

# EUROPEAN PARLIAMENT



*s e s s i o n   d o c u m e n t s*

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A3-0390/92

## REPORT

of the Committee on External Economic Relations

on trade and economic relations between the European Community and Japan

Rapporteur: Mr. James MOORHOUSE

PE 155.246/fin  
Or.: EN

\* Consultation procedure requiring a single reading  
\*\*| Cooperation procedure (first reading)

\*\*|| Cooperation procedure (second reading) requiring the votes of a majority of the current Members of Parliament  
\*\*\* Parliamentary assent requiring the votes of a majority of the current Members of Parliament

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By letter of 18 October 1990 the Committee on External Economic Relations requested authorization to draw up a report on trade and economic relations between the European Community and Japan.

At the sitting of 18 February 1991 the President of the European Parliament announced that the committee had been authorized to report on this subject and that the Committee on Foreign Affairs and Security had been requested to deliver an opinion.

At its meeting of 16 July 1990 the Committee on External Economic Relations had appointed Mr Moorhouse rapporteur.

The Committee on External Economic Relations decided to include in its report the following motions for resolutions which had been referred to it:

- motion by Mr Robles Piquer on the creation of a framework for economic cooperation between Japan and the European Community (B3-2284/90)
- motion by Mrs Muscardini on steel imports from Japan (B3-0146/91)  
(opinion: Committee on Economic and Monetary Affairs and Industrial Policy)
- motion by Mr Robles Piquer and others on vulnerability to Japan in the electronics field (B3-0202/91)
- motion by Mrs Muscardini on the negotiations between the European Community and Japan to liberalize trade in leather and leather goods (B3-0257/91)  
(opinion: Committee on Economic and Monetary Affairs and Industrial Policy)
- motion by Mrs Muscardini on the EEC-Japan agreement on tanned hides (B3-1919/91)
- motion by Mrs Muscardini on the EEC-Japan negotiations on tanned hides (B3-0065/92)  
(opinion: Committee on Economic and Monetary Affairs and Industrial Policy, Committee on the Environment, Public Health and Consumer Protection)

The committee held, at its meeting of 16/17 September 1991, a public hearing.

At its meetings of 28 January 1991, 19 March 1991, 3 April 1991, 20 June 1991, 17 December 1991, 23 January 1992, 30 September 1992 and 24 November 1991 the committee considered the draft report.

At the last meeting it adopted the motion for a resolution unanimously.

The following took part in the vote: De Clercq, Chairman; Stavrou, Vice-Chairman; Moorhouse, rapporteur; Cassidy (for Chabert pursuant to Rule 111(2)), Melandri (for Archimbaud), Miranda de Lage, Ortiz Climent (for Gallenzi), Price, Sonneveld (for Peijs), Verhagen (for Lemmer pursuant to Rule 111(2)).

The Committee on Foreign Affairs and Security, the Committee on Economic and Monetary Affairs and Industrial Policy and the Committee on the Environment, Public Health and Consumer Protection decided not to deliver an opinion.

The report was tabled on 1 December 1992.

The deadline for tabling amendments will appear on the draft agenda for the part-session at which the report is to be considered.

A

MOTION FOR A RESOLUTION

on trade and economic relations between the European Community and Japan

The European Parliament,

- having regard to its resolution of 11 September 1986 on trade and economic relations between the European Community and Japan,<sup>1</sup>
- having regard to the Commission Communication to the Council of 15 March 1988 on relations between the European Community and Japan,<sup>2</sup>
- having regard to the report of the Economic and Social Committee on relations between the United States and Japan, and between the European Community and Japan of 25 April 1991,<sup>3</sup>
- having regard to its resolution of 13 June 1991 on EC-Japan relations, calling upon Japan to assume greater international responsibilities and remove the remaining structural barriers to the free access of its domestic market,<sup>4</sup>
- having regard to its resolution of 13 June 1991 on the automobile industry, affirming its support for a transitional period during which Japanese manufacturers' access to the European market is to be restricted whilst bilateral agreements between certain EC member states and Japan in the automobile sector are phased out,<sup>5</sup>
- having regard to the Joint Declaration of July 1991 between the Council and the Government of Japan, which defines objectives for EC-Japan cooperation on political and security issues and advocates closer trade and economic relations,
- having regard to the public hearing held by its Committee on External Economic Relations, on trade and economic relations between the European Community and Japan, in Brussels on 16-17 September 1991,
- having regard to its resolution of 13 March 1992 on the consolidation of the EC-Japan Centre for Industrial Co-operation,<sup>6</sup>

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<sup>1</sup> OJ No. C 255, 13.10.1986.

<sup>2</sup> COM (88) 136.

<sup>3</sup> OJ No. C 159, 25.4.1991.

<sup>4</sup> OJ No. C 183, 15.7.1991.

<sup>5</sup> OJ No. C 183, 15.7.1991.

<sup>6</sup> COM (91) 193.

- having regard to the Commission Communication to the Council of 20 May 1992 on relations between the European Community and Japan,<sup>1</sup> the first such statement by the Commission for four years,
- having regard to the formal response of the Government of Japan to the Commission Communication, certain aspects of which it condemned as "totally unacceptable",
- having regard to the Conclusions of the Council on relations with Japan adopted on 15 June 1992,
- having regard to the second annual EC-Japan Summit held in London on 4 July 1992,
- having regard to its resolution of 8 July 1992 on political relations between the European Community and Japan,
- having regard to Rule 121 of the Rules of Procedure,
- having regard to the following motions for a resolution tabled under Rule 63 of the rules of procedure:
  - . motion by Mr Robles Piquer on the creation of a framework for economic cooperation between Japan and the European Community (B3-2284/90)
  - . motion by Mrs Muscardini on steel imports from Japan (B3-0146/91)
  - . motion by Mr Robles Piquer and others on vulnerability to Japan in the electronics field (B3-0202/91)
  - . motion by Mrs Muscardini on the negotiations between the European Community and Japan to liberalize trade in leather and leather goods (B3-0257/91)
  - . motion by Mrs Muscardini on the EEC-Japan agreement on tanned hides (B3-1919/91)
  - . motion by Mrs Muscardini on the EEC-Japan negotiations on tanned hides (B3-0065/92)
- having regard to the report of the Committee on External Economic Relations (A3-0390/92),
  - A. Seriously concerned by Japan's rising global trade surplus which, having stabilised in the late 1980's, increased from 43.9 billion ECU in 1990 to 71.4 billion ECU in 1991, and is now running at the rate of 92 billion ECU per annum, an historically unprecedented figure,
  - B. Concerned that Japan's bilateral trade surplus with the EC has increased from 23.5 billion ECU in 1990 to 29.7 billion ECU in 1991, a figure which has continued to rise substantially during 1992,

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<sup>1</sup> COM (92) 219.

