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Confrontation in the 1980's"

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"SHOULD THE RULES BE CHANGED ?"

1. A conference like this, organized by a private-sector body, "The Economist", allows participants to step outside their official rôle for a time, and to speak their mind informally. So I propose to give you my personal views on relations with Japan, and hope you will give yours in the discussion afterwards.

Experience of recent years

2. In the five years I have been in the Commission of the European Communities, we have had very little success in trying to change our relationship with Japan. When I joined the Commission, the problem of the trade imbalance with Japan was already of long standing.
3. Our Japanese friends always say one should not look at bilateral trade balances, because these are only part of the global trading equation. I agree with that in theory. The overall system is supposed to be self-correcting; but when two of the biggest partners have, over many years, an ever-more-serious imbalance, something is wrong with the system. That is the first thing we have been trying to get our Japanese partners to recognize : the system itself is not working correctly. The second thing we want them to decide is that palliatives are not enough, and that major corrective action is needed on their side, as well as "more effort" on ours.

4. We all know that trade figures can give a different impression according to the various sources and definition. In particular, the valuation of imports to include freight and insurance always makes the picture seem worse to the country with more imports. So let us take Japanese customs clearance figures, which give the most modest view of the imbalance.

5. After the first oil shock in 1973, the Community's trade deficit with Japan doubled in two-and-half years, reaching about 4.4 billion U.S. dollars in 1976. By the middle of 1980, it had doubled again, and in 1981 was about 10 billion dollars, and still growing.

6. At this level, Japan gains almost as big a surplus from trade with the Community as it does from trade with the other major partner, the United States; with this difference, however, - that the total value of two-way trade between Japan and the United States is more than double the value of Japan-EC trade.

7. It is not merely the size of the imbalance that points to a structural problem, but also the composition of Japan's imports. It is no argument to say that the percentage is low because of Japan's high imports of energy and raw materials. The Community also imports large amounts of energy and raw materials. In any event, one can eliminate the effect of other imports by looking at manufactured imports per head of population. Japan imported about 260 dollars-worth of manufactures in 1980, while the Community imported about 625 dollars-worth.

8. Sometimes we still hear the objection that Japan is too good at most kinds of manufacturing to need any imports. However, we have known, ever since David Ricardo explained it in this city 170 years ago, that a nation will still gain from trade, even if it is more efficient in all products than all its partners, by specialising where it is most efficient, and importing other products. Japanese officials, industrialists and consumers still seem to need to convince themselves that increased imports and international specialisation will actually enrich Japan, as well as the rest of the world.

Absence of Community policy

9. The Community would undoubtedly have had more success in putting across this message if it had adopted a genuinely united trade policy towards Japan. Despite repeated proposals from the Commission for a common approach, the Member States have generally preferred to rely on their individual bilateral contacts with Japan to try to extract some advantage, narrowly defined, for themselves.
10. If the balance-sheet were now to be drawn up with ruthless honesty, those individual Member States would have to admit that their bilateral efforts have brought them little or nothing beyond what could have been achieved through common negotiations.
11. This bilateralism is all very regrettable, and no significant and lasting improvement is likely so long as it persists; but what I find even more astonishing is that some people in the Japanese administration and industry seem to cling to the notion that it is in Japan's interest to keep the Community divided. I have the impression that they are becoming less numerous or less vocal; but if there are any left, I would say to them that there will be no liberalisation of existing national quantitative restrictions on

Japanese trade, but probably new restrictions; little or no increased scope for industrial co-operation; and therefore, little or no reduction in trade friction in the long term, unless it is done on a Community-wide basis.

What to do about it ?

12. That brings us to the operative question : what should the Community do next ? One possibility is to adopt a policy of confrontation : eliminate the trade imbalance, by restricting total imports from Japan to a level equal to our own exports to Japan. This is plausible, but suicidal in view of the wave of trade restrictions that would be adopted everywhere else. Unfortunately, I cannot escape the grim thought that individuals, and even nations, may in fact commit suicide, if they are put under too much stress. Democracies are rather more at risk in this regard than many people realise.

13. If we reject confrontation - an eye for an eye, a tooth for a tooth - what can we say about a policy of industrial co-operation ? I am in favour of such a policy, but not at any price. It must be co-operation of a kind that holds the promise of a change in the old EC-Japan relationships. It is fairly easy to say what is undesirable : for example there would be little to be gained from a

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EEC request list

15. As you know, the Community presented a list of requests to the Japanese Government on 9 December, calling for continued effective moderation of Japanese exports to the Community in sensitive sectors, and calling for specific steps to open up the Japanese market to imports from the Community. This list was not exhaustive, but was reduced to the most urgent practical measures.
16. Next week, on 29 January, there will be an important Community mission to Tokyo led by Sir Roy Denman to receive the Japanese Government's reply to these requests. Unfortunately, I cannot say that I expect very impressive results, despite the urgency of the Community's requests.
17. On 30 November, Prime Minister Suzuki issued a statement making it clear that he intended to use every possible effort to resolve the question of economic friction with other countries. He set up a research committee within the Liberal Democratic Party under the Party President, to tackle the problems of opening the Japanese market to "correct" non-tariff barriers, and to accelerate tariff cuts agreed under the Tokyo Round. This was a very encouraging statement.



