The urgent continuing attention of contracting parties - notwithstanding differences of principle - must be given to this issue. It is natural that those with the largest stake in international trade should contribute most actively to this process, the success of which is key to the maintenance of the international trading system.

It is perhaps symptomatic of the current world economic climate that attention should focus on the means to restrain trade rather than to expand it but that is inevitable when international economic growth is negative rather than positive. The important thing is to hold the system together until economic growth picks up once again. In this process, the cooperation of developed and developing countries is vital. We have heard from some quarters that the GATT is a "rich man's club". Whatever may have been the case in the past, it is clear that the role of developing economies in the revitalisation of world trade necessarily entails that they play an ever-more active and influential role in the GATT itself. Already, in the preparation of the Ministerial meeting (not to mention the Tokyo Round) the lead has been taken by countries such as India, Brazil, Colombia and Jamaica. We in the EC very much hope that the important programme of action agreed upon in Geneva relating to developing countries will be vigorously implemented. Here again, the possibilities for Japan to play a constructive, bridge-building role are enormous. I shall touch later on what Japan and the EC might do bilaterally in the field of aid and development, quite apart from our work together within the GATT.

Just as the substance of GATT rules need attention to ensure that they adequately reflect the needs of the economic and political environment

in which they are intended to operate, so GATT procedures must provide the system with the flexibility which it needs to survive. Dispute-settlement procedures are clearly of crucial importance and the attention which these procedures received both during the Tokyo Round itself and in the Ministerial received the Community's full approbation. The Community firmly believes that, on matters falling within its competence, GATT rules and procedures should be fully utilised, in addition of course to normal bilateral contacts. In this respect, the reiteration in the Ministerial declaration of the principles of conciliation and consensus are crucial. The GATT was not conceived as an international court of justice for economic matters in 1947 and it is no more appropriate today than it should be so considered. Today's international trade disputes between sovereign entities can only be resolved gradually, through a process of bilateral and multilateral conciliation. Formal adjudication would only polarise and entrench positions and would lead ultimately to a rejection of the GATT itself.

Increasing use has been made of the GATT's dispute settlement procedures in recent months. In one sense this is reassuring - it demonstrates a desire to solve trading problems inside not outside the GATT. In this respect, we in the EC were puzzled by those in Japan who felt that our recourse (after more than 10 years bilateral negotiation) to Article XXIII was inappropriate. I wonder whether these critics of our decision have ever pondered on the alternative for Japan if the Community decided to seek to resolve its "market-opening" dispute with Japan outside the GATT! But there certainly are limits to the extent to which the system can be used before it becomes abused. The Community very strongly felt for example that the whole number of separate cases which were brought to the GATT by the United States - wheat flour, sugar, poultry, pasta, canned fruit and citrus, was excessive. This concentration of cases is not only unparalleled; it risks blowing the dispute settlement process in the GATT and with it the role of law in world trade just as certainly as overloading with too many bulbs an electric light circuit. A desire for maximum illumination does not mean that you want the lights to go out.

Maximum open-mindedness in seeking to resolve disputes bilaterally, combined with a temperate use of the GATT procedures seems to be the medicine most likely to cure - rather than kill the patient.

Another field in which a certain follow-up to Geneva has been foreseen is agriculture. The tensions which characterise this area - always a sensitive sector for industrialised countries the U.S., Japan and the Community - are well-known.

Together with our frictions in the field of industrial trade with Japan, agricultural trade problems constitute perhaps the biggest current threat to the international trading system. Here in Japan we are familiar with U.S. demands for total liberalisation of the Japanese market in beef and citrus products and the difficulties of adaptation this would cause your farmers. Our own disputes with the United States are on different products and on export subsidies rather than quantitative restrictions, but have been no less acrimonious. I have already commented on the potential damage to the GATT dispute-settlement system which may be caused if it is over-loaded. We very much hope that, despite pressure from the U.S. farm-lobbies, the U.S. will seek conciliation rather than confrontation on its agricultural disputes with its major trading partners. The Community accepts the prescription of the Ministerial Conference, to study and report on various aspects of trade in agricultural products before the 1984 session of the Contracting Parties. But the Community will not accept that, before the ink has had time to dry on the Tokyo Round agreement on export subsidies, the whole package is to be re-negotiated.

