

INFORMATION

COMMERCIAL POLICY

JAPAN AND THE EUROPEAN COMMUNITY

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1. Japan's economic outline.

Japan has a population of 104 million, and is now one of the world's principal economic and commercial powers.

In terms of gross national product (GNP) it is fourth in order of size, coming after the United States, the European Community and the Soviet Union. The figures, in billion dollars, are as follows :

G.N.P.	USA	THE NINE	The SIX	USSR	JAPAN
	991	926	485	288(1)	196

(1) for USSR — net material product

On the trading side Japan occupies third place. The export and import figures for 1970 are as follows (billion dollars) :

1970	The NINE	The SIX	U.S.A.	JAPAN	USSR
Imports	56,362	45,621	39,963	18,881	11,739
Exports	52,871	45,198	43,226	19,318	12,800
Total	109,233	90,819	83,189	38,199	24,539

Moreover, Japan enjoys a rate of economic and commercial expansion unparalleled anywhere in the western world.

Since 1955 the "real" GNP (i.e. at constant prices) has been expanding at an average rate of 11 % annually.

In 20 years total national production has risen 10-fold, with an annual growth rate exceeding 11 %. Between 1967 and 1970 the average rate has been around 13 % compared with 6 % for the OECD countries taken as a whole.

Industrial production :	1965 = 100	1970 = 216
Agricultural production:	1963 = 100	1969 = 125

Japan is now the leader in ship-building, the biggest producer of radio apparatus, the second largest producer of motor cars, T.V. sets and rubber goods and third largest producer of cement, iron and steel.

In 1970 the GNP per head was \$ 1,910. The Japanese standard of living is about half way between the countries of Europe and the other Asian countries. Estimates of the Japanese Finance Ministry suggest that by 1988 Japan's GNP per head will be the highest in the world.

Japan's balance of payments habitually shows a surplus. The credit balance in 1969 was \$ 2.4 billion, but in 1970 it was unusually small, at only \$ 437 million. In 1971, however, it rose to \$ 7.6 billion, and the figure for 1972 will be about \$ 6.2 billion.

2. The explanation of Japan's expansion

Without the aid from the United States, Japan's economic growth since 1945, could not have achieved these dimensions. Moreover, the Peace Treaty put a strict limit on Japan's right to maintain armed forces; and defence expenditure has therefore weighed but lightly on the Japanese economy.

Since 1950 the government has been paying special attention to the growth industries, encouraging investment of a technical and scientific character, rather than private consumption expenditure.

Up to 1971 the characteristics of Japanese economic policy were growth, price stability, full employment and well-balanced external payments.

The level of investment is extremely high, exceeding the overall economic growth. Total investment takes 40 % of the GNP, which is higher than in any other industrial country. Investment on this scale has been made possible by the mechanism of

savings and bank credit. The Japanese saves 20 % of his income; and a bank will find it easy to lend 80 % of its funds to industrial undertakings.

The economic growth, however, would not have been so outstanding without the close cooperation which exists between the Japanese government and the leading economic groups in the country.

The economy is dominated by about ten great industrial and finance groups, known as the "ZAIBATSU", the three leaders being MITZUBISHI, MITZUI and SUMITOMO. Each of these includes a bank, a sales organisation and a number of companies. Inside a ZAIBATSU all the companies pursue the same policy and give each other mutual support, so that each is appreciably more powerful than would appear from the balance sheet figures.

3. Prospects

In September 1970 the Japanese economy began a period of comparative recession. The GNP growth rate, which was 9.5 % in 1970, fell in 1971 to only 5 %. In the basic industries there was a decline both in production and in wholesale prices; but inflationary trends prevailed in wages and retail prices. External trade, however, showed a continued development, with a 1971 increase of 24.5 % in exports compared with the previous year.

The recovery programme is angled on a monetary and finance policy calculated to promote a return to expansion by means of reduced interest rates and major public works. The year 1972 is thus cast as a year for setting things right. The GNP growth rates expected for 1972 and 1973 are 7.7 % and 10 % respectively.

4. Trade between Japan and the European Community.

a. The increase

Japan is the country which has shown the most vigorous increase in its trade with the Community. During the past 10 years the country's total exchanges with the Community have risen more than four-fold, whereas the EEC external trade as a whole only doubled. In comparative terms, too, the growth is even higher than that of the cross-frontier trade inside the EEC. Despite this rapid growth, however, the trade between Japan and the Community is only a

small part of the total on both sides — only 2 % of the Community's external trade and 5.6 % of the Japanese. In 1970 , only some 6.7 % of Japanese exports were consigned to Community countries, whereas 30.7 % of the total went to the United States.

