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EUROPEAN COMMUNITY OPTIONS IN THE PACIFIC

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The European Community's growth prospects are heavily predicated on gains from intrazonal trade by Community firms as advances are made toward full internal market integration. Those gains have to be achieved in generally unequal competition against American and Japanese enterprises producing in or exporting to the Community, with the advantages of larger resources, technological leads, and wider shares of outside markets. To the extent that European firms succeed in this competition they will be able to operate more efficiently in external trade, and may recover losses caused by US and Japanese expansion in foreign markets over the past decade and a half.

The drive for full market integration absorbs much attention in the Community's decision processes because of the range and complexity of issues relating to the elimination of nontariff barriers, since these issues have extensive implications for the domestic political interests of member governments. Numerous problems about structuring Community institutions for more comprehensive and more efficient collective management also engage attention, especially because of the manifest need for a form of monetary union that will facilitate transactions in the integrated market. Questions about the Community's external economic relations thus tend to be neglected, that is in the activities of the European Commission and the Council of Ministers, and in related intergovernmental exchanges. Serious challenges are being confronted in the global economy, however, especially because of losses of shares in external markets. As these continue European firms become less capable of implementing transnational production strategies on a global scale, in rivalry against US and Japanese enterprises, and remain dependent on arm's length exporting of technologically somewhat inferior products to foreign markets. The more competitive US and Japanese firms, meanwhile, gain advantages in world markets which facilitate greater penetration of the Community market. Further enlargement of the Community through the absorption of other European states can ensure a stronger bargaining position in the global trading system, but on present indications the contraction of Community shares of world markets is likely to continue.

The issues in external economic relations concern both the common and the distinctly national interests of member states. The latter differ greatly, that is in the perceptions of national administrations, with respect to the scale and type of involvement in foreign markets. The principal contrasts relate to the technologically more advanced exports of manufactures by Germany, France, and Britain and the exports of commodities and low technology products by Southern member countries. The common interests of Community members, implicit in many official pronouncements about full market integration, are to acquire larger shares of world markets in cooperative rivalry with the USA and Japan, on the basis of more balanced and more dynamic growth within the Community as a whole. Realisation of those external interests, if there is sufficient consensus to strive for them, will require a very active common industrial policy, linked with a supportive foreign direct investment policy.

For more active Community involvement in the global economy there clearly must be emphasis on opportunities in high growth areas. The Pacific thus deserves priority, and this can be asserted with special reference to Japan, South Korea, Taiwan, and members of the Association of Southeast Asian Nations. The most significant European losses of global market shares have been in East Asia, but thus far little has been done to evolve a concerted response. A Community wide consensus for vigorous engagement in the Pacific is needed, but is not being generated. Of the major Community members Germany has the most substantial links with the market economy states of East Asia and North America, and Germany would benefit most from a Community effort to develop commerce on a larger scale with Pacific states.

A rationale for economic cooperation with Pacific states could be formulated with emphasis on potentials for industrial collaboration, to promote widening complementarity, with efficiency gains by European firms and also by enterprises in Southeast Asia whose development has been hindered by import substitution policies. The rationale would have to refer to trends in the Pacific regional political economy, and especially to moves for the establishment of a consultative association for Pacific economic cooperation. In such an association the USA could exert strong leverage as the central power in a North American Free Trade Area, and possibly also as Japan's partner in a free trade arrangement with special sectoral provisions. The rationale for European engagement in the Pacific could suggest a strategy for European participation in shaping a Pacific system for regional economic cooperation, on the basis of experience gained in the building of the European Community, and with reference to the need for a balanced pattern of interdependent Pacific growth, rather than one which could assume strongly hierarchical features under US and Japanese influence.

<u>The European Regional System</u>

The European Community is moving through an intermediate stage of regional economic integration toward an economic union, in which monetary, fiscal, and industrial policies will be harmonised for effective management of a unified internal market. The progress toward economic union is being led by the European Commission with the support of major industrial groups, especially in the larger and more advanced Community members, and it is based on general awareness that slack growth in the Community over the past two decades has been attributable to forms of market separation that have protected and restricted the development of European firms, while in effect encouraging forms of interest representation opposed to market integration. The persistence of forms of market separation within the Community had hindered the development of Community involvement in the world economy, and had caused that involvement to assume an increasingly uneven pattern, with the less industrialised member states falling behind Germany as exporters to the rest of the world.[1]

The Community's system of collective management is substantially collegial, as an emerging regional political culture is evolving through multiple links between national and community policy processes, especially in the context of extensive intergovernmental consultations. The political cultures of the member states however remain distinctly national, as there has been only a limited regionalisation of interest representation processes and no regionalisation of political parties. Transnational interest representation on a Community basis has developed in a consultative association of industry groups which interacts with the European Commission, and this association strongly supports the Commission's drive for market integration, but the bulk of the enterprises included and the very large number of smaller firms with localised operations retain strong national ties, and their concerns have vital importance for ruling political parties.Office is retained by these parties through political exchange processes that are often more significant than the favorable or unfavorable overall effects of macromanagement. The largest and most powerful industry groups, moreover, are German, and are identified with a well integrated national political economy which has a neomercantilist ethos that is being strengthened by the consolidation of a dominant position in the Community market. Industry groups in France and Britain are smaller, are not represented by strong peak associations, and are not functioning in strong active partnerships with their national administrations. The scope for transborder cooperation therefore is limited, and there is even less scope for cooperation with industry groups in the Southern Community members.[2]

Corporatist interest representation parallels electoral choice with reciprocally functional effects in Germany, ensuring stable high quality macromanagement, and reinforcing the neomercantilist ethos, at some cost to community formation in the European context. The development of a spirit of integrative cooperation is thus somewhat discouraged in all the other Community members, as their economies are less competitive. In their political systems public choice is mostly very conflicted, and, of the larger members with status as major prospective coalition partners for Germany in Community governance, neither France nor Britain offer stable cooperation on terms according with German neomercantilism or encouraging German reorientation toward more integrative collaboration. In France the evolution of a social partnership like Germany's has been prevented by a strongly individualistic and ideologically divided culture, while electoral choice arrangements have been subordinated to the requirements of a strong executive which operates under ideosyncratic presidential preferences. For the present these favor continuation of a recent tradition of alignment with Germany in the leadership of the European Community, and for the Germans this has been politically and economically advantageous, while for France it has offered possibilities of drawing Germany more deeply into the Community's system of interdependencies. Britain, a potentially less useful coalition partner for Germany because of reluctance to support deepening integration in Europe, also lacks a social partnership, because of its strongly individualistic culture and the class cleavages associated with that culture. Electoral choice can cause wide swings of emphasis in British policy, because of the breadth of the cleavage between the Conservative and Labour Parties, but even if there is a prospect of continuity the possibilities for improved macromanagement tend to be very uncertain, especially because of the difficulties of building a social partnership.[3]