From what I have said, it is clear that even in "traditional" GATT fields progress in the post-Ministerial climate is likely to be hard-going. And there are of course many other pressing issues, related to but outside the GATT, such as international monetary stability, developing country indebtedness and energy prices which are taking the time and attention of our Governments. Opening full-scale negotiations on a range of new issues would obviously overload the system at this time. It is right therefore that pragmatic discussions continue within the GATT, quietly and unobtrusively, to explore possible new fields of action.

One such area is international trade in services. Here Ministers decided that studies should be carried out on a national basis prior to reconsideration of the matter at the contracting parties session in 1984. The trade importance of the service sector is self-evident - the need for international regulation within the GATT less so. In any event, it will be important that any work done in international for as such as the GATT carries the active participation of a majority of contracting parties, including developing countries.

Both the Community and Japan are actively cooperating in the work in Geneva and the studies required by Ministers are well-advanced both in Tokyo and in Brussels. This is encouraging. But on a bilateral basis, we in the Community hope it will be possible to move faster. One important means of reducing the Community's substantial balance of payments deficit with

Japan as well as to remedy the structural imbalance in our relationship would be to increase our "exports" of services to this potentially lucrative market. I have in mind particularly fields such as banking, insurance, transportation, tourism, retailing, communications and so forth.

I have touched on some of the most prominent matters covered by the Ministerial declaration and on which follow-up action is being taken. Almost by definition the areas on which discussions are now engaged are highly sensitive. It is therefore clear that any progress which is to be achieved will demand a maximum of goodwill, especially from those major trading partners upon whose shoulders the very existence of the GATT rests. As I said at the outset, the important thing is that the GATT thrives even in the current uncongenial economic climate.

The Community has already noticed a welcome stepping-up of Japan's participation in GATT activities. This is only as it should be given Japan's role and responsibilities in the field of international trade. I very much hope that this will continue and that bilateral contacts between us on the future direction of the GATT will intensify.

#### EC-Japan relations in the '80s

Turning now if I may to our bilateral relations, I may perhaps start with a word on how the Community itself is perceived by Japan. Unlike the Community's other trading partners, all of whom have had comparatively little conceptual difficulty in dealing with the Community as an economic and trading entity and, at the same time, distinguishing residual fields of national competence, Japan has taken a very long time to come to terms with the Community as a viable partner. Strangely enough, in the context of the GATT itself, such hesitations have been less marked and the phenomenon of the Community delegation, with the Commission as spokesman or negotiator and the member States (or "113 Committee") in support, is a familiar sight in GATT committees and fully accepted by the Japanese delegation in Geneva.

Until very recently then, the advantages of recognising and dealing with the EC through its institutions, have not been fully accepted by Japan on the bilateral level. Japan, wrongly in our opinion, saw the existence of national measures against Japanese imports, national export promotion efforts, the lack of a law-enforcement agency by which the Commission could enforce Community discipline, as reasons to try to reach arrangement on trade and commerce with member States individually. The shortsightedness

of such a policy - which could only perpetuate a division of the common market to the disadvantage of exporters, was apparently lost on the Japanese government.

The negotiations of February 1983 seem to have marked a welcome change in this policy. It may not be entirely coincidental that such a change was accompanied by an unprecedented unity of policy and of purpose by the EC member States themselves in their dealings with Japan.

So, on the major policy issue of Japanese export moderation Japan has now, for the first time, undertaken commitments to the Community as such. In our view (though I am well aware that different views may exist even amongst the sponsors of this Conference), the political importance of this gesture by Japan more than off-sets any possible short-term disadvantages which may be thought to ensue from the extension of export restraints to member States which were not previously covered by such restraints.

One reason for this is that Japanese recognition of the personality of the Community carries implications going beyond the mere trade field. Take, for example, political cooperation. This can hardly thrive whilst our relationship is bedevilled by trade frictions. And yet, in today's turbulent political world, it seems important in the context of a balanced foreign policy that Japan retain the closest possible links with and benefits from the process of economic and indeed political integration in Western Europe. To us in Europe, it seemed strange to hear Japanese expressions of scepticism about the process of economic integration in Europe at a time when EC member States themselves were increasingly aligning their foreign policies on matters such as Poland, Afghanistan, the Middle East and so on. Recent moves by Japan to associate itself more closely with the Community's emerging common foreign policy are therefore welcome.