- C. Noting equally that Japan had a bilateral trade surplus with the United States of \$38.4 billion in 1991,
  - D. Noting that Japan's ratio of external trade to GNP amounted to only 16%, approximately half the OECD average of 30% for 1991,
  - E. Noting that Japan's ratio of manufactured imports to GNP remained stubbornly low at a mere 3.6% (1991), the lowest level by far of any major industrialised economy,
  - F. Noting that Japan's previously successful structural adjustment process, of increasing dependence on internal rather than external demand to generate growth, has now gone into reverse, and that low growth is being accompanied by dramatically rising trade surpluses,
  - G. Anxious that Japan's persistent tendency to generate such surpluses should be successfully accommodated within the open, multilateral trading system, and that wherever possible protectionist measures should be avoided on all sides,
  - H. Concerned that the current Uruguay Round of GATT negotiations should be quickly concluded on the basis of multilateral concessions, including significant concessions on the part of Japan,
  - I. Convinced that a more general, concerted approach by the European Community to trade and economic relations with Japan is required,
  - J. Convinced equally that such an approach has yet to be put fully into place,
1. Believes that EC-Japan trade and economic relations can only be strengthened and developed on the basis of the "consistent and global approach" recently advocated by the Commission and Council;
  2. Endorses in this context the powerful analysis underlying both the recent Commission Communication on EC-Japan relations and the subsequent Conclusions adopted by the Council;
  3. Welcomes the renewed determination of the Commission and Council, as expressed in these texts, to press the Japanese authorities on a wide range of outstanding bilateral issues, in order to help build a more balanced trade and economic relationship between the EC and Japan;
  4. Supports the Council's desire to broaden EC-Japan relations beyond the narrowly commercial to encompass a deepened political dialogue of the kind launched by the July 1991 Joint Declaration and subsequent bilateral ministerial summit meetings;
  5. Encourages the Government of Japan in its efforts to fulfil the widespread demands that it play a more pro-active role on the international stage in defending and advancing the values of liberal democracies based on the rule of law and the social market economy;
  6. Calls on Japan and the European Community to work more closely together in the administration of their respective programming of economic

assistance in areas affected by natural disasters, extreme economic adversity or political upheavals threatening world peace;

7. Looks to Japan to meet the substantial expectations and responsibilities which now fall on it as an economic superpower by:
  - following domestic macro-economic policies which ease the emerging scale of its multilateral and bilateral trade surpluses, and facilitate the survival of free trade,
  - sustaining the shift, which has recently been reversed, towards Japanese growth becoming increasingly dependent on domestic rather than external demand,
  - promoting the on-going revaluation of its currency to bring trade flows into better balance,
  - continuing the long process of domestic liberalisation and reform in individual sectors, to free markets to foreign competition and so extend to Japanese consumers the full benefits of price competition enjoyed in the West,
  - removing all remaining tariff and non-tariff barriers to imported goods and services, with particular urgency being attached to i) the real liberalisation of the distribution system, ii) permitting foreign take-overs and acquisitions to occur in practice as well as theory, and iii) the ending of collusive and exclusive practices within business groups, including the keiretsu;
8. Believes, in short, that Japan must decisively reconfirm the spirit of the 1986-88 Maekawa structural adjustment plan, which helped stabilise trade surpluses, and underpin that process with macro-economic policies that will generate a sustained pattern of buoyant domestic demand;
9. Shares the strong concern expressed by the Commission and Council about the "growing tendency of the United States and Japan to seek solutions to bilateral trade problems through arrangements that appear discriminatory";
10. Believes that if EC-Japan political relations are to be more than symbolic, the Japanese authorities - with their strong, professed attachment to the GATT - must resist any temptation to bilateralise discussion of trade and economic relations with the US, to the EC's exclusion or disadvantage;
11. Believes equally that the EC and US enjoy a number of common concerns in respect of Japanese trade, notably in jointly sustaining pressure for structural adjustment and sectoral access;
12. Welcomes efforts to present these wider interests in various international fora;
13. Looks to Japan and the United States together to intensify cooperation with the EC in the fields of exchange-rate management, trade policy, competition and anti-subsidy policy, and policies for development and cooperation, in order to build a strong trilateral framework in which to discuss and help resolve pressing global issues of common concern;

14. Welcomes suggestions for developing a G3 forum based on the EC-Japan-US triangle to promote common positions among nations which collectively represent some two-thirds of world GNP and world trade;

As regards Japan's position in the multilateral trading system

15. Considers that Japan currently enjoys an enormous positive balance of advantages from the multilateral trading system, the opportunities of which have been at the heart of its post-war growth;
16. Believes that to sustain this system of international free trade, in its own interest Japan needs to play a full part in easing trade friction of various kinds;
17. Requests Japan to play a more active role in making concrete concessions within the current GATT round on market access issues of concern to both the European Community and the United States;
18. Welcomes the observation both by the Commission and the Council, in their recent statements, that there is a clear need for a reduction in Japan's unprecedentedly high external surpluses;
19. Believes that the Government of Japan must act decisively to contain the scale of its unsustainably high trade surpluses, the rise of which can only promote protectionist pressures and instincts worldwide, and have a destabilising effect on the international economy at a time of growing recession;
20. Agrees with the recent Commission Communication that "the aim should be the full integration of Japan into the international system, by making it as open to foreign trade and investment as other advanced economies";
21. Welcomes the reaffirmation by the Government of Japan in the 1991 Joint Declaration of its commitment to the "principle of equitable access in terms of comparable opportunities" and calls for this undertaking in principle to be followed by concrete action;

As regards Japanese exports to the European Community

22. Expresses concern at the continuing tendency of Japanese exports to the EC to rise over time at a significantly more rapid rate than either Community or Japanese GNP (48 per cent during the period 1987-91);
23. Notes that since Japanese exports to the EC (51.8 billion ECU in 1991) are over twice as high as EC exports to Japan (22.1 billion ECU in 1991), it is necessary for the latter to increase at more than twice the rate of the former simply to keep the bilateral trade imbalance constant;
24. Fears that, over time, the continuing tendency of Japanese exports to the EC to increase at an average of around 10-15 per cent a year (since 1980), matched by the failure of EC exports to Japan to rise by twice that rate (around 15-20 per cent per annum since 1980), means that the EC-Japan trade deficit is likely to continue to widen, rather than narrow, in the years ahead;
25. Fears that two additional factors will compound this process:



(i) the move to higher value-added production by major Japanese producers, which has made Japan's exports of manufactures more dependent on the OECD markets of North America and Western Europe over the last decade, a development which continues, and

(ii) evidence in the last five years of growing export deflection from the US to EC markets, as protectionist pressures mount in the US and the European currencies prove more attractive and reliable than the dollar for Japan's international trade;

26. Notes in this context that i) the proportion of Japan's total exports taken by the US and EC together has grown from 38 to 48 per cent during the last decade, and ii) whereas the US-Japan trade deficit increased by only 19 per cent during the period 1987-91, the EC-Japan deficit increased by 65 per cent;
27. Welcomes attempts by the Government of Japan to promote voluntary export guidelines on selected sectors at different times, and believes that these efforts should be continued and developed as necessary; considers equally, however, that such moves can have no lasting benefit in relieving EC-Japan trade friction unless they are underpinned by wider structural reforms in the Japanese economy;
28. Advocates in particular the conscious broadening of Japan's trade profile so that it can become less dependent on exporting huge volumes in relatively few sectors (consumer electronics, business machinery, motor vehicles, machine tools), so that Japan both exports and imports more in the very many sectors where its trade in both directions falls far below the OECD average;
29. Believes that such an approach, complemented by a high domestic growth strategy to reduce reliance on exports, and supported by a commitment in Tokyo to avoid export deflection from US to EC markets, could over time reduce the consistent growth in Japanese exports to the EC to a rate allowing the bilateral trade imbalance to be stabilised and then narrowed in the years ahead;
30. Looks to the Government of Japan to undertake serious policy commitments of this kind;

#### As regards European Community exports to Japan

31. Notes with regret that, after a substantial increase in EC exports to Japan in 1987-89, totalling 55 per cent over three years, exports first stalled (in 1990) and have now actually gone into decline;
32. Agrees with the Commission that since "the base of [EC] exports remains narrow and vulnerable to cyclical fluctuations", the disappointing EC export performance since 1990 can largely be attributed to the high dependence of such exports on sustained domestic growth in Japan;
33. Recalls with concern that around half the growth in EC exports during the years 1987-89 was in a limited range of luxury or niche sectors, where a distinct social cachet often attaches to purchasing foreign products - notably motor vehicles, alcoholic beverages and high-quality textiles;