Collective management in the European Community is a process of limited confederalism, in which functional imperatives deriving from market integration give some impetus to endeavors to build a federal system, for effective market governance. Such functional imperatives are being given expression in the European Commission's efforts to promote deepening integration, through wider policy harmonisation and institutional development, but member governments operate competitively, while mostly cooperating with the integration endeavor, in order to serve domestic purposes relating to growth, employment, and inflation. Favors are shown to national firms, within restrictions imposed by officially endorsed Community competition rules, and efforts are made to provide attractive environments for foreign direct investment, often with preferences for American and Japanese firms.[4] The various national business communities are undergoing rapid changes because of mergers and acquisitions as well as new entries, all encouraged by the drive for full market integration, and the complex new pattern is replacing localised with cross border commercial ties, but it must be stressed that home country bonds remain strong, and that many national enterprises continue to look to their governments for diverse forms of support. Such quests for support must be expected to increase in France, Britain, and other less competitive Community members as gains are made in the integrating market by German, American, and Japanese enterprises, and as prospects for a balanced spread of benefits from liberalised intrazonal commerce become uncertain.[5]

Stronger community formation as a basis for more active collective management may well be hindered by dissatisfactions with the spread of gains from market integration. This possibility has become more significant since German unification, which has increased the dimensions of the German economy while overcoming a status discrepancy and thus opening the way for greater German assertiveness in European affairs. Dissatisfactions among the other Community members may grow not only because of likely gains by German and outside firms but also because of resentments at the monetary and fiscal restraint virtually imposed by Germany on other Community members through the European Monetary System - restraint that may become stronger as that system evolves into a form of monetary union. Strains within the Community may also increase because of the effects of political measures to cope with the uneven spread of gains from trade. French association with Germany in the leadership of the Community may be qualified by alignment with other members, for increased leverage in Community affairs.[6]

Management of the Community's external economic relations in line with the requirements of internal market governance is hindered by the difficulties of resolving issues in the structuring of more effective Community institutions. While a common external tariff is maintained, member states retain considerable discretion in the control of access to their own markets by outside states and in dealings with those states on questions of access to their markets through trade and direct investment. The loose system of Political Cooperation for the coordination of European foreign policies is not being strengthened for purposes of economic cooperation, and the present pattern of trade and aid relations managed under the Commission's auspices is not being expanded. An enlarged agenda of external trade issues has to be addressed in the current GATT round, but substantial opposition within the Community to US proposals for reduced agricultural protectionism is forcing concentration on that issue, thus indirectly opening the way for completion of the round through a compromise that would modify the Common Agricultural Policy while virtually terminating consideration of US demands for the liberalisation of trade in services and of national policies on foreign direct investment. On issues concerning the monetary aspects of external trade the Community has no formal responsibility, and it has no active role in the international monetary system. Germany, France, and Britain are involved in the management of that system as individual states and as members of the European Monetary System, with Germany in a central and very independent role. 7

The principal challenge in the global economy is to undertake more competitive involvement in high growth areas from which aggressive market penetration is being experienced. The Pacific thus has to demand attention, and whatever is attempted in that area will have major consequences for European involvement throughout the international trading and monetary systems. The Community has assumed welfare obligations in its economic cooperation arrangements with ACP countries under the Lome Agreements, but what it can contribute to their development will depend on the growth attained in the intensely competitive context of relations between the industrialised and the newly industrialising countries.

Euro-Pacific Interdependencies

The European Community's principal external economic links are with the USA, Japan, and the industrialising market economy East Asian states. Large but asymmetric structural interdependencies have evolved, in a hierarchical pattern reflecting contrasts in the competitiveness of firms and in levels of macromanagement performance by national administrations. Policy interdependencies have resulted, on account of the dimensions of the structural interdependencies, and because of policy interactions, in bilateral and multilateral contexts, but on the European side these have been managed distantly, except with the USA.

The most important structural interdependencies have developed between major Community members and the USA, with imbalances because of the weaker competitiveness of European firms and their service of the American market mainly through exports. US firms have served the European market more through production in Europe than through exports. The interdependence is high, because of the volumes of trade and transnational production, but is lower than it might otherwise be because of high levels of European agricultural protectionism. The asymmetries are tending to become more pronounced because of the accumulating effects of weaker European competitiveness - especially because of the technological consequences - and also because of a large flow of US direct investment into the Community, in anticipation of the opportunities of complete market integration. The positions of European firms in their own market are affected by that flow. 8

On the European side Germany is the principal trading partner, with a large lead over France and Britain in higher technology manufacturing for export. This lead is tending to increase because of the superior dynamism of German industries, which benefit from the clustering of centers of innovation and from the X efficiency generated in the social partnership between government, management, and labor. 9 German export capabilities tend to be strengthened by the consolidation of the dominant position that has been attained in the Community market. Britain ranks next after Germany in Atlantic trade relations but is handicapped by protracted industrial decline which has reduced capacities for competitive exporting of manufactured products. France and Italy follow in the ranking of European exporters to the USA, and in this trade Italy has been gaining on France. For each of the four Community members exports to the USA average about 10% of total exports to industrialised countries, and most of these are sales within the European Community. On the American side exports to the four Community members are about 15% of exports to all industrialised countries. There are unfavorable balances, especially with Germany, but in US commerce with the Community as a whole there is now a modest surplus, resulting from increases in US exports since the decline of the dollar in the mid 1980s.

The degree of balance in Community trade with the USA reflects the presence of high volume intraindustry commerce, which is conducive to a stable relationship, but there is a large imbalance in the transnational production dimension, because US exports are greatly exceeded by the volume of US manufacturing in Europe for the Community market, and that is much larger than European production in the USA. The interdependencies resulting from cross investment however are difficult to quantify because of inadequate information about the scale of US business activity in Europe and of European business in the USA. As indicators of levels of interdependence moreover the available figures on cross investment, which are based on unrevised book values, have to be interpreted with some appreciation of the degrees to which many of the transnational enterprises, especially the US ones operating in Europe, are becoming footloose multinationals, with weak home country ties, detached from the national economies between which they have built interdependencies, and now developing their own interdependencies as stateless actors in the global economy. Assessment of the transnational production interdependencies in Atlantic relations moreover is made all the more difficult by the involvement of firms on each side in joint ventures and linkages with host country enterprises and with cross border partners. Within the Community the main host countries for US firms are Germany and Britain, and location advantages in Germany are becoming more significant[10]

Structural interdependencies between the European Community and Japan are smaller than those in the Atlantic context but are developing more rapidly because of intensive Japanese efforts to gain shares of the Community market, and a growing Japanese openness to Community exports. The Community's trade with Japan is less than half its commerce with the USA (now approaching $100,000 million each way) and there are large imbalances, as the exports are only about half of the imports. The imbalances are declining slowly, but in part because of increases in Japanese manufacturing within the Community. There is little Community investment in Japan, but Japanese direct investment in Community members is being attracted by opportunities to gain strength in the integrating market, in advance of any shifts to increased protectionism by the Community after full market integration. Japanese exports to the Community have been increasing despite very discriminatory measures by member states, especially France and Italy, to restrict access to their markets. With full market integration the Community's adoption of a uniform system of controls on market access may well result in higher levels of effective protection against Japanese products.[11]

