The Implications of Maastricht for Japan

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The meeting between the leaders of the 12 member countries of the European Community in Maastricht on 9 and 10 December will be remembered for two things: for laying the foundations of a political union between the member countries and for Britain's objections to almost everything that the other 11 countries wanted to achieve. Both of these things will have implications for Japan's interests in Europe.

At Maastricht, the 12 leaders agreed to establish a European Union consisting of the existing European Community, a new economic and monetary union and a political union. They also agreed to extend the decision-making responsibility of the EC into the areas of consumer protection, health, education, and European networks for telecommunications, transportation and energy. Decisions in these areas will be taken on a qualified majority basis. This implies that unless a proposal is opposed by a coalition of two large and one small country it will become EC law.[1] An extension of the policy-making competence of the EC will inevitably bring about more uniformity in the Community. It will be easier to do business within the Community because economic differences between its member countries will decline.

Anything that makes it easier to do business in the EC is good for foreign investors and, by implication, it is also good for Japanese firms. But there two potential problems which may have a negative effect on both EC and non-EC firms. The first problem is that greater centralisation of economic policy-making in Brussels may result in more interventionism in the economy. One of the outcomes of the Maastricht summit that has received little attention was that France did not succeed in convincing its partners to implement an industrial policy while Britain did succeed in inserting in the treaty a "subsidiarity" clause. This clause states that in principle decisions will have to be made as close as possible to the people who are affected by them. This is a guarantee against over-centralisation. But only practice will show that indeed the EC will remain a decentralised economy in the face of considerable pressure for interventionism from those who think that the "1992" process has opened up the Community to too much competition from other countries.

The other potential problem for the European economy was an agreement by all the member countries except Britain to establish a Social Charter. This Social Charter guarantees the rights of workers by stipulating things such as appropriate conditions of employment and participation of workers in the decisions of their companies. Much of the detail in the Charter is innocuous and most of the rights it mentions already exist in many European countries. Britain objected to the Charter not because of its present contents but because it may lead to more interventionist policies in the future.

The Social Charter itself is unlikely to have any considerable negative effects on Japanese companies. Those Japanese companies operating in Europe already follow many of the Charter's prescriptions. For those Japanese companies operating outside Europe the Charter may actually prove to be beneficial. Indeed one of the arguments used by Mr John Major, the British Prime Minister, was that burdensome labour regulations would reduce the competitiveness of European companies vis-à-vis their American and Japanese rivals.

What should concern Japanese companies is not the prospect of social legislation but the fact that Britain's opposition to such legislation may lead to its isolation in other issues as well. About half of all Japanese direct investment to Europe is located in Britain. So far Britain has protected their interests well by favouring liberal trade and investment policies and by defending them against the more interventionist policies of France and Italy. The British position is based on sound economics, but for the big Japanese companies relying too much on

Britain may prove to be a defective strategy in the long term.

The prospect that Britain may become to a considerable extent economically isolated from the rest of the Community is not farfetched. The treaty on economic and monetary union allowed Britain to "opt-out" by reserving the right not to join the monetary union which was agreed that it should be established at the latest by 1999. If Britain eventually decides against membership of the union it will be difficult for it to retain its leading role in the EC.

With or without Britain the EC's future currency will most likely rival the US dollar. As new countries become members of the EC (five countries including Austria and Sweden have already applied for membership) it is quite likely that the European currency will become the main currency in which trade is transacted and reserves are held.

In summary, the results of the Maastricht summit are on the whole not contrary to Japan's interests. Anything that will bring greater political stability in Europe are to everybody's interests. Nonetheless, Japanese investors will have to re-evaluate the distribution of their direct and portfolio investments within Europe. Some change in investment strategy will be necessary both because of politics and currency reasons.

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[1] The voting structure of the EC is such that large countries have more votes than small countries. The total number of votes is 76. A decision made on the basis of qualified majority requires at least 56 votes.