34. Believes that central to improved, recession-resistant EC export success in Japan is greater penetration of sectors other than the luxury goods market;
35. Endorses the Commission's view that "the bias of the Community's visible exports to luxury goods" is a consequence of a combination of two factors:
  - (i) specific sectoral barriers in fields where, in other external markets, EC exports are extremely competitive and where Japanese producers are not;
  - (ii) broader structural obstacles, which the Commission believes "are currently the main barriers to doing business in Japan" and which reflect "the failure of competition and market mechanisms in many spheres";
36. Supports the Commission's on-going attempts to prise open sectors where a variety of formal, discriminatory, government-sanctioned mechanisms are still being used to minimise imports of foreign goods;
37. Notes that these techniques include: tariffs and taxes (on leather products, metals, foods, alcohols, motor vehicles); standards and certification procedures (household appliances, motor vehicles, pharmaceuticals, medical equipment); labelling requirements (food and other packaging); phytosanitary and sanitary controls (fruits, vegetables, flowers, meats, dairy products); and, once products have entered Japan, weak protection of intellectual property rights (in a wide range of sectors requiring patents, design registration, trademarks, service marks or copyrights);
38. Welcomes Commission initiatives to force further liberalisation in the Japanese service sector, where highly competitive foreign producers are disadvantaged by discriminatory regulations of various kinds (most notably in legal services, insurance and certain financial markets);
39. Supports the Commission in its belief that if adequate progress is not made in removing these sectoral barriers in the current GATT round, then "the Community should resume direct negotiations [with the Japanese], in the spirit of the Joint Declaration", and agrees that problems and progress should be kept under permanent review jointly by the Commission, the member states and the industries concerned;
40. Welcomes the fact that the Council firmly endorsed this Commission strategy of reopening direct sectoral negotiations with the Government of Japan, and believes that where appropriate joint pressure should be exercised by the EC and US in pursuit of common claims for improved sectoral access of this kind;
41. Reiterates the strong need to match action on these sectoral fronts by sustained pressure in the field of structural reform, to secure most notably the liberalisation of distribution systems and the decisive strengthening of competition policy, to i) allow foreign mergers and acquisitions, ii) outlaw collusive business practices of various kinds, for example among the keiretsu, and iii) open up public purchasing to foreign producers on a significant scale;
42. Welcomes the Commission's declared intention, with Council support, of studying areas where the enforcement of Japanese anti-trust law is

currently inadequate and where sectors are exempt from the operation of anti-monopoly legislation, to the detriment of foreign competitors and domestic consumers alike;

43. Supports the Commission in its continuing commitment, with Council support, to "identify obstacles to the freer distribution of EC goods" within Japan;
44. Notes with interest the potentially fruitful outcome of the July 1992 joint review of the US-Japan Structural Impediments Initiative (of 1989-90), both on competition policy and on distribution systems;
45. Hopes that the Council will be prepared to back any Commission findings on competition policy and distribution systems, as well as any failure of bilateral negotiations on sectoral access, with a political commitment to take considered action within the GATT against such Japanese practices as are found to be unfair, discriminatory or protectionist in effect;
46. Invites the Commission to present new proposals to develop and extend its imaginative export promotion ("EXPROM") activities within Japan, acting wherever possible in concert with the national programmes of EC member states to the same end;
47. Considers that encouragement should be given to the establishment of a European Trade Centre as a base from which European business can improve penetration on the Japanese market;

As regards Japanese investment in the European Community and European investment in Japan

48. Welcomes the continuing flow of Japanese direct investment into the EC, which stood at an accumulated total of some 48.5 billion ECU in 1991; Regrets the continuing sluggish level of EC investment in Japan, which by 1991 had reached some 6.5 billion ECU;
49. Notes, however, that the ratio of Japanese direct investment in the EC to EC direct investment in Japan stood at 8:1 in 1991, compared with ratios of 13:1 for Japan-US investment flows, and 10:1 for Japanese investments flows worldwide;
50. Cautions against any assumption that Japanese direct investment flows into the EC will necessarily be sustained at recent high levels over coming years: the levelling off and decline in such flows in 1990-91 may accelerate still further as a result of the continuing collapse of share prices on the Tokyo Stock Exchange and the consequent weakening of bank profitability and corporate access to cheap finance;
51. Endorses the Commission's view that Japanese direct investment in the EC can make a useful contribution to industrial development and renewal, provided that it is sufficiently integrated into the economic fabric of the Community and leads to i) the net creation of new jobs, ii) the progressive "Europeanisation" of management, and iii) not merely the selective transfer of items of research and development to Europe, but ultimately also the establishment of autonomous, innovatory R&D centres in Europe, directed not only to regional but also world markets;

52. Believes that, as the Council concluded, "the member states should follow a common line towards the issue" of inward investment, and for this purpose strongly recommends that member states develop common EC-wide criteria for the evaluation of inward investment projects and minimise the competitive granting of subsidies, strengthening competition policy to this end;
53. Accepts that EC companies should, as the Commission recommends, develop industrial cooperation arrangements with Japanese competitors, including the conclusion of strategic alliances on the development and production of new products; counsels, however, against any such arrangements which might involve the one-way transfer of technology and skills from the EC to Japan, as part of a conscious Japanese strategy to disarm competitors;
54. Supports the view that the Government of Japan's proposal for an EC-Japan forum to promote cooperation in science and technology should be evaluated with these factors in mind;
55. Reiterates that the most positive action Japan can take to promote EC direct investment, and the industrial cooperation which will follow, is to remove structural impediments of all kinds, by adopting most notably the reforms detailed in paragraphs 6 and 40 above;

As regards Japanese domestic macro-economic policy

56. Calls on Japan to resume, as a matter of priority, the shift from growth led by external demand to growth generated primarily by domestic demand, continuing the strategy identified in the 1986 Maekawa report and successfully pursued during the three-year adjustment plan which followed;
57. Believes that such a strategy depends both on continuing supply-side liberalisation and on a deliberate policy of easing monetary and fiscal conditions in Japan to sustain domestic growth at a time of worldwide recession;
58. Welcomes successive reductions during 1992 of the official discount rate in Japan ; notes the announcement of 28 August 1992 by the Government of Japan regarding a draft supplementary budget totalling some 67.4 billion ECU for the current fiscal year, views this as a useful step in the right direction;
59. Endorses the call of both the Commission and Council that Japan should pursue policies designed to allow the Yen to resume its long-run rise against European currencies;
60. Believes that the continued undervaluation of the Yen, partly as a result of non-liberalisation of certain financial markets, seriously exacerbates Japan's trade and economic relations with its trading partners;
61. Considers that sustained investment in Japan's domestic infrastructure, with a downgrading of agriculture and the freeing up of land needed for improved housing, would facilitate structural adjustments and the creation of an economy in better balance with the rest of the world;

62. Urges Japan, in its own and trading partners long term interests, to pursue policies leading to a more internationally-integrated, domestic growth-led economy;

#### In Conclusion

63. Welcomes the recent commitment of the Commission and Council to develop a "consistent and global approach" to EC trade and economic relations with Japan, in the context of an unprecedented high and rising bilateral trade imbalance;
64. Believes that such an approach, which is both urgently necessary and long overdue, can best be advanced by pursuit of the systematic policy agenda outlined in this resolution;
65. Believes that the concerted exercise of political will by the Council in sustaining and supporting Commission efforts to open Japanese markets and secure a better balance in EC-Japan trade relations is the vital precondition for making a success of the new "consistent and global approach" towards Japan;
66. Sees the new annual EC-Japan Summit dialogue structure introduced by the 1991 Joint Declaration as the ideal vehicle for focussing EC political will regularly on outstanding bilateral issues;
67. Invites the Commission to draft an annual report on the state of trade and economic relations between the European Community and Japan, to be published three months in advance of the Summer Summit of the Japanese Prime Minister, President-in-Office of the European Council and President of the European Commission;
68. Considers that this annual report should be formally communicated to the European Parliament as well as to the Council in sufficient time to give Parliament the opportunity to draft an annual motion on this subject;
69. Invites the President-in-Office of the Council (Foreign Affairs) to formally report to the Parliament's Committee on External Economic Relations on the outcome of the annual EC-Japan Summit;
70. Draws attention to the list of specific sectoral issues in EC-Japan trade relations which follows;