Germany is the leading Community exporter to Japan, and is relatively more open than most other members to Japanese exports. German export successes, which have pushed sales to Japan up toward the $10,000 million level, and which have been increaasing faster than higher volume Japanese exports to Germany, have been based on competitive marketing of high technology manufactures. These exports have been growing faster than German exports to the USA, which are about three times higher, and are evidently acceptable to Japan because of the size of the German market as well as because of its significance as a means of entry to other Community markets. Britain, France and Italy lag well behing Germany as exporters to Japan, and in the British case the lag reflects industrial decline, which has not been compensated for by British endeavors to attract Japanese direct investment and to earn Japanese goodwill by opposing antiJapanese European protectionism. Germany has been aligned with Britain in opposition to that protectionism, while France, Italy and Spain have favored severe discrimination against the Japanese, in retaliation for percieved unfair Japanese trading practices.[12]

The growing economic bonds between Germany and Japan have asymmetries, not only because of the trade imbalance, but also because there is little German direct investment in Japan to balance Japanese direct investment in Germany, or in other Community members that may be aimed at the German market. The Japanese investment is increasing in a way that is tending to diminish the importance of Britain as a location for such investment, and this trend reflects Germany's importance as the primary supplier of technology and financial support to East European countries and the USSR, as well as the very strong position ot Germany in the Community market. The clustering of dynamic centers of innovation in Germany offers superior location advantages to Japanese firms producing in Europe, and there is a large potential for technological cooperation as well as coproduction arrangements between German and Japanese firms.[13] For German firms moreover collaboration with Japanese enterprises can open the way for more involvement in South Korean, Taiwan, and Southeast Asian markets already penetrated by Japanese exporters.

Germany's importance in Euro-Pacific commerce has a financial dimension that has considerable significance for the European Community and Japan. The German mark is the dominant currency in the European Monetary System, and German influence is largely responsible for maintaining that system as a zone of monetary stability in Europe, protecting Community members against the effects of swings in the value of the US dollar, and exerting some pressure on the USA for management of its monetary policy in the interests of stability in the international monetary system. Japan has much less influence on US monetary policy, despite US dependence on Japanese investors to finance a large part of the federal government's fiscal deficits, and Japan benefits indirectly from the stabilising German role in the Trilateral pattern of monetary relations. That role, meanwhile, is aided by the strong and stable role of the Yen, especially because increasing international use of the Yen reduces general vulnerabilities to volatility affecting the dollar.[14]

With the internationalisation of financial markets German as well as other Community firms have greater access to Japanese funds, and benefit from aggressive Japanese entries into the world banking system. The close links between German banks and industrial enterprises remain secure, but a considerable expansion of Japanese financing for German industry seems probable, and will tend to induce greater consideration of Japanese interests by German economic policymakers. Stronger pressure by those policy makers on the USA for measures to promote international monetary stability can become feasible as financial links between Germany and Japan become more extensive. For Germany and Japan such pressures have a potent rationale because of the effects of diverging concerns in the management of the domestic and international aspects of US monetary policy, and the significance of US monetary measures as instruments of trade policy.

For the Community as a whole the involvement of Japanese institutions in its financial markets offers possibilities of additional support for the expansion of European firms exploiting the opportunities of full market integration. Competition against the numerous US enterprises within Europe may thus be aided, and expansion of the Japanese manufacturing presence in the Community may be somewhat restrained. For the present, however, fears of Japanese economic penetration have potent influence in French, Italian, and Spanish policy processes, and thus tend to prevent consideration of potentials for mutual benefit in Euro-Japanese relations.[15]

The East Asian states seeking to follow Japan's path of outward oriented industrialisation tend to be viewed with some apprehension because of their capacities for market penetration. Their exports of low technology manufactures challenge many of the small firms in the Southern Community members, and thus may to a degree slow the growth of those members in the integrating market.

Community trade with South Korea, Taiwan, and Singapore approaches the level of its commerce with Japan: exports to those three states totalled $16,900 million in 1989, that is about $6,000 million below Community exports to Japan, which they are tending to overtake because of somewhat faster growth. Deficits in Community trade with the three Newly Industrialising East Asian states are modest compared with those in commerce with Japan, but there is a basis for Community fears that these deficits may rise as Japanese direct investment contributes to further outward oriented industrialisation in South Korea, Taiwan, and Singapore. Germany and Britain are the main Community traders with those three states, and Germany has small favorable balances, achieved apparently at some cost to Britain, whose trade with the three has been substantially in deficit. French and Italian commerce has lagged well behind that of Germany and Britain, and in part this appears to have reflected German and British leads in exports of capital goods to those three states. The development of transnational production links associated with this trade has been on a very small scale, except in the case of Singapore, where the economy has been very open to foreign direct investment. Indirect transnational production links result from Japanese direct investment in South Korea and Taiwan that contributes to exports from those states to Europe.

With the larger members of the Association of Southeast Asian Nations the Community has smaller trade links, which have developed mainly because of commodity import requirements and opportunities to provide capital goods. European commodity needs have been large, but imports from these countries have been smaller than Japan's, in part because roughly 50% of those needs have been satisfied by purchases from the USA and other advanced countries, and in part because of slack industrial growth in most Community members. Imports of low technology manufactures from Southeast Asia have been increasing, especially because of the growth of industrial capacity in Thailand and Malaysia, but there is considerable European discrimination against such imports. This, in conjunction with similar discrimination by Japan and the USA, limits opportunities for Thai and Malaysian firms to move into higher technology manufacturing for export. Such transitions are made difficult because of the effects of import substitution policies that have been implemented with inferior technocratic skills and much corruption. For the Association of Southeast Asian Nations as a whole the Community's ranking as a trading partner is below those of Japan and the USA, and it is uncertain whether the growth effects of full market integration will significantly increase imports of Southeast Asian commodities and low technology manufactures. Firms producing such manufactures in the Community, especially in its Southern members, will have fuller access to the markets of other members, and will no doubt exert pressures to ensure that such access will not be lost to Southeast Asian suppliers.[16]

Community trade links with the market economy Southeast Asian states have not opened the way for any significant transnational production bonds, except those resulting indirectly from Japanese investment that has been related to service of the European market. European direct investment in the area has been on a small scale, mainly because of the growth retarding effects of market separation within the Community, as these have restricted the development of capacities for overseas production by European firms. German enterprises have had the most significant capacities to support overseas production ventures, but their established preferences for exporting from the home economy have limited their involvement in Southeast Asia, as in other nonEuropean areas.