The distribution of the trade between Japan and Western Europe is shown in the following figures (million dollars) :

Exports from	1958	1961	1969	1970	1971	1972 Jan-March
Community	148.8	311.9	820.5	1 117	1 137	609.9
Gt. Britain	59.4	137.1	330.3	395.1	416.8	238.8
Denmark	2.7	8.7	27.7	30.3	35.5	20.1
Ireland	0.1	0.2	7.8	11	13.9	6
Total 3 countries	62.2	146	365.8	436.4	466.2	264.9
Total 9 countries	211.0	457.9	1186.3	1553.4	1603.2	874.8
Imports into	1958	1961	1969	1970	1971	1972 Jan-March
Community	124	211.2	968.2	1303.2	1635	957.6
Gt. Britain	105.2	114.6	348.4	479.8	574.2	369
Denmark	21.2	19.1	50.8	64.6	67.3	41.1
Ireland	5.4	9.3	12.2	14.7	19.9	11.1
Total 3 countries	131.8	143	411.4	559.1	661.4	421.2
Total 9 countries	255.8	354.2	1379.6	1862.3	2296.4	1378.8

Thus, between 1958 and 1971 Community exports to Japan increased by 706 % and Community imports from Japan by 941 %.

In the first quarter of 1972 Japanese exports to the Community increased by nearly 30 % (\$ 278 million) compared with the first quarter of 1971; and Community exports to Japan rose by only 3 % (\$ 148 million).

b. Structure of the trade :

Nowadays 80⁴/_c of the EEC imports from Japan consist of manufactured goods, whereas in 1958 these classes accounted for only two-thirds of the total. There was an increase of 318 % under the food headings, resulting from the considerable increase in purchases of Japanese preserved foodstuffs under the fish and vegetable headings. The imports of chemical products showed a spectacular growth, with 1968 figures 852 % above those of 1958. For machinery and transport material, the growth was even greater, amounting to over 1,000 %.

Other manufactured goods make up half the imports of Japanese origin, consisting largely of cameras and precision instruments, steel products, pearls and textiles.

More than 85 % of the EEC exports to Japan consist of industrial goods. Unlike what has happened to the exports of a number of other countries, the main increase has been in the exports of semi-manufactured and manufactured goods, consisting of industrial goods other than chemicals, machinery and motor cars. Between 1958 and 1968 the increase under the headings concerned was 753 %.

The machinery and transport material group, though the increase (363 %) was less sharp, are still the largest sector in the exports to Japan.

c. Trade problems between Japan and the Community

The EEC trade balance with Japan still showed a surplus (\$ 46 million) as recently as 1967, but went into deficit in the following year. The shortfall amounted to \$ 150 million in 1969, increased in 1970 to \$ 246 million, and in 1971 rose to a total of \$ 605 million. The parity of the Japanese yen was fixed in 1949 at 360 yen to the dollar. This continued until 1971 and was an advantageous rate for Japan's competitive position in world markets. In the crisis which followed the Nixon decisions of August 1961, Japan was constrained by international pressure to re-value the yen by 16.9 % to a new parity of 308 yen to the dollar.

As from November 2, 1972 the Japanese government has lowered the import duties on 1,685 industrial and manufactured products, accounting for 68.6 % of all

Japanese imports. This action was taken with a view to curtailing the unduly large surplus in the balance of payments and thus to avoid a further re-valuation of the yen.

Since December 1972 restrictions have been imposed on the export of 19 items.

The American measures force Japan to reduce the growth in her exports to the United States and are thus an incitement by way of reflux to the search for new markets, more especially in Europe.

Tokyo is now doing its best to diversify the country's external trade, which has too long been angled on the trade with the United States. In 1970, Japan's exports to the U.S. were \$ 5,939 million, and imports from the United States were \$ 4,609 million.

It is to be noted that Japan has a surplus on her trade balance with the United States. In 1971 this rose to \$ 3.2 billion.

The prospect of an enlarged European Community doing some 40 % of the world's total external trade has further increased Japan's interest in the Common Market, now that the country's initial targets have been achieved.

The Japanese authorities are fearful of isolationism, such as prevailed during the thirties. The "special relationships" between Japan and the United States are now a thing of the past; and closer links with the European Community are now matters of political as well as economic interest.

Up to the present the only concrete instrument of the economic relationship between Japan and the Community has been the three-year agreement of February 7, 1972 on the exports of articles of cotton covered by the Long-Term Agreement on Cotton Textiles.

On November 10, 1969 the Council of the European Community authorised the Commission to enter into exploratory discussions with the Japanese government and examine the possibility of a general trade agreement. Since then members of the Commission have made frequent visits to Japan.