In other fields too, I am pleased to say that Japan now recognises that the Community itself complements (and in some cases assumes completely) activities previously carried on at a national level. I refer amongst other things to science and technology, aid and development, monetary questions and industrial policy.

Though the seeds of these developments have been sown over many years, the recent blossoming of the flower is no doubt due to the enlightened attitude of a growing number of Japanese politicians, especially under the leadership of Prime Minister Nakasone. I pay tribute to this political leadership but I must warn, at the same time, that unless sustained efforts continue to be

made on both sides, there is a real danger that all the progress could be lost.

Before looking at the prospects for cooperation, I should perhaps first briefly review why our recent trade talks assumed such importance, at least in our eyes. First, at the beginning of 1983, there existed in the Community, a threat of uncontrolled protectionism. The depth of the recession with record unemployment combined with sudden surges of imports in high-technology products, brought about a situation where Community action was indispensable. The need for action was made more urgent by a phenomenon to which unfortunately European industry have become accustomed over the years, namely "laser beam" concentrations of imports from Japan in narrowly-defined sectors. Such surges, threatening to nip the development of new Community industries in the bud clearly cannot be tolerated. That is a political fact. It is now for both sides to draw the conclusions from this experience. First, on the Japanese side, it must be clear that, for some years to come, the economic condition of Western Europe will simply not permit the kind of "fight to the death" competition which liberal economic theory upholds as the only way to salvation. It is inconceivable that Europe's high-technology industries upon which our future generations will depend for their security and well-being can go the way of those European industries already wiped out by Japanese competition. If our recent crisis is not to be repeated, two conditions must be met by Japanese industry:

- (a) responsible and prudent international trading;
- (b) an openness towards cooperation in the form of industrial tie-ups, technology exchange, etc.

On the European side, equally onerous responsibilities exist for Community industries. Protectionism in whatever form must be anathema to the Community which is the world's largest exporter and there can be no question of the present measures recently adopted by Japan becoming a fixed institution. Rapid structural adaptation is therefore imperative and is the only guarantee of the long-term survival of our industries.

At this point, I must however take issue with the criticism of the recent measures voiced in the columns of the Economist on 19 February. The criticisms seem to be threefold:

- (a) export restraints are inflationary;
- (b) European industries do not deserve protection and will not benefit from it in any case;



(c) being more dependent on international trade than anyone else, the EC should refrain even from "voluntary" export restraints which the Economist calls "a more gentlemanly way of suffocating world trade".

To take the last point first: not only does the EC provide the largest and most open import market in the world, in addition as regards Japan, its imports across the board have risen exponentially since the early 1970's. So much for "suffocating world trade".

Secondly, to deny hard-pressed European industries a certain "breathing space" from unfair competition fails to take account of the vastly unequal odds faced by European and Japanese industries in the last 30 years. In Japan tariffs, NTB's and an import-impervious socio-cultural system (not to mention generous support and collaboration from Government) have allowed a strong, healthy industry to develop. Research and innovation have been carried on peacefully behind closed doors, at least until very recently. Compare this with the situation of European industries. Hard-hit by the worst recession since the '30s, a difficult fiscal and monetary situation and, on top of it all, high import-penetration across-the-board. Yet European industries have invested for the future and embarked on substantial programmes of restructuring as well as research and development. Neither the EC, nor indeed any industrialised country, can mortgage their industrial future by allowing strategic industries (computers, micro-chips, tele-communications, aerospace, etc.), to be strangled at birth by overwhelming imports.

Again, it is unfortunate that the measures which have recently been taken have been labelled and condemned as measures the only effect of which is to limit exports. Numerical limits have in fact been fixed only in the case of VTR and certain TV tubes and here only after surging increases (up to 100%) in imports in 1982. And in the case of VTR, it is not adequate simply to state that Japanese exports are limited. The effect of the measures is in fact to guarantee to European manufacturers the possibility to produce and sell their total production capacity in 1983. If the market continues to expand beyond what is currently expected, there is no doubt that the shortfall in supply will have to be made up by imports.

Summing up then, the Commission would strongly take issue with those who see our arrangements on exports with Japan as "protectionist". The facts about the openness of the EC market speak for themselves. This said however, there should be no doubt about the long-term intentions of the Commission, of EC

member Governments and of European industry itself. Our common aim is to strive for optimum competitiveness within the freest possible international trading environment. This is our self-interest as the world's largest trading bloc and we will pursue it vigorously with all the instruments at our disposal.