Altogether, the pattern of Euro-Pacific interdependencies reflects substantial European disadvantages, because of Japanese and American competitiveness.[17] These disadvantages are all the more significant, moreover, because the interdependencies are managed distantly, with a limited range of measures, and with difficulties resulting from insufficient cohesion within the Community. The European states have cultural affinities with the USA, not with the East Asian market economy countries, and political bonds with the USA have been weakening over the past two decades because of trade conflicts, differences over questions of European security, and losses of European confidence in the macromanagement capacities of US administrations. The weakening of the European Community's role in the global trading system has given greater significance to conflicts of interest in the relationship with the USA, and the attainment of increased competitiveness in that relationship has been the main objective of the drive for complete market integration. Differences regarding European security have now been altered by changes in Eastern Europe and the USSR, and these have encouraged the development of a more independent Community approach to both superpowers.

Community Policy

The European Community members endeavor to concert their foreign policies through a loose consultative system of Political Cooperation, while interacting on a confederal basis to manage a common external tariff and to cope with internal requirements and external challenges to evolve a comprehensive foreign trade policy. The Political Cooperation functions on an ad hoc basis, and the extent to which it moves into areas of foreign economic policy depends on identities of preferences influencing the Franco-German partnership, which is the main source of leadership and orientation. These identities relate principally to the European environment, in which the most salient issues concern the virtual absorption of the EFTA members and the development of cooperation with East European states and the USSR. The French interest is to draw Germany deeply into a Community process of policy harmonisation and institutional integration, while the German interest is to retain French collaboration for joint guidance of Community affairs. Outside the European environment the identities of interest diminish, and with respect to the Pacific they diverge considerably because of Germany's larger and more promising involvement, and France's more defensive orientation, as well as because of a French interest in Africa, which is more active than Germany's in that area and which has had a major influence on the Community's relations with Third World countries.

Activities in the system of Political Cooperation reflect tension between the German administration's efforts to assert influence in the Community's evolution, on a scale appropriate for the consolidation of its economic domination, and the French concern to identify with Community members sharing apprehensions about that domination. The effects of this tension are complicated by political asymmetries, as the German policy orientation is more stable, because of broader elite consensus, and is more functional. Additional complications result from Britain's involvement, which seeks mainly to slow the entire integration process , in conflict with French preferences but with antipathies toward Germany, while preserving a special relationship with the USA.[18] That relationship, obligating respect for US interests, could well be a source of opposition to any design for more active Community involvement in the Pacific, despite an emphasis which British policy has given to the attraction of Japanese direct investment.

The confederal management of external economic relations, within the formal scope of Community institutions, has an area concentration related to the European environment and a degree of substantive issue concentration deriving from the treaty basis of Community activity. Inadequate engagement with intraCommunity needs for wider ranging foreign economic measures tends to perpetuate a situation in which the uneven spread of gains from intarzonal trade is matched by an uneven spread of gains from external commerce, on account of the contrasts in national competitiveness between Germany and the other members. The Community has an incomplete Common Commercial Policy, as member states have sought to retain varying degrees of control over access to their markets and have failed to work together for the development of a comprehensive approach to the management of trade interdependencies.[19] To the extent that common preferences have been expressed the orientation of the policy has been significantly protectionist, to foster intrazonal commerce while limiting foreign penetration of the Community market. There are no elements of a common export led growth strategy directed at the outside world. Among the member states however Germany has been committed to such a strategy, and German interest in implementing it on a widening scale is the principal source of restraint on Community protectionism.

The Common Commercial Policy, required under article 113 of the Treaty of Rome, is incomplete because of the persistence of national protectionist measures, direct primarily against outside states but with effects on intrazonal commerce. National restrictions on market access from outside the Community are made effective under article 115 for the purpose of limiting access for the designated external products from Community members that have no restrictions on such products. The European Commission is endeavoring to standardise market access for the Community as a whole by disallowing uses of article 115, so as to permit free circulation within the Community of products that enter any member state from outside without quantitative restrictions. France and the Southern Community members have made considerable use of this article to restrict entries of East Asian products. If the internal market becomes fully integrated exceptions under article 115 will be eliminated, but member state trade barriers of a less formal character may well persist. These include voluntary export restraints, imposed unofficially on nonEuropean suppliers, many of whom have been in East Asia. East Asian suppliers, in common with other Third World countries, are also subject to restrictions under the Multifibre Arrangement and the Generalised System of Preferences, both of which involve national quotas under Community auspices, thus in effect fragmenting the Community market.[20]

The aggregated preferences of Community members have given the Common Commercial Policy a liberal quality in dealings with the USA, because of a degree of balance in Atlantic commerce, and shared interests in dominating the world trading system, with tacit discrimination against Japan. Degrees of support for this general orientation are spread unevenly in the Community, with Germany having the most active interest in maintaining a liberal stance and in developing a broadly cooperative relationship at the global level on trade and monetary issues. Enlargement of the Common Commercial Policy to cover foreign direct investment matters and trade in services, as has become necessary in the current GATT round, has tended to give the liberal orientation a wider application in Atlantic relations. The principle of liberal treatment of foreign direct investment however is coming under some pressure because of large increases in US direct investment that affect the prospects of European firms in their own market. The liberalisation of trade in services is given only qualified support, because of US competitiveness in this area of commerce and high priority concerns with expanding the operations and enhancing the efficiency of European service enterprises within the Community.

The principal source of tension in the Atlantic dimension of the Common Commercial Policy derives from European agricultural protectionism, under the Common Agricultural Policy. US demands for drastic reductions of this protection, in return for modifications of its own farm subsidies, are resisted, especially by France, for complex reasons that include concerns with maintaining intraCommunity cohesion and avoiding losses of rural votes by Community governments. The inefficiencies and waste of the Common Agricultural Policy are widely recognised within the Community but a consensus for a shift toward economic rationality is difficult to promote. Neither of the main French political groups wishes to risk alienating rural voters, and Germany benefits indirectly from the policy in so far as industrial development in France and the Southern members is to a degree slowed by excessive agricultural activity.[21]

The protectionist thrust of the Common Commercial Policy that is directed mainly against Japan expresses concerns about the conflicted dimension of this relationship. Apprehensions caused by Japanese competitiveness, especially in France and the Southern Community members, tend to obscure potentials for cooperation, and the implementation of protectionist measures has negative political effects which make cooperative options less feasible. The enlargement of the Community and the deepening of its integration processes increase potential leverage against Japan, while apparently tending to restrict awareness of potentials for cooperation.

If strains in the Atlantic trading relationship increase, or if there is a serious economic decline in the USA, the development of stronger economic links with Japan may seem imperative for European Community decision makers. For the present, however, defensive concerns about Japanese competitiveness appear to growing in France and the Southern Community members, in part because of increasing Japanese direct investment which is sought by several of those members, as well as by Britain. Protectionist barriers against imports from Japan are apparently viewed by some member governments as devices that persuade Japanese firms to undertake production within the Community, with positive effects on the host economies, although the interests of home country enterprises may be harmed. In the absence of a common industrial policy and foreign direct investment policy governments of some member states probably see themselves obliged to compete against each other for the attraction of Japanese direct investment, because of fears that any administration that adopts a less accommodating policy will simply encourage such investment to move into member states offering substantial inducements, and that Japanese goods produced in those states will afterwards be able to move freely in the Community market.