#### SECTORAL ISSUES IN EC-JAPAN TRADE RELATIONS

##### As regards the European automobile industry:

71. Notes that Japan's automobile production accounts for 30% of the world total of this product;
72. Notes that Japan exported between 1.1 and 1.3 million cars to the European Community annually in the years 1989-91 (in addition to vehicles manufactured by Japanese producers within the Community);

73. Notes that Japan imported only 200,000 cars annually from the European Community during the years 1989-91;
74. Notes that the visit of the United States President to Tokyo in January 1992, for the purpose of promoting US-Japanese trade relations, resulted in Japanese car firms voluntarily seeking to double their car parts imports within two years and to open up their dealerships to 20,000 US cars a year;
75. Affirms its support for the so-called "Elements of Consensus" reached between the European Commission and the Government of Japan on trade in automobiles for the years 1993-99; insists on the Commission strictly adhering to its written interpretation of this agreement;
76. Welcomes as an interim measure the most recent EC-Japan automobile talks (of 23 April 1992), aiming toward cutting direct Japanese car exports to the European Community by around 5%;
77. Welcomes the Commission's intention of ensuring that market penetration by Japanese automobile manufacturers is limited until the end of the transitional period in 1999; urges the Commission to follow the precedent set by the United States by ensuring that European replacement parts manufacturers become the main suppliers in this area and to negotiate a joint initiative with the Government of Japan with regard to vehicle and spare parts imports;
78. Strongly recommends that European manufacturers embark on a genuine process of internal restructuring based on renewing their research and training systems and improving their mutual contacts;

As regards electronics and semiconductors:

79. Welcomes the Council resolution of 18 November 1991 on electronics and information technology, noting the need to speed up the process of standardisation and certification in order to strengthen competition within these sectors;
80. Notes that Japanese companies control 28% of the world electronics market, compared to a US share of 44% and an EC share of 19%; Notes with concern that Japanese corporations hold 60% of the world market in consumer electronics, in particular;
81. Considers the electronics industry to be an example of a strategic or "pervasive" sector, penetrating other sectors and areas of activity, indispensable for example to the automotive industry, medical sector and automation generally;
82. Notes with concern the Japanese electronics industry's 51 billion ECU world trade surplus in 1991, which is forecast to increase to 70.3 billion ECU by 1995, thereby increasing the EC-Japan trade deficit from 29.7 billion ECU in 1991 to around 40 billion ECU in 1999, ceteris paribus;
83. Notes that since 1975, the European Community's employment in consumer electronics has fallen by more than 50%, despite major market growth in electronics over that period;

84. Notes the clear connection between the rising level of Japanese exports in electronics to the European Community since 1975, involving established examples of dumping, and the decline in EC employment in the electronics industry;
85. Welcomes the Parliament's commissioning of a special review of anti-dumping measures, which are particularly prevalent in the electronics sector;
86. Notes that further urgent action is required to prevent all forms of dumping, frequently circumvented by "screwdriver" assembly operations;
87. Notes that the Japanese domestic electronics distribution system, wholesale and retail, is controlled by a cartel of organisations operating anti-competitive practices, thus placing significant structural impediments in the way of European exporters to Japan;
88. Regrets that the Government of Japan has failed to develop appropriate distribution regulations applicable equally to all electronics goods, whether imported or produced locally, and to provide appropriate remedies to those seeking to export to Japan who are facing anti-competitive practices by Japanese distributors;
89. Welcomes the current investigation by the Japanese Fair Trade Commission under the Anti-Monopoly Law into allegations that the four major Japanese consumer electronics manufacturers are illegally controlling the retail prices of their products, as demonstrated by their identical pricing of electronics goods on the domestic market;
90. Believes that a further expansion of the Joint Commission and EACEM "Parts and Components" Scheme might help to redress some of the imbalance in electronics trade between the EC and Japan;

As regards alcohol and spirits:

91. Recalls the Parliament's resolution of 11 September 1986, calling for the removal of tariffs and discriminatory taxes in relation to alcoholic beverages and for a simplified and aligned set of standards and certification procedures in this sector;<sup>1</sup>
92. Welcomes the 1987 GATT Council Ruling concerning Japan's Liquor Tax;
93. Welcomes the Japanese changes to the Liquor Tax of 1 April 1989, which equalised the rates of taxation on imported and locally-produced whiskies, but notes that tax differentials continue to apply within the spirits sector;
94. Believes that Japan should address forthwith all outstanding trade issues in this sector, including its failure to fulfill its GATT obligations by reducing the Liquor Tax differentials within the spirits sector to "de minimis" levels and abandoning its significantly higher import tariffs

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<sup>1</sup> OJ No. C 255, 13.10.1986 (pp. 149-157).

than those applied similarly to Japanese products entering into the European Community;

95. Stresses the need to control discriminatory pricing policies and maintain equitable market prices in the liquor and alcoholic beverages market in Japan;
96. Considers that, in the interests of Community producers and Japanese consumers, the Government of Japan should introduce strict measures to prevent the counterfeiting of alcoholic products and beverages;
97. Notes that there still remain high tariffs on brandy, whisky and bottled wine;

As regards the construction industry:

98. Notes that Japan is the second largest contracting nation in the world after the US, enjoying 15.5% of the world's total construction business;
99. Notes that Japanese contractors have 2.2% (1991) of the market share in Europe, whereas the European Community presence in the construction field in Japan is virtually nil;
100. Believes the Japanese private-sector construction market to be, to all intents and purposes, wholly closed to European contractors;
101. Expresses serious concern about structural impediments facing foreign contractors in Japan as a result of complicated and onerous registration and land acquisition procedures, unjustifiably restrictive bid solicitation (which is inconsistent with GATT principles), reinforced by the anti-competitive Japanese tendering system;
102. Regards with dismay the reluctance of the Government of Japan to stimulate anything more than token participation by foreign contractors in the Japanese market even when construction resources are under pressure of demand;
103. Regrets the reported lack of European Commission assistance to EC construction companies in attempting to obtain contracts within Japan;

As regards the chemical and pharmaceutical industries:

104. Acknowledges that the European chemical and pharmaceutical industries, in spite of difficulties encountered, have a notable record of success in trading with Japan;
105. Notes that exports and investments by the EC chemical industry are hindered by Japan's Anti-Monopoly Law and distribution structures, which together obstruct trade;
106. Expresses serious concern about the predatory nature of competition in Japan's chemical industry, facilitated by arbitrary and discriminatory safety standards;



107. Notes the reportedly inadequate assistance given by the European Commission to the European chemical industry in securing direct investment opportunities and reciprocal competitive conditions;

As regards the leather industry:

108. Notes with concern that Japan continues to impose a 60% tariff on most imported leather, except for a quota dutied at 20% representing less than one day's production of the European leather industry. This prohibitive tariff quota system also applies to footwear;
109. Emphasises that Japan has no significant domestic resource of hides and skins;
110. Notes that the European Community, by contrast, provides unlimited access to leather imports at a mere 3-7% tariff and duty-free ceilings under the Generalised System of Preferences;
111. Notes that the European Community's leather industry is highly competitive both as to price and quality, as evidenced by its success on other international markets;
112. Supports the European leather industry's demand for an immediate reduction of 50% of the 60% tariff currently applied to leather imports into Japan, with a formal commitment to full reciprocity in the leather trade and the abandonment of the tariff-quota system by the end of 1996;

As regards agricultural products & foodstuffs generally:

113. Deplores the anti-competitive ban on all rice imports into Japan; considers this restriction to be grossly unjustified and insists that it be immediately lifted;
114. Deplores the import ban on EC citrus fruits, apples, pears and vegetables;
115. Welcomes the abolition of the commodity tax on fruit juices;
116. Notes that the Commission in its recent Communication on EC-Japan relations rightly expresses serious concern about the Government of Japan's imposition of high tariffs on cheese, processed pork, beef, sugar, confectionery, corn and potato starch;
117. Regrets likewise the quantitative restrictions imposed on milk, cream, skimmed milk powder, butter, and certain fish products;
118. Believes that Japanese phytosanitary, sanitary and labelling measures to be overprotective and extreme, with the effect of unnecessarily impeding EC exports to Japan in the agricultural and food sectors.