Perhaps I may end my remarks today by looking at some of the ways in which Japan and the Community may work together now that most of the troublesome trade issues have been cleared away.

First industrial cooperation: I think there is basic agreement at the government and industry level in Europe and in Japan that the interests of our peoples can best be met by a maximum of free competition on open markets. This is a perfect model to which we all want to adhere. But the imbalance in the competitive situation of our respective industries which I have just described can only be redressed by intensified cooperation, as well as competition, between us. The groundwork has now been laid at inter-governmental level. In addition to the fora which exist between member States and Japan (the success of which has been limited so far) an industrial cooperation committee will be set up between the Commission and the Japanese government. We hope that this will act as a catalyst or "marriage broker" in bringing about increasingly close relations between our industries leading to an increase in the transfer of technology, joint ventures in Japan as well as in the EC and third country markets, increased investment by Japanese companies in Europe and by European companies in Japan. We hope too that European companies will find increasing opportunities to work together in the field of research and development in "future" industries and that thereby mutual understanding will be created so that the kind of trade problems which have arisen in the early 1980's on products such as VTR and digital audio discs will not be repeated in the 1990's and early 2000's.

Similarly, in the field of science and technology, we believe there is scope for the Community and Japan to build a cooperative relationship in those fields of basic science which will have a determining influence on the lives of future generations in both our countries. I am thinking of areas such as search for new energy resources, particularly those such as fusion which are vastly expensive and on which cooperation is better carried out at the international level. Then there are the problems of safety of nuclear installations and the study of environmental changes which are potentially hazardous to us all. I mention these fields by way of example only and in addition to areas of scientific cooperation with a more immediate industrial

application such as solar energy or advanced computers. Here of course the support of the industries concerned, as well as government and academic circles is vital to ensure fruitful cooperation. In any event, the Commission has recently proposed the negotiation of an agreement on science and technology with Japan and we hope that this will be finalised in the course of 1983 thus providing a framework and catalyst for the development of our relations in science and technology.

Next, aid and development. As world economic powers, Japan and the Community have great responsibilities to ensure that assistance to developing countries is maximised. Certainly we have our own projects and interests in different parts of the world. But equally, there are areas in which by working together our aid efforts could be increased. I am glad to say that contacts have already begun between the Japanese government and the Commission on possible spheres of cooperation. We have in mind here the exchange of information on regions where Japan and the Community have special experience (South-East Asia and the Pacific in the case of Japan, and Africa in the case of the Community), as well as more practical cooperation between our agencies in the field. There is also the question of joint or parallel financing of highly expensive yet beneficial projects in third countries. Given the relatively novel nature of cooperation in this field, a strong political impetus will be needed to get our work together off the ground. The ultimate justification for cooperation in our assistance to the less fortunate peoples of the world cannot, it seems to me, be put in doubt.

Finally, and again by way of example only, I would single out the field of monetary affairs as an area where closer cooperation between us is becoming almost unavoidable. The yen has now assumed increased importance as an international currency. We know too that international monetary stability (or how to achieve it) will figure high on the agenda of the Williamsburg Summit. So it is vital that our respective monetary authorities find opportunities to exchange views bilaterally in addition to their meetings in the various multilateral financial fora which already exist. Such bilateral contacts seem doubly important given the volatility of the yen with its impact on our bilateral trade flows and the effect of shifts in European parities within the European monetary system on the yen and on other international currencies.

In conclusion then, where do EC-Japan relations now stand and what are the prospects for the future? As a born optimist and as a relative newcomer to this field, I naturally tend to look towards the bright side. Solid, if

painstaking work in Geneva is ensuring the survival of the GATT. Against this background, our bilateral relations are - thanks to our having resolved outstanding trade disputes - on a more solid basis than ever before. We now look forward to building a genuinely cooperative relationship between the growing European Community and Japan extending from political affairs through economic relations to cultural matters. What is perhaps most important is that, on both sides - both in government and in the private sectors - our future is seen to be linked. Over recent months, we have seen a remarkable blossoming of interest in the promotion of better EC-Japan relations in which the geographical distance which separates us has been reduced nearer its rightful proportions. Both sides must now re-double their efforts to ensure that this progress is sustained.