Issues concerning services trade have much less significance in relations with Japan than in those with the USA, as Japanese penetration of the European services market is small and much less threatening than the involvement in product markets. Because the Japanese market for services is heavily protected moreover there is more scope for European leverage on services issues than in Community relations with the USA. Japanese investment in manufacturing opens the way for panetration of the services market, but subject to limitations resulting from European consumer preferences, which because of cultural factors tend to favor US enterprises in services trade.

European protectionist zeal is less active in the secondary area of commercial policy dealing with South Korea, Taiwan, and the Association of Southeast Asian Nations, despite apprehensions about the increasing competitiveness of exports from these states and their economic links with Japan. Superior Community bargaining power makes it possible to impose restrictions on imports from these states in a more arbitrary fashion, with fewer concerns about possible reductions in access to their markets. The European bargaining power moreover is increasing as the integration process deepens and as the Community enlarges with the incorporation of new European members. The overall discrimination against East Asian commodities and low technology manufactures may well increase because of pressures from affected firms in the Southern Community members. Meanwhile the development of industrial capacities in the ASEAN states may be slowed somewhat by the attraction of larger flows of US and Japanese direct investment to the European Community, rather than to locations in the developing areas.[22] That likely trend could be more than offset by an ambitious program of market integration within ASEAN, but on present indications such a program is unlikely.

At the transnational level, the activities of firms of course may accord with or diverge from the objectives of the evolving Common Commercial Policy. The larger and technologically more advanced European enterprises with substantial international involvement tend to act very independently in pursuit of their interests, with emphasis on combining strategies for cooperation with and competition against US and Japanese firms, and can be expected to give priority to opportunities for expansion within Europe rather than in East Asia. Increased activity in the Community tends to become imperative because of US and Japanese competition, while involvement in East Asia tends to become more difficult because of the accumulating effects of losses in East Asian markets, which add to the discouraging aspects of the long social distances across which operations in East Asia have to be managed. The European market for higher technology products is being dominated more and more by US and Japanese firms, and the challenges posed for Community enterprises, in the context of full market integration, clearly have greater urgency for European managements than the currently less promising and more risky forms of involvement in East Asia.[23] US and Japanese corporate strategies, while also giving priority to opportunities in the Community, can continue to devote resources to expansion in East Asia, because of resources already acquired through more extensive international operations.

The assorted national preferences influencing the Common Commercial Policy are probably becoming more and more sensitive to the prime requirement of ensuring full utilisation of the opportunities of the internal market by European firms, although national rivalries continue to be expressed in competition to attract US and Japanese direct investment. Moderation of those rivalries in the common interest will be difficult, especially if member governments seek to restrain the European Commission's promotion of deepening integration, yet generalised concern about the interests of European firms in their own market must be expected to increase. The influence of this concern on national policies and on the Common Commercial Policy will tend to diminish interest in East Asia, while contributing to a more protectionist orientation in policy toward East Asia.

Issues

Issues in the European Community's Pacific relations concern member governments and European firms, and have long term developmental significance as well as immediate and specific dimensions in processes of administrative and corporate decision making. Interactions between administrations are affected by long social distances in European dealings with East Asia but tend to be aided by cultural affinities in the Atlantic context. Issues for managements assume significance with reference to corporate ambitions for market shares, while many issues for administrations are posed by the strategies of firms as well as by the policies of other governments. Management preferences tend to align with administrative purposes in the more integrated national political economies, including especially Germany, but not in the less integrated ones, including Britain. Administrative purposes evolve in the context of domestic interactions, especially those involving support groups of ruling political parties, as well as in the larger context of interactions between member governments. Governments in the more integrated states can interact with other national administrations and with international firms under fewer domestic constraints than governments that have to cope with diverse forms of interest representation that are difficult to aggregate.

The perspectives of member governments on issues in Pacific relations, it must be stressed, are much less integrated than they are on problems of completing the internal market, and in that context they are competitors as well as cooperators. The prospect of evenly spread growth in the entire Community economy after complete market integration is not fully operative because there is no consensus in support of a common industrial policy to achieve that result, no significant growth of Community loyalties in place of home country ties among Community firms, and only moderate solidarity on issues that would have to be resolved for a common foreign direct investment policy.[24] The persistence of national rivalries between member states while market integration continues has very divisive effects on issues in the Community's external relations, and these may well increase as competition to secure gains from market integration becomes more intense, and as the spread of those gains becomes more uneven.

Long term economic growth for the Community, although envisaged in different ways by member governments, is substantially dependent on its external trade, especially with the USA and the East Asian market economy states, which receive almost as much of the Community's exports as the entire Third World, but offer more significant prospects. The principal developmental issues for the Community as a whole concern improvement of the terms of its Pacific trade, expansion of that trade, and the promotion of balance as well as the achievement of control in transnational production relations which are replacing trade. The expansion of trade and improvement of its terms depends primarily on entrepreneurship upgrading and efficiency gains in European firms, for which member governments assume differing responsibilities, with differing capabilities. The most important decisions are being made by German managements, whose outlooks tend to be national rather than European because of the solidarity in their national political economy. Whether these outlooks will become more European will depend on the extent to which a common corporate culture begins to develop in Community wide industrial, commercial, and banking groups, and that will be influenced very much by the ways in which member governments relate to their business communities. The formation of European peak industrial and commercial associations that would have potent socialising capacities would be difficult not only because of the divisive effects of national cultures but also because of the organizational weaknesses of business associations in Britain and France, whose collaboration with the strong German industrial and commercial groups would be essential.[25]

Leadership could be provided by the European Commission for the development of Community wide peak business organizations, using as a basis the degree of corporatism that has been fostered by Commission sponsorship of the European Roundtable of industrial groups in support of market integration. The rationale would have to stress the need for solidarity to ensure that European firms would prosper in their own market. This rationale could be extended into a doctrine for multigroup Community involvement in the Pacific, undertaken by consortia of European firms whose association with each other would facilitate restructuring, technological upgrading, and the implementation of integration and diversification strategies. Presentation of this doctrine could draw on research dealing with the integration strategies of firms and the European experience in regional economic integration. The feasibility of concerted Pacific engagement by European firms under Commission leadership however is tending to diminish because of the intensification of rivalries between national business communities in the increasingly competitive unified market, and because of the growth of linkages and joint ventures between Community firms and outside multinationals - mainly American and Japanese.

The question of control and balance in transnational production relations is assuming larger dimensions because of the growing asymmetries between the Community and the USA in Atlantic cross investment, and in cross investment between the Community and Japan. US and Japanese export substitution through overseas production is tending to displace numerous European firms that serve outside markets by arm's length exporting. The formation of large consortia of European firms would help to produce more balanced transnational production interdependencies and bring them under collective management. The developmental issue of fundamental importance concerns the shaping of an optimum Community economic structure, with appropriate external linkages, but a collective European commitment to the building of such a structure has to evolve out of holistically motivated interactions between member governments, and for the present it is difficult for the European Commission to inspire such integrative activity.