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119. Instructs its President to forward this resolution to the Council, Commission, the Governments and the Parliaments of Member States, and the Government and Diet of Japan.

EXPLANATORY STATEMENTI) THE RE-EMERGENCE OF RISING JAPANESE TRADE SURPLUSES

After four years of consistently contracting trade surpluses, Japan has begun in 1991 to post widening surpluses on an accelerating scale. The "trade surplus problem", which so bedevilled Japanese relations with the United States and the European Community in the mid 1980's, is reasserting itself very rapidly and on a substantial scale.

The Japanese current account and trade surpluses rose progressively through the early to mid-1980's to reach a peak of \$ 86 billion and \$ 93 billion respectively in 1986 (and \$ 94 b. and \$ 101 b. respectively in fiscal year 1986-87). After that, they gradually declined to \$ 36 b. and \$ 64 b. respectively in 1990. The current account surplus fell from 4.5% of Japan's gross domestic product (GDP) in 1986 to 0.7% in 1990. During the same period, the value of Japan's exports in dollar terms rose by 12%; the value of its imports by 71%.

Japan has traditionally enjoyed an exceptionally low ratio of manufactured imports to total imports and of manufactured imports to GDP. During the period 1986-90, Japan's performance on the first measure rose from 40% to 50% (the comparable figure in the US is 80%, and in Germany 76%). On the second measure, it improved from 2.4% to 3.4%, still considerably lower than any other major industrialised nation (the figure in the US is 6%, and in Germany 14%).

During the period 1986-90, the EC-Japan trade imbalance stabilised at a deficit figure of around \$ 20 b. per annum. During the earlier part of the 1980's, the deficit had averaged some \$ 12-14 b. per annum. At that time, Japan's surpluses with the EC and the US were broadly comparable in size. Indeed in 1980, the Japan/EC surplus was larger. As the 1980's progressed, however, the Japanese surplus with the US accelerated rapidly, rising from \$ 10 b. in 1980 to a peak of \$ 53 b. in 1987. From then on, the US figure declined gradually, to \$ 38 b. in 1990. The trade performances of the US and the EC thus slowly converged towards a pattern familiar in the earlier 1980's.

Progress in easing Japan's global and bilateral trade and current account surpluses during the period 1986-90 may be attributed to several factors. These include, most notably, strong international pressure, especially from the United States, leading the Japanese government to attempt to reorient its economic growth pattern away from external demand towards domestic demand. The 1986 Maekawa Report, underpinned by the political leadership of the then Prime Minister Yasuhiro Nakasone, represented the high point of a real commitment in Tokyo to "structural reform" of the Japanese economy. Important progress in this direction was underpinned by a serious attempt to ease Japan's remaining formal barriers to imports, especially from the EC and the US - reflected in a series of "market opening packages"- and a sustained period of domestic growth averaging 6% per annum.

The departure of Mr Nakasone in 1987 ushered in a period of political drift during which progress on the trade front was sustained by autonomous factors - most notably high domestic demand, and with it, growing consumer interest in foreign products. As growth however slowed in 1990-91, falling from 6% to 3%, the demand for imports slackened. During these same years, the substantial rise

in the value of the yen, which depressed export growth and increased demand for imports, also stalled.

Whereas the yen rose substantially in the period 1985-87, its value after 1987 remained broadly constant against most other currencies. The time-lagged effect of this change, compounded by lower growth in Japan, was to reduce the on-going appeal of imports and increase the incentive to rely on exports as the motor for retaining growth.

The effects of this new situation have now become apparent. Since the beginning of 1991, Japan's global trade surplus has risen again, for the first time in four years. The pace of this increase has been spectacular. In January 1991, the trade surplus had dipped as low as \$ 1 b. for the month. By October 1991, the figure had jumped to \$ 10 b. for the month. As a result of this sudden shift, the Japanese trade surplus for the first half of the 1991-92 fiscal year (ie April-September 1991) totalled almost \$ 40 b., a figure higher than that for the whole of the previous year.

The Japanese Government has revised its projections for the whole year's current account surplus to some \$ 60 b., and the trade surplus to some \$ 80 b. However, the OECD is predicting higher respective figures of \$ 68 b. and \$ 97 b. for 1991, and \$ 77 b. and \$ 109 b. for 1992 (assuming only 2.5% GDP growth).

As the Japanese trade surplus problem has rebounded in 1991, the bilateral Japan-US component of the surplus has continued to shrink, whilst the EC and ASEAN/Asian NICs components have grown. In some months of 1991, for the first time since 1980, the EC surplus was actually larger than the US one. The total Japan-EC trade surplus is expected to rise to between \$ 25 b. and \$ 30 b. this year, compared with \$ 18.5 b. last year. EC exports to Japan are down 10-15%, with Japanese exports to the EC rising by about the same amount, in yen terms. In dollar terms, the figures are higher.

As a result of Japan's rising surplus, manufactured imports as a percentage of GDP look set to fall for the first time in four years. The external component in total demand will correspondingly rise - to at least 1.7% of GDP (over half the national rate of growth), compared with 0.7% last year. Progress in the direction of the Maekawa reforms has thus not only stalled; it has actually reversed.

The new Japanese Prime Minister, Kiichi Miyazawa, stated before election to the Presidency of the Liberal Democratic Party (LDP) that Japan's trade surplus problem might well have become "insoluble". He admitted that, despite various policies to counteract it, any dip in economic growth seemed to lead to the surplus's dramatic, and politically embarrassing, reassertion. Given that, at its low, the surplus never fell below \$ 36 b. (current account) and \$ 64 b. (trade account) - the baseline established by high growth - Mr Miyazawa's observation seems both insightful and worrying.

## II) THE DISTINCTIVE FEATURES OF JAPANESE TRADE PERFORMANCE

Does Japan's persistent tendency to register substantial global and bilateral trade surpluses pose a serious problem either for its trading partners or for the world trading system as a whole?

Certainly a Japanese trade surplus of \$ 80-100 billion only represents some 2-3% of total world trade (\$ 3,500 b. plus). Equally, for both the EC and the US, trade flows with Japan tend to rate fairly low on any list of major export and import markets by size. In the EC's case, for example, two-way trade with the US, EFTA, the Middle East, the former Soviet Union and Eastern Europe, and the non-oil exporting developing countries are all more substantial than two-way trade with Japan. Japan is only the world's third largest exporting nation, after Germany and the United States. In 1990, the latter two countries exported \$ 410 b. and \$ 393 b. worth of products, respectively, compared with Japan's total of \$ 288 b. France's exports totalled \$ 216 b. and the UK's \$ 185 b. in 1990, with populations less than half that of Japan. Japanese per capita exports are not especially high, by OECD standards.

What then is the particular nature of the Japan trade problem, and why does it prove so controversial and so intractable?