M. Deniau, the Member of the Commission who was then in charge of external Trade, made the first exploratory contacts in Tokyo between February 15 and February 21, 1970. Since the opening of negotiations in September 1970, the visits to Tokyo by members of the Commission have included that by Herr Dahrendorf at the end of 1970; President Malfatti (February 12-18 1972); Ambassador Borschette at the end of March 1972; and a further visit by Herr Dahrendorf (May 9-12 1972).

On the Japanese side the KEIDANREN (Organisation of Japanese Industry) had discussions with members of the Commission staff (October 25-26 1971); and Mr. Hirahara, the Director General for External Trade, had talks with his European counterparts (May 29-31 1972).

5. Trade negotiations between Japan and the EEC

On July 20, 1970 the Council of Ministers authorised the Commission to open negotiations with Japan for a general trade agreement.

The agreement in question is expected to cover a three-year period, and to provide the highest possible degree of liberalisation in the trade between the two areas. On the Japanese side the target was to remove, by the end of 1974, the quantitative restrictions on 75 % of the tariff headings, for which such restrictions existed at the beginning of 1970. At the outset Japan's "negative list" covered 118 headings. In September 1971 there were still 40 of these, of which 28 were concerned with agriculture and fisheries products. As of January 1, 1972 the number remaining was still 39.

The Community was to endeavour to eliminate 75 % of the quantitative restrictions existing as of the beginning of 1970. At this time the quantitative restrictions applied to Japanese goods under 151 headings in one or other of the member countries. As of January 1, 1972 the number of headings was still 119.

For the Community the essential condition for liberating the import trade is Japan's acceptance of the safeguard clause in the form in which it is already embodied in Japan's bi-lateral agreements with four of the member countries (France and Benelux).

In addition there should be a goodwill clause aimed at the progressive elimination of non-tariff obstacles. In this connection the Community would

like the Japanese to do away with the "Automatic Approval System" which is a licensing system in which there remains an element of uncertainty. Another improvement desired is the cessation of the system of secret distribution by products of global quota allocations. Another is the elimination of obstacles to investment; in the more important industrial sectors, Japanese capital participates to the extent of at least 50 % in most of the joint ventures and other investments in Japan.

The intention is to set up a joint committee which should hold regular meetings to smooth out the trading difficulties.

A first round of negotiations was held on September 17-24 1970.

A second round took place on July 6-8 1971.

The two sides did not succeed in reaching agreement about the safeguard clause, which the Community regards as an indispensable condition of any agreement. The Japanese expressed the desire to set up a mixed Japan-EEC Committee on the lines of the Economic and Ministerial Committee Japan-USA. The Community, however, does not intend to set up any consultative committee except as part of an agreement.

6. The safeguard clause — the stumbling block in the negotiations

The Committee has asked for the extension to the whole Community of the safeguard clause currently in operation in the bi-lateral agreements with France and Benelux. It regards this as the more necessary on account of the restrictions imposed by the United States in 1971 and 1972 on imports from Japan. Moreover, the same clause is contained in the agreement between Japan and Great Britain.

Japan is only willing to agree to the incorporation of a consultation clause "ergo omnes" with the possibility of asking for compensation which would facilitate recourse to Article XIX of GATT. This authorises a member of GATT to refrain from reducing customs duties, or to impose import quotas in the event of its industry being threatened.

The question therefore is, whether the Community should consider a "temporary arrangement" pending the revision, or re-definition of Article XIX of GATT as part of the round of international trade negotiations scheduled for 1973. The present impasse could be avoided if the safeguard measures contained in Article XIX were to be strengthened in such a way as to make it unnecessary to

resort to a specific safeguard clause in the agreement between Japan and the European Community.

The safeguard clause, in any case, is mainly a weapon of dissuasion. In the future the accent will be rather, on the positive aspects of a "cooperation clause" rather than on the protectionist character of a safeguard clause.

7. Conclusion.

From the Community standpoint, there is a risk that the prolongation of the situation as it now exists, will lead to an increasing number of private agreements between Japanese and European companies. A proliferation of these "voluntary restriction" agreements would, in principle, be incompatible with Article 85 of the Treaty; and they would be prejudicial to the expansion of world trade to the extent that they would not have been approved by the Japanese and EEC authorities.

The Commission nevertheless hopes that such developments can be avoided, and the negotiations brought to a successful conclusion in a future which is not unduly distant. The need for such an agreement between the first and the third of the world's trading powers is becoming daily more evident. Economically an agreement between the Community and Japan would have a good effect on world trade. The political consequences would also be appreciable, as was pointed out by President Malfatti when he returned from Tokyo on February 21 last. "At a time when the world is growing beyond bipolar arrangements", he said "the voices of Europe and Japan are bound to be increasingly clearly heard".