The intensified competition between firms and between governments generated by market integration is driving numerous inefficient Community enterprises into declines, increasing macromanagement disparities between European administrations, and thus adding to the dimensions of the basic developmental problem of institutional integration. The Community has to move closer to a form of economic union in which a collective management authority can engage effectively with industrial restructuring tasks and secure full cooperation from member governments. Marget integration has encouraged mergers and acquisitions, the expanding firms gain further advantages through their use of wider market power, while financing technological advances beyond the capacities of smaller enterprises, and the size and prospects of these more powerful companies increase their significance for national industrial policies. Competitive utilisation of such policies by member governments meanwhile makes the development of a common Community industrial policy less feasible.[26]

Because the number of insecure firms is very large - due to the effects of decades of virtual market separation in the Community - domestic pressures on many member governments are likely to become more and more potent, thus tending to increase macromanagement competition, especially through the use of national industrial policies. Competition from US, Japanese, and East Asian industrialising countries, it must be reiterated, is thus likely to be resisted. The developmental issue of great external significance that is likely to be obscured, then, is the question of working for more and more symmetrical complementarity with Pacific states, through industrial cooperation. This would change the mix of managed and free commerce in Euro-Pacific relations.

Industrial cooperation within the Community has been undertaken for high technology ventures, notably in aerospace, in response to deep US and Japanese penetration of the European market for advanced technology products. Such cooperation has gone against a strong trend in the alliance strategies of European high technology firms that has emphasised collaboration with American enterprises, for research and development, joint production, and market sharing[27] The potential advantages of linkages with US firms moreover are tending to become stronger because of their positions in global markets, as well as in the Community market, and their superior capacities to finance technological advances. European industrial cooperation with Pacific states would require more active industrial cooperation within the Community, and this, it is clear, would have to be promoted through intensive political entrepreneurship, because Community firms have stronger incentives to seek collaboration with US enterprises than to commit their futures to the uncertain benefits of collaboration with other European firms under Community industrial cooperation ventures.

The developmental problem which calls for more active industrial cooperation within the Community and its extension into Euro-Pacific industrial cooperation however cannot be avoided, and indeed is becoming more urgent, because of the weaknesses of European firms and the persistence of macromanagement difficulties in many Community members. The problem can be expressed in terms of integration logic, as evidenced in multinational corporate strategies, the growth strategies of Japan and the other East Asian states following its path, and the European Community's own integration experience. The internalisation of markets by expanding multinational firms increases efficiency and enhances market power, but with social costs if weak firms are driven into declines instead of being absorbed or restructured. Japanese style growth strategy fosters integrative collaboration within and between industry groups, restraining market ambitions in the interests of overall integration in the national political economy and of its production of the public goods of superior macromanagement. Integration in the European regional context has begun to move through several levels, advancing through intermediate stages in ways that affect the behavior of firms and the policies of member governments. The deepening of the integration process sets requirements for further deepening, that is functional requirements that will be met by advances in collective management, yielding benefits sufficient to sustain a supportive consensus that might otherwise be weakened by dissatisfactions over the spread of gains from market integration. Integration processes at the level of the firm contribute to an expansion of interdependencies with other enterprises as operations become more extensive. At the national level the need indicated by Japanese experience is macromanagement with a large industrial component, and if this is not accepted the scope left to market forces will lead to less efficient macromanagement, especially because of losses of economic sovereignty to firms moving into international operations. At the regional level multiple interdependencies with very large dimensions make comprehensive collective management imperative in the common interest, although the generation of political support for this remains difficult because of the slow adjustment of national political cultures. The growth of transregional interdependencies meanwhile sets more extensive requirements for collective management, although political support at the regional level tends to be lacking.

The European Commission's potential for leadership depends, at the highest level, on the interplay of preferences in the Franco-German partnership, and on contributions to policy learning by the staff. It must be stressed however that the

Franco-German relationship is subjected to various cross pressures, and that these, with other currents in intraCommunity relations, affect the context in which Commission staff can attempt to make inputs into collective decision making. The staff do not have the autonomy and shared task orientations of Japanese technocrats, and have to assess the political feasibility of alternative policy proposals for the Community with reference to the changing hierarchy of preferences guiding the interactions of major member governments. These preferences reflect differing concepts of the economic responsibilities of governments as well as domestic constituency concerns, and, it must be reiterated, differing perceptions of interests in the Community's external economic relations. Community staff moreover have to relate to national civil servants in member states whose views are strongly influenced by distinctly national socialisation processes. A final problem affecting the Commission's potential to promote policy learning is that its specialised departments tend to focus on isolated problems, because of a weak central coordinating capability.[28]

Pacific Options

Options for the European Community in the Pacific can be identified on the basis of forecasting about the activities of firms and the performance of member governments, and about the extent to which deepening integration can enable the Community to engage with immediate and more fundamental issues in Pacific relations. Perspectives on the alternative futures that can be visualised can be derived from confidence in the effectiveness of market forces or from conclusions about the utility and/or inevitability of administrative measures to foster the growth of optimum national economic structures and guide if not control the evolution of external interdependencies.

The declining competitiveness of European exports of intermediate and higher technology products, and capital goods, in East Asia and the USA, is a well established trend, and is being reinforced by the effects of an expanding Japanese corporate presence in the industrialising East Asian states, in which European direct investment remains low. German firms, although the most active European ones in East Asia, tend to lack resources for effective competition against the Japanese, and remain disadvantaged by their greater reliance on arm's length exporting. French firms, because of strong concentration on the demanding challenges of the integrating Community market, are not likely to show increased interest in East Asia. Technological gains, achieved mainly by German firms, will tend to be reflected principally in commerce within the Community and in exports to the USA. British enterprises, affected by the consequence of protracted industrial decline, will probably lose further market shares to the Japanese and the Americans in East Asia, and will have difficulty in reversing losses in the US market.

Access to East Asian and the US market will probably become somewhat restricted because of restraints imposed in retaliation against increases in Community protectionism. Pressures within the Community to increase that protectionism will undoubtedly be generated by low and intermediate technology industries, especially in the Southern member states, on account of intensified competition from US and Japanese products. Responding to protectionist demands will become politically more useful for governments in member states experiencing losses of industrial capacity and sharing inadequately in the gains from fully liberalised intrazonal trade.[29] In Atlantic commerce stronger US demands for access to the Community market have to be expected, because of US frustrations with the likely outcomes of the current GATT round and pervasive concerns in US business groups about foreign protectionism.