The two fundamental (and unique) characteristics of Japan's trade performance are i) the extraordinary low import propensity of the economy in manufactured products, and ii) the disproportionate concentration of exports in a relatively narrow band of advanced manufactures, where they cause maximum disruption to the market share of producers from other advanced economies (most notably the US and the EC).

Although Japan's global trade surpluses are very high - the persistently highest by far of any one trading nation - it is the particular profile of that trade, with its asymmetrical relationship to that of its trading partners, which makes Japanese trade surpluses so controversial and problematic. When two or three years ago, before unification, Germany briefly slipped ahead of Japan as the economy registering the world's largest trade surplus, there was little if any criticism of the Federal Republic. The difference with Japan was that Germany tended to both import and export a much broader range of goods than Japan: its surplus was both less visible and less disruptive.

Trade figures show that Japan has long enjoyed a surplus with all economic regions and blocs of the world except the oil-exporting countries of the Middle East. (At the low point of the surplus in 1990, Japan also had a deficit with the former Comecon countries and Australia). By commodity, Japan has a trade surplus on all items except fuels, raw materials, chemical products and foodstuffs. Japan's principal exports are overwhelmingly comprised of machinery and equipment of which: 25% transportation equipment, 23% electrical machinery, 22% general machinery, 5% precision instruments, and 7% metal products. Japan's principal imports are correspondingly fuels (24%), foodstuffs (13%), chemicals (7%), textiles (6%), and various raw materials (13%). Machinery and equipment, which represent three quarters of Japan's exports, represent only some 17% of Japanese imports (compared with 6% in the early 1980's). The comparable figure for the US is 37%, for Germany 45%, for France 41%, and for the UK 42%.

The trade profile which results has long been, and continues to be, unbalanced to a striking degree. In many sectors, Japan actually exports less than the OECD average: in ceramics and glass, oil refining and oil products, chemical and rubber, paper and pulp, wood products, leather goods, textiles, food, tobacco, and non-ferrous metals. But perversely, Japan imports less than the OECD average in nearly all these areas as well. Conversely, Japan exports double the OECD average in machinery and equipment and metal products (such as steel), and in these fields imports relatively little.

Japan's overall performance is one characterised by low imports (except on necessities), low exports in many relatively inefficient sectors, and extremely high exports in a specific range of super-competitive manufactured products. These latter products are most notably motor vehicles (15% of total Japanese exports), consumer electronics, office machinery, scientific and optical equipment, telecommunications equipment, and semiconductors and electronic parts.

Japan accounts for 33% of total world exports of telecommunications equipment and less than 1% of imports. For Germany, the corresponding figures are 9% and 6%. Japan accounts for 22% of total world exports of electrical machinery and only 3% of imports. For Germany, the corresponding figures are 19% and 10%. Japan accounts for 31% of world exports of passenger cars and less than 1% of imports. The corresponding figures for Germany are 25% and 7%. Statistics such as these show the dramatic imbalance in Japan's trading performance in certain advanced products and suggest the importance of exports to the nation's overall economic performance.

As the Japanese economy has grown, the super-competitive industries have become ever stronger. For a long time, they have been a major engine for domestic economic growth. Unless the (necessarily limited) domestic market expands very rapidly (as it did in the period 1986-90), the only substantial source of growing demand for these sectors lies abroad. The result is that in many of the areas where Japanese efficiency is renowned, half or more of the output is sent off-shore. In 1989, the proportion was over 75%, for example for typewriters, video cassette recorders, watches, cameras and photocopying machines. These percentages are likely to rise, not fall, as Japan's global trade surplus climbs again.

Japan's towering strength in, and heavy reliance on, exports of manufactured products is reflected in trade figures on the manufactured account. In 1989, Japan enjoyed a manufactured trade surplus of \$ 167.3 b. (compared with an overall trade surplus of \$ 62.2 b.), derived from exports of \$ 251.8 b. and imports of \$ 84.5 b. (In 1986, for comparison, the respective figures were \$ 145.4 b. (\$ 92.6 b.), \$ 194.1 b. and \$ 48.0 b). What these figures reveal is that Japan's manufactured trade surplus has declined during the high growth years, as a percentage of total two-way trade, from a spectacularly high figure of 43% to 35%.

In absolute terms, manufactured exports rose by 30% during the period 1986-89, but manufactured imports soared by 76%. As a result, the manufactured trade surplus edged up by only 15%. Any slackening of import growth - of the kind that began in 1991 - will quickly send this process into reverse, with a rising manufactured trade surplus constituting once again over 40% of Japan's two-way trade.

Despite the fact that external trade constitutes a smaller percentage of GDP in Japan than in either the EC or US, Japan has in fact become more dependent on that trade than any of its notionally more dependent trading partners. Compounding this problem is a consequent tendency in Japan to believe that, reliant on the import of raw materials and the export of manufactures, it cannot afford to import the same kind of high technology, industrial and consumer goods as it produces and exports, on any substantial scale. The comparison with Germany is instructive. Germany is one of the world's largest exporters and importers of motor cars and machine tools. In 1990, Japan exported (by value) nine times as many motor cars as it imported, and six times as many machine tools. Until Japan broadens its import base - whether or not its export performance slackens - it is difficult to imagine that "friction" with trading partners will be significantly relieved.

### III) IMPORT RESISTANCE IN THE JAPANESE ECONOMY

The difficulties to others posed by Japan's high degree of export dependency, especially in high-technology manufactures, are compounded by the continuing problems encountered by foreign producers in securing market access on any substantial scale in Japan.

The import resistance of the Japanese economy is legendary. Japan's import propensity for manufactured goods, currently running at around 3% of GDP, is the lowest of any OECD economy. Its manufactured imports on a per capita basis - that is in absolute value per person - have traditionally been the lowest of any OECD economy except Turkey. The Japanese Government and manufacturers would attribute this consumer reluctance to purchase foreign products to inferior quality, marketing or design. Many Western governments, including both US and EC trade negotiators, would attribute it, at least in part, to what one has called "systematic governmental and government-sanctioned private practices which severely restrict market access in Japan."

There is little doubt that over the last two decades, the Japanese authorities have been engaged in a conscious policy of gradually dismantling a massive panoply of official import barriers built up during the post-war reconstruction and early manufacturing decades to 1970. The most tangible evidence of this has been the progressive removal of tariff and quota restrictions in most all advanced consumer products where they were used to allow a "breathing space" for product development. The few remaining tariffs and quotas that exist relate almost entirely to "traditional" sectors such as alcoholic beverages, leather and leather products, furs, textiles, wood, paper, glass, vegetables, fruits and processed agricultural products. In these sectors, where manufacturers are generally less efficient than competitors abroad, there are often pronounced political constraints on the governing LDP. Spectacular examples of formal import restrictions for domestic political reasons are the total ban on foreign rice in Japan and the 60% tariffs that apply to all but a small percentage of leather imports into Japan.

As the importance of tariffs and quotas has dwindled, other governmental hindrances to trade have assumed growing importance in the eyes of Western critics, and have become the subject of substantial pressure for reform. These have included, most notably, the complex web of often discriminatory technical standards and certification procedures, which tended to be unaligned to international practice and less liberal than those prevailing in Japan's major

competitors. Sectors where such restrictions have been important include pharmaceuticals, chemicals, cosmetics, medical equipment and household appliances. Recurrent problems for importers have been faced as a result of i) the self-certification and intra-industry standards - setting practices which operate within Japanese industry; ii) the frequency and technical detail required of the testing of imported products - which is time-consuming, costly and disadvantageous, in terms of the obligatory publication of sensitive product information by non-Japanese firms; and iii) the fastidious and often burdensome way in which the various import regulations are administered.