18. Five months earlier, on 14 July, Mr. Tanaka then MITI Minister issued a statement that Japan would seek economic growth by expansion of domestic demand, and saying that he " ... keenly realized that it is necessary to further expand the imports of manufactured goods". He called upon the Japanese business community " ... to make further efforts to promote imports of manufactured goods", and added that it was " ... important to encourage industrial cooperation, such as investment activities, in order to further promote broader cooperative relationships with foreign industries." This also was a very encouraging statement.

19. Looking at the specific actions that have already been announced, the accelerated Tokyo Round tariff cuts are welcome in themselves, but cannot possibly bring about the growth in imports required merely to prevent the trade imbalance getting steadily worse. The EC request list called explicitly for tariff reductions " ... of a substantial character, going beyond the concessions agreed in the Tokyo Round where these apply, and implemented at an early date". Seen in this light, the acceleration of the Tokyo Round cuts amounts to a rejection of the EC requests. Early signals on non-tariff barriers referred to minimal measures in only four of the many areas covered in our request list. I hope that next week these early signals will prove to have been wrong, but I fear they may be right.

20. Of course, I do not for one moment doubt the good faith of Mr. Suzuki or his ministers, but there seems to be an inherent and very solid resistance to change built in to the Japanese system of government and administration. This is all the more understandable, since the system has brought Japan to an enviable position of strength, growth, full employment, and low inflation, while the rest of the world is struggling with the worst economic crisis in half a century. Unfortunately, the success of the Japanese system may act like a very high speed gyroscope, and make it difficult for the authorities to change course in time in order to avert a disastrous clash with the major trading partners.

Outlook for 1982 and beyond

21. The general outlook for 1982 and later, as described by the OECD, is to say the least, discouraging. In the circumstances it is obvious that we in the Community will have to pay close attention to industrial policy if we are to come through the next few years in a reasonably good condition to expand whenever possible. It is equally obvious that we cannot allow our industrial development to be constrained or dictated from outside. We must not throw away our own freedom of action in the name of some vaguer or more general freedom that helps no-one.

22. For example, the steel crisis, now several years old, was created by faulty evaluation of the world market, and the corresponding errors of optimism and overcapacity. This is why the Steel Committee set up in the OECD is important. Japan plays a prominent part in this Committee. It exists to prevent a recurrence of the expensive and painful errors of the past and meanwhile to spread the burden of adjustment with as little disruption as possible to the traditional flows of trade in steel products. It is a rational response to a highly undesirable situation.

23. A further example is the shipbuilding industry, where again the OECD has provided a forum where the major shipbuilding nations could try to deal rationally with the problems of overcapacity. Here again, Japan plays a central part. If, indeed, the burden has been shared in a reasonable balanced fashion over the period 1978-79, recent developments are rather disquieting. The Japanese authorities have released part of the pressure they decided to exercise on their shipbuilders. As a result, Japanese shipyards have merely artificially and henceforth dangerously anticipated market conditions in 1980 and in the first part of 1981. As a matter of fact, the trend on the world market for ships shows no upward movement, on the contrary! Therefore, the highlevel EC/Japan talks due next week in Tokyo will see the Commission clearly stating its disapproval of the further loosening of control of shipyards, the Japanese Government announced for 1982.

If this were to be confirmed, it would undoubtedly put a severe strain on the burden-sharing principle established at OECD level in 1976 and jeopardize the efforts to restore the necessary balance between supply and demand in the shipbuilding sector.

Voices have been raised in Japan to criticise, I quote, "the absence of restructuring measures in European shipyards"! The truth is, we in Europe have certainly thoroughly reshaped our shipyards: between 1976 and 1981 cuts in production (- 53%) and in employment (- 41%) in Europe went far beyond the Japanese efforts (- 35% in both cases). In the recent past our Japanese partners have more than once claimed a 35% cut in production capacities, compared with a 25% cut for European shipyards: in fact, the Japanese figures only relate to the 60 largest companies and do not give any indication as to evolution of capacities of the 600 odd smaller companies involved.

Our Japanese friends, on the other hand, have a wry smile when they complain about aids granted to the European shipyards. In fact, the joke is on us: indeed financial support in favour of the Japanese shipyards, for the fiscal year 1981 only, meant an incredibly high ratio of 55% of construction costs. At the same time, we have started dismantling the aid schemes in favour of European shipyard. The Japanese financial support has given birth to an artificial increase of the demands for ships regardless of the real conditions prevailing on the market, whereas aids going to European shipyards have been thoroughly controlled in order to stick to the market realities. The result is clearly shown: the share our shipyards have taken on the market shows a downward trend.

24. With the spread of the "world car" concept, continued structural adaptation, and with a growing number of Euro-Japanese joint ventures, we may be able to avoid the worst consequences of imbalance

25. In fields of rapid growth and advanced technology such as micro-electronics, computer software, nuclear energy, remote sensing we may be able to hope that a new spirit may emerge in relations between the Community and Japan : not merely one of more or less uncomfortable coexistence, but one of co-operation and mutual reinforcement. Both sides could derive enormous benefits, and old suspicions would fade away.
26. The meeting last week at Cay Biscayne confirmed that Japan is aware of the need to reduce trade frictions, and indeed, we look to Japan to play its full rôle in the management of world economic affairs.
27. In the short term, however, we have an acute problem, and next week in Tokyo we shall see whether the Japanese Government can introduce us to a new kind of economic miracle.