Macromanagement contrasts within the Community will probably tend to increase, as the less effectively managed states experience domestic pressures which aggravate their problems of governance, while the more effectively managed states, including Germany, will continue to benefit from degrees of consensus attributable to past successes. Politically, the macromanagement contrasts will probably have divisive effects, as defensive and relatively aggressive currents of economic nationalism become stronger on account of the social consequences of the differing levels of performance. Social integration at the Community level will thus become more difficult, unless there is vigorous leadership at that level, supported by endeavors to build regionalised interest groups. Further deepening of the overall integration process may thus be prevented, although the magnitude of the interdependencies that will have grown after full market integration - despite their asymmetries - will demand more and more comprehensive collective management.

Perspectives based on faith in market forces will conflict with interventionist outlooks in exchanges between member governments on questions of efficiency and equity in the Community's evolution. Germany will be identified more than most other Community members with views based on confidence in market forces, and in practical terms this will be associated with expectations that the competitiveness of German firms, advantaged by their nation's social partnership, will remain superior. The confidence in market forces, linked with appreciation of the strength of German firms, may well be a source of opposition to any proposals for a common industrial policy, and of reluctance to support initiatives for the formation of consortia of European firms to operate in world markets. France's domestic interventionist orientation will continue to have a strong foundation in elite attitudes, but this will not translate into support for interventionist policies at the Community level because of sensitivities to Germany's strong position in the regional political economy, although if support were forthcoming from Southern members French preferences could be given expression in such policies. British official attitudes will no doubt remain more or less aligned with German views on market forces, expressing reluctance to endorse Community shifts toward a common industrial policy, but more because of unwillingness to support deepening integration than because of fixed preferences regarding the operation of firms in markets.[30]

Industrial cooperation ventures sponsored at the Community level will probably not generate strong support for more ambitious ventures, because of the incentives for managements to pursue more promising market opportunities, especially through alignments with US and Japanese firms, and because national industrial policies, becoming more active in the integrated market, will offer diverging but potent incentives, and will be more open to adjustment and expansion in response to domestic representations. Continuing declines in Community shares of foreign markets, meanwhile, will discourage interest in industrial cooperation at the Community level, because those declines will tend to be seen primarily as problems of national competitiveness, although the logic of adopting common industrial measures for collectively enhanced efficiency will be evident.

The prominence of issues regarding the spread of benefits from full market integration and further institutional integration will continue to divert the attention of Community decision makers away from external economic issues affecting the Community as a whole, except in so far as a focus on some of these is obligated by American pressures for increased market access. The attention which the entire range of external economic issues deserves may be encouraged by European study groups and policy research institutes, perhaps with some leadership by the European Commission, but a policy learning process sufficient for comprehensive engagement with those issues would probably be slow. The policy learning necessary for the drive to achieve full market integration was slow, and policy learning about the promotion of balance in the spread of benefits from market integration is now going slowly, while the advances in institutional integration needed for more effective collective management are proving difficult to negotiate.[31] Recognition of these problems could activate initiatives in the Community's study groups and policy research institutes, especially if encouragement were given by elite networks in the major Community members.

For the present, the ranking of Community options in the Pacific has to take account of the restrictive effects of political feasibility considerations. Trade matters thus have to take priority, because of highly salient European interests that are challenged in ways that cannot be avoided, and that indicate immediate needs for the acquisition of stronger bargaining power, through increased cohesion within the Community, and for engagement with the problems posed by the capacities of US and Japanese firms to substitute transnational production for exports. Political feasibility considerations related to trade policy however have to be combined with assessments of potential benefits, which of course may be high for options with low political feasibility.

A sectoral free trade agreement with Japan would have great potential value for the Community, but the political feasibility of negotiating such an agreement would be low. The free trade agreement could cover a wide range of agricultural products and most items in the capital goods category, leaving commerce in manufactured products to develop under gradually moderating Community restrictions and a liberalising trade system in Japan. European apprehensions about Japanese aggressive exporting would have to be overcome, and Japanese anxieties about straining relations with the USA would have to be relieved. Because of these crucial aspects of the political feasibility dimension the Community's management of negotiations would have to be based on a strong internal consensus and would have to extend to Japan highly credible offers of enhanced access to the Community market, on terms that would promise more symmetrical complementarity.

The formation of large consortia of Community firms, for multigroup trading, could be linked with a Euro-Japan trade agreement. The European consortia would match and relate directly to Japanese industry groups and general trading companies. The formation of the consortia, while difficult because of the diverse pressures and incentives drawing European firms in other directions, could be aided by progress in negotiations with the Japanese, especially if prominence were given to the importance of matching Japanese corporate strength. This could be a very important feature of European Commission dialogues with European industry groups. The Community has been exerting pressure on Japan to secure wider market access, but without the advantage of strong consortia capable of competition in global markets and of maintaining strength in the Community's own market.

A concerted Community industrial policy could support efforts to foster the growth of outward oriented consortia of European firms. If it were sufficiently comprehensive and based on sound long term planning it could reorient the strategies of Community firms that are currently drawn toward linkages with US and other outside firms. The endeavors to establish the consortia meanwhile could assist the development of the common industrial policy, and general support for both could be attracted from economic elites throughout the Community if there were prospects that the activities of the consortia and the implementation of the policy would ensure a high degree of balance in the spread of growth effects following complete market integration.32

For Japan, a special trading relationship with the European Community would help to offset the added bargaining leverage that the USA is likely to gain from a Free Trade Agreement with Mexico. As the central power in a North American Free Trade Area the USA would be in a very strong position to negotiate with other trading partners, and could place Japan at a disadvantage by using its enhanced leverage to draw the European Community into a commercial arrangement that would discriminate against third parties. A Euro-Japanese special trading relationship could require long negotiations, because of slow decision making on each side, but even while under discussion could help to strengthen Community resistance to any pressures from the USA.

Industrial cooperation with Japan could be initiated with a sectoral free trade agreement, as an extension of the Community's expanded common industrial policy. The development of consortia of European firms would increase resources for the management of industrial cooperation with Japanese enterprises, especially if a common industrail policy were being implemented under strong central direction, as a result of European advances in institutional integration. Industrial cooperation conferences could prepare the way for multiple linkages between European consortia and Japanese industry groups, with technological benefits for the European firms whose weaker resources would otherwise prevent them from utilising fully the growth opportunities of the internal market. Fragmentation of the consortia would be a danger, because of the strong cohesion of the Japanese industry groups, and their interests in larger shares of the Community market, but this possibility could be given sufficient prominence to ensure vigorous efforts, under the European Commission's leadership, to foster strong unity in the consortia.