The progressive internationalisation and liberalisation of Japanese technical standards and certification procedures, combined with the simplification of their application, has in turn focused attention on more structural market-based deterrents to imports, often only partially amenable to government control. Most prominent among these have been the following mutually reinforcing phenomena:

- the operation of Japan's highly complex and relatively inefficient distribution system;
- the interconnecting group structures of Japan's industrial and financial worlds, with self-contained and self-sustaining blocs of operators, most notably in the Keiretsu systems;
- the producer rather than consumer oriented assumptions which generate, and tolerate, weak competition policy, collusive pricing and formal and informal barriers to mergers and acquisitions within the Japanese market.

With more shops per head of population than any other country in the world, and with the development of large stores restricted by law, the Japanese distribution system remains - to importer and domestic consumer alike - costly, complex, rigid and diffuse. It is characterised by multiple layers, exclusive distribution chains and hefty mark-ups. Closely supporting Japan's six million retailers are no less than four million wholesalers, the latter linked tightly to the former by a variety of mutual support arrangements. Wholesalers in turn are often firmly tied to major manufacturers, especially in a number of sectors of key concern to importers: the motor industry, consumer electronics, household appliances, cosmetics, pharmaceuticals and confectionery. Manufacturers prefer, wherever possible, to use vertically-integrated distribution channels to speed delivery and reduce overheads, converting wholesalers into often "captive" partners or buying them out completely. For a foreign producer to attempt to gain access to such a system is very difficult; to circumvent it is virtually impossible.

As the costs and practical logistics of setting up an independent distribution chain from scratch are almost prohibitive, newcomers to the Japanese market must fall back on existing channels. This can mean negotiating up to four layers of intermediaries before reaching even one retail outlet: foreign and domestic trading companies and both primary and secondary wholesale concerns. Of course, nearly all established trading companies and wholesalers already have Japanese clients manufacturing goods in direct competition with imports. Foreign companies have to promise immediate profits on a fairly major scale if they are to successfully displace or disrupt existing and often exclusive relationships built up over many years. So even if of a higher quality, foreign goods can rarely offer this prospect.

An appreciation of these constraints is important in understanding why so many Western exporters have to limit themselves to products otherwise unavailable in Japan, and against which no domestic competition as such exists. Certain types

of specialised or precision, as opposed to mass production, technical equipment (notably in the medical sector) provide cases in point. More importantly, this situation explains how Western, especially European, luxury products have been able to penetrate the complexities of the distribution system. Pigeon-holed as minority-taste or niche items with a foreign "cachet", they constitute almost by definition little threat to established Japanese mass-produced competition, with high prices a key component of their appeal. This enables manufacturers, trading companies and retailers all to earn substantial profits, at the same time as the consumer enjoys a "positional" good.

The distribution system outlined above dovetails with the dominance of the interconnecting group structures of Japan's industrial and financial worlds. Sometimes, these blocs are based on the classic model of the pre-war Zaibatsu - or groups of banks, trading houses and a whole range of manufacturing concerns - which recombined as "economic families" under the title Keiretsu after the war. In other instances, they are based on new groups brought together in ad hoc configurations but still founded on principles of solidarity and self-reliance. Up to sixteen major groupings, accounting for one quarter of Japanese domestic sales, operate in this way. They build a substantial wall of "internal dependence" and "repetitive trading" by small and large firms alike against foreign competition, except on terms advantageous to the corporate interests of Japan.

The interlocking features of the distribution system and the Keiretsu have been widely criticised by US and EC trade negotiators and subject to a limited degree of Japanese government reform. They featured very prominently in the 1989-90 "Structural Impediments Initiative" (SSI) talks between the US and Japan. Three of the central conclusions of these negotiations were:

- the deregulation of the distribution system, with liberalisation of restrictions on large stores and of resale price maintenance obligations;
- the rendering "more open and transparent" of Keiretsu practices;
- the strengthening of competition policy provisions against exclusive business practices and improving of the transparency of government/business relations.

The distance to be travelled in securing reforms of this character is still very great. Price competition is difficult to secure so long as "dumping" is - unique among GATT countries - recognised as an internal as well as external market phenomenon. This means that predatory pricing between manufacturers is formally barred, one of the reasons why Japanese consumer products are often more expensive in Japan than in other East Asian markets. Collusive pricing is often sanctioned in areas exempted from competition policy - such as transportation and financial services - and resale price maintenance remains in a variety of sectors, including for example the sale of records and compact discs. Where competition does apply, according to the OECD, illegal cartel arrangements are not subject to fines in most cases. Instead, implementation relies heavily on "administrative measures", the majority of which are warnings without significant penalties.

Mergers and acquisitions of existing firms, the quickest way to enter any market, have always been especially difficult in Japan. Japanese business practices, such as widespread mutual shareholdings within the Keiretsu and advance reporting of acquisition intentions to the authorities, have severely discouraged hostile bids. Major foreign investors find that "organic growth" -



starting with a joint venture and than going solo - rather than acquisition is, unique among Western markets, the only practical means of securing a substantial base in Japan.

Companies that eschew these established practices frequently find that various "attrition techniques" are deployed by Japanese competitors to undermine Western entrants. One of the most problematic risks run by importers is counterfeiting in all its forms. Japan has long had very weak domestic legislation for guaranteeing intellectual property rights, whether to safeguard patents (for inventions), design registration (for product styling), trademarks and service marks (for product or company identification), copyrights (for authorship) or trade secrets (for confidential business and technical information). This leads to a lack of protection for both actual and potential importers, who risk having their product range appropriated by Japanese rivals. Luxury items, with distinctive labelling, design or "cachet", are especially vulnerable. Foreign firms often have to wait several years for the registration of patents and trademarks, and then they have to publish detailed technical specifications, which renders their designs vulnerable in the meantime to copying by competing producers. Few legal sanctions exist against false claims of national origin or the pre-emptive registration of foreign trademarks by Japanese firms.

A growing number of Western products have in recent years managed to overcome the cumulative barriers posed successively by remaining tariffs and quotas, customs regulations, certification and testing procedures, the distribution system, the practice of reciprocal purchasing within a group-dominated private sector, difficulties in undertaking mergers and acquisitions and inadequate protection of intellectual property rights. Progress has been made in respect of many of these areas. However, all foreign trade negotiators and in many cases the Japanese Government itself - agree that further concerted efforts are necessary. Until it is undertaken, there is little practical prospect that Japan's exceptionally low propensity to import manufactured products will rise to anything approaching that of its major OECD trading partners.

#### IV) THE GROWTH OF A JAPANESE INVESTMENT IMBALANCE

Whilst Japan's global trade and current account surpluses fell during the period 1986-89 - with the Japan/EC surpluses remaining broadly constant - a dramatic expansion occurred in Japanese investment in third countries, especially in the European Community.

Between 1985 and 1990, Japan's stock of direct investment abroad rose from \$ 83.6b. to \$ 310.5 b., an increase of some 370%. Europe proved to be a particularly favoured destination for such investment. Inward flows amounted to some \$ 14.3 b. in 1990 alone, producing a cumulative total of \$ 59 b. by March 1991. The EC share of total Japanese overseas investment rose from an average of 15% in the period before 1987, to 19% in 1988, 22% in 1989 and 25% in 1990.

The United States continues to have by far the largest stock of cumulative Japanese inward investment. Its total is some \$ 130 b., and has consistently been approximately double that of the EC. The growing EC share has been primarily at the expense of Japan's Asian neighbours. In 1990, the total Japanese investment stock was higher in the EC than in Asia for the first time. Early figures for 1991 suggest that this gap is continuing to widen. Asia was the first region to receive inward investments from Japan when the latter began

to internationalise production. As that process has continued, the EC has become, after the US, the next main target.

Today, Japan's total overseas production remains low by international standards, equivalent to only 8% of domestic production. The comparable figure both for the major EC economies and for the US is around 20%. Of Japan's direct foreign investments, only about a quarter are in fact in manufacturing (mainly electrical equipment). The larger non-manufacturing component is concentrated in banking/insurance, general services and property, in that order.