Community options relating to the USA have been dominated by the question of modifying the Common Agricultural Policy, in response to US demands for reductions of farm subsidies by each side and moderation of European restraints on agricultural imports. Reductions of the farm subsidies are necessary for growth in the Community, as these cause excessive living costs and thus affect the competitiveness of European firms. Substantial restraints on agricultural imports however ensure avoidance of vulnerabilities that could result from openness to large inflows of US farm products. A further advantage is that the Community can retain capacities to provide large scale food aid to the USSR and East European states. Modifications of the protection that could depress agricultural sectors in several member countries would cause political strains that would hinder advances in institutional integration, thus preventing effective collective engagement with the tasks of promoting growth in the single market. 33

The asymmetries in bargaining strength between the Community and the USA will change to the Community's advantage only if there are intensive collective efforts to institute industrial, foreign direct investment, and trade policies that will enhance the efficiency of European enterprises in their own market, and increase their potentials in foreign markets. If the building of strong consortia of European firms is made possible through those policies questions of market access will assume more favorable dimensions for the Community, and their management will be easier because of the degrees of unity on basic policy questions that will have developed between member governments. These considerations strengthen the logic of giving high priority to the achievement of advances in institutional integration. After such advances, the introduction of comprehensive macromanagement measures, and the establishment of the European consortia, the relaxation of agricultural protectionism would become politically more feasible.

The Community's immediate need is restraint on the expansion of US direct investment in Europe, which threatens the prospects of Community firms in higher technology industries, while drawing the more efficient ones into subordinate linkages. To foster stronger growth in Community firms some restraints on outflows of direct investment into the USA are also needed, even though in some cases Community firms can strengthen their European operations through involvement in the USA. The danger of provoking US resentment could be reduced by firm Community assertion of the desirability of reasonable balance in transnational production as well as in trade. The USA advocates reciprocity of a kind that will eliminate large trade imbalances, but while accepting the desirability of such reciprocity the Community can demand overall balances through reductions of disparities in volumes of export substitution. The Community, however, would have to attain sufficient internal cohesion to be able to insist on the principle of export substitution balance for its members as a whole. In affirming this principle the Community could emphasise that the United States, because of its size, is the economic equivalent of a trading bloc, and that its firms have been greatly advantaged by positions established in its large internal market, thus challenging the Community to provide compensating growth opportunities for its enterprises.34

Options for the Community in economic relations with the industrialising East Asian states tend to be viewed in the light of concerns about Japanese competitiveness, but with confidence that superior bargaining strength enables the Community to resort to unilateral measures in its separate dealings with these states, and in its interactions with the Association of Southeast Asian Nations, which has made little progress toward the formation of a regional economic community.

A special trading relationship with that Association can be sought, to recover market losses, but this will necessitate offering incentives sufficient to counter those likely to be offered by the USA and Japan, while avoiding undue strains in relations with those two countries. Prospects for enhanced trade with the Association could be made attractive if there were emphasis on industrial cooperation to assist national firms in the larger ASEAN members whose capacities to shift to competitive outward oriented operations at higher technological levels have been adversely affected by import substitution policies. The offers of industrial cooperation would assume greater significance if strong consortia of European firms were being formed, and if Community encouragement and support were being given for deepening integration within ASEAN, and especially for the establishment of an ASEAN common market. Because of large uncertainties about the capacity of ASEAN leaders to unite in support of cooperation with the European Community, and of a program for substantial trade liberalisation within their own organization, European commitments to a design for industrial collaboration with ASEAN could be very slow to develop and, if put into effect, could be quickly terminated.[35]

A European quest for industrial cooperation and a special trading relationship with ASEAN could have better prospects if combined with the development of strong economic ties with Japan, and if put into effect with consideration for Japanese interests. In Japanese policy and in the strategies of Japanese firms the ASEAN states assume great prominence because of their rich resources, their degrees of industrialisation, and their proximity, but acceptance of extensive European involvement in these states could be feasible if Euro-Japanese industrial and trading cooperation were developing on a large scale. For US policy makers and managements the ASEAN economies have much less significance than they do for Japanese leaders, and US toleration of European endeavors to seek collaboration with ASEAN could be expected, despite strains that would be likely to result if the European Community were endeavoring to promote greater symmetry in Atlantic transnational production relations.

European options relating to South Korea and Taiwan could be chosen in the context of decisions concerning Japan and ASEAN. Emphasis could be placed on offering these two states opportunities to develop broader and more secure complementarity with the European Community, while balancing this with the expansion of economic links with Japan and the USA. Industrial cooperation with South Korea and Taiwan could be developed at high technology levels, with very substantial benefits for European firms, and on a scale that would contribute to the growth of trade and investment links on each side with Japan, ASEAN, and the USA. The relative political isolation which South Korea and Taiwan have had to endure could thus be indirectly overcome, and the strengthening of their ties with ASEAN countries could help those countries to achieve faster industrial progress.[36]

Community choices among the major Pacific options, and among variations of these, would have to be integrated into a comprehensive strategy, and latitude for this would have to be secured primarily through dialogue with the USA on principles and norms of integrative and comprehensive collective management for balanced interdependent growth. Understandings with the USA would be essential because of the high levels of structural and policy interdependence in Atlantic relations, and because the broadening of economic ties with Japan would have to be seen as a constructive European endeavor by US decision makers. Anti Japanese feeling stirred by political journalism will probably remain quite strong in the USA, and accordingly the European rationale for cooperation with Japan would have to be given persuasive justification, in terms of imperatives for balanced growth. US acceptance of the rationale could be made easier by changes induced in Japanese foreign economic relations and the behavior of its firms, especially in so far as the results included greater emphasis on the development of joint ventures with American enterprises. The comprehensive European strategy, although it would be a difficult achievement for the confederal Community system, could gain widening elite acceptance within Europe if capacities to manage the strategy at the transnational level were becoming evident with the establishment of the consortia of firms for more competitive international involvement.

Prospects

The European Community is being challenged to evolve a new economic statecraft, with strong political dimensions, as an extension of the advances being made toward economic union. The success of that integrating endeavor will depend very much on the development of the new statecraft, because the drive for complete internal market integration is being undertaken from a position of relative weakness in the global political economy. Lack of cohesion between the member states may well prevent the building of an optimum regional economic structure for Western Europe, and the development of interdependencies suited for such a structure. If the necessary cohesion can be fostered, through intensive political entrepreneurship, difficult tasks of external adjustment will have to be undertaken, to introduce greater symmetries into trade and transnational production relations with the USA and Japan. Beyond that requirement, the new statecraft will have to establish principles and norms for wide ranging transregional cooperation, between Europe and the Pacific, to ensure stability and further development of the more symmetrical pattern of interdependencies that will have been produced.

For the new statecraft, policy learning, consensus, leadership, and technocratic capacities are required. Study groups and research institutes can promote policy learning, but the extent to which they will do so is likely to depend, to a considerable extent, on leadership, such as has been given by prominent figures in the European Commission in the drive for full market integration. The establishment of a policy planning unit within the Commission, under the direct control of its top executive figure, would enhance the scope for policy learning. Such a unit could probably function more effectively if it were constantly interacting with an independent European Council of Economic Advisors, whose members would be nominated by the Commission. If a policy planning capability is not added to the Commission the present staffing pattern, which has restricted opportunities for innovative policy inputs from economists, will tend to hinder policy learning related to the Community's external economic problems, even while high level leadership seeks to foster forward planning. The Commission is burdened with some of the