The main targets of Japan's growing investments in the EC have been the United Kingdom and the Netherlands, which have 38% and 22% of the total respectively. Luxembourg boasts 9%, Germany 8% and France 7%. The main advantages enjoyed by the UK and Netherlands appear to lie in the prevalence of the English language and the relatively simple tax structures of these countries.

The growth of large-scale Japanese investment abroad has not been matched by EC or US investment in Japan on any comparable scale. Total foreign investment in Japan reached a cumulative level of \$ 18.4 b. in 1990, equivalent to only one seventeenth of Japan's investments abroad. A majority of these assets have been built up since the mid 1980's, with 48% held by North American investors and 27% by European investors (notably German, Dutch and Swiss). However, US investment has been falling in recent years, in both absolute and relative terms, and is now less than \$ 1 b. per year. The corresponding EC figure has been rising, although somewhat erratically, and is now some \$ 1.4 b. (out of an annual total of \$ 2.8 b. in 1989 and 1990).

Foreign investment is concentrated in manufacturing (65%), with Japan viewed as a simple production base rather than a broadly-based platform for a range of corporate activities. Half of all foreign manufacturing investment is in specialist precision machine tool equipment (which Japanese manufacturers have tended to eschew in favour of mass production models), and a third is in chemicals (where the domestic sector is unusually weak). As a result, foreign investment in Japan does not follow the normal pattern of broadly-based inward investment among industrialised economies. Instead, it suggests an asymmetrical relationship in investment flows between Japan and both the EC and the US, not dissimilar to the obvious asymmetry which exists in respect of trade flows.

## MOTION FOR A RESOLUTION

by Mr ROBLES PIQUER

pursuant to Rule 63 of the Rules of Procedure

on the creation of a framework for economic cooperation between Japan  
and the European CommunityThe European Parliament,

- A. having regard to the significant levels of economic development achieved by both Japan and the European Community and the influence of both throughout the world,
- B. whereas it is essential that both economies should assume the role of solidarity required of them from all quarters, whether from the Third World or from the countries which are now recovering their freedom,
- C. whereas economic cooperation between Japan and the European Community on an organized and rational basis would be of indisputable benefit to all of humanity,
- D. whereas it would therefore be desirable to create a framework for economic cooperation between the two societies, within which economic activity would be carried out both for their own benefit and for that of the countries which require their cooperation and solidarity,
  1. Calls for the creation of an overall framework for economic cooperation between Japan and the European Community;
  2. Calls for this framework to encourage both productive mutual cooperation and the consolidation on the basis of solidarity of development aid to third countries in need;
  3. Recommends that such a framework should be based on a treaty of economic cooperation.

MOTION FOR A RESOLUTION  
by Mrs MUSCARDINI  
pursuant to Rule 63 of the Rules of Procedure  
on steel imports from Japan

The European Parliament,

- A. whereas Japan will this year be suspending its system of voluntary restraints on steel exports to the EC, which has been in operation since 1985,
  - B. whereas market prices for steel are higher in Japan than in Europe,
  - C. whereas Japanese steel exports to the EEC rose in 1990 to 411 000 tonnes an increase of 44.7% compared to 1989,
- 
- 1. Calls on the Commission to draw up a plan for subsidies to overcome the crisis in the European iron and steel industry;
  - 2. Calls for measures to ensure that Community imports from Japan do not in practice exceed the quotas fixed in the trade agreements between the EEC and Japan.

MOTION FOR A RESOLUTION  
by Mr. CARVALHO CARDOSO and others  
pursuant to Rule 63 of the Rules of Procedure  
on vulnerability to Japan in the electronics field

The European Parliament,

- A. whereas a report published in the Japanese English-language newspaper Mainichi Daily News on 29 January 1991 states that the United States would be unable to maintain its current war effort without the help of Japanese industry,
- B. whereas this report, signed by the newspaper's Washington correspondent Rikuo Sato, points out that the United States depends entirely on imports from Japan in seven areas, including ceramics, microchips, diodes and transistors,
- C. whereas, according to a paper by the American Electronics Association, thirteen components of American weaponry are now imported from Japan,
- D. whereas these reports confirm the accuracy of the celebrated statement in Shintiro Ishihara's book, The Japan that can say no, that if Japan refused to sell Washington any more microchips, the Pentagon would be totally defenceless ... although this could lead to renewed military occupation of Japan by the United States,
- E. whereas the situation in the European Community would appear to be much worse than that in the United States,
  1. Calls on the Commission to assess seriously the risks that this situation poses for the Community, in time of peace and in time of war;
  2. Asks the Commission to submit a report on this subject as a matter of urgency.

MOTION FOR A RESOLUTION

by Mrs MUSCARDINI

pursuant to Rule 63 of the Rules of Procedure

on the negotiations between the European Community and Japan to liberalize trade in leather and leather goods

The European Parliament,

- A. having regard to the 60% increase registered over the last five years in the amount of leather and leather goods being sold in Japan, due partly to imports from outside Japan and partly to greater penetration of the market by Japanese leather manufacturers,
- B. whereas the basic duty, at the rate of 60%, levied by Japan on imported leather goods was discussed at the negotiations between the European Community and Japan, where it was agreed that the rate would be reduced to 40%, although this rate is still considered to be too high by the European leather industry,
- C. noting that this reduction in the protective duty from 60% to 40% and the 15% increase in the current absurdly low import quotas have the effect of heavily penalizing the European leather industry, which employs 70 000 people and has an annual turnover of ECU 10 billion,
  1. Calls for measures to abolish the inflexible regulations governing imports of leather into Japan;
  2. Calls on the Community to launch a programme to permit the European leather industry to gain access to the Japanese market and to replace the system of tariffs and quotas that so heavily penalizes exports from the European Community;
  3. Calls for the introduction of a directive containing measures to aid the European leather industry, currently faced with the additional problem that leather exports from Third Countries account for 25% of the total market.

**MOTION FOR A RESOLUTION**  
**by Mrs MUSCARDINI**  
**pursuant to Rule 63 of the Rules of Procedure**  
**on the EEC-Japan agreement on tanned hides**

The European Parliament,

- A. whereas, in the next few days, the Community will enter into negotiations on the renewal of the three-year agreement with Japan on trade in tanned hides,
- B. whereas the present quotas proposed by the Japanese authorities as a basis for negotiations are equivalent to 1-2% of production and to some two days' worth of processing in Europe,
- C. whereas Japanese tanners are the largest purchasers of American, Australian and New Zealand raw hides,

Calls for:

- 1. decisive action by the Community to thwart the Japanese proposals;
- 2. a Community directive regulating imports of tanned hides and setting a ceiling for purchases of European raw hides, to be taken therefore from supplies available in the Community and subject to a speculative rise, by Japanese tanners.

## MOTION FOR A RESOLUTION

by Mrs MUSCARDINI

pursuant to Rule 63 of the Rules of Procedure  
on the EEC-Japan negotiations on tanned hidesThe European Parliament,

- A. whereas, during the GATT negotiations on tanned hides, the Community has decided to accept the Japanese offers on the three-yearly renewal of the bilateral agreement,
- B. whereas the quotas proposed by the Japanese penalise the Community industry, and in particular the Italian industry, the largest in the sector, which accounts for 50% of production,
1. Calls for a Community directive imposing reciprocity on countries which practise protectionism on raw or semi-processed hides, or against countries which obstruct Community exports of tanned hides;
  2. Calls for a Community directive controlling European stock to guarantee an adequate supply to the tanning industry;
  3. Calls for a directive to guarantee the protection of consumers against fraud and imitation hides via the establishment of a seal of quality;
  4. Calls for a directive promoting the 'made in Europe' concept, to help the tanning industry and indirectly to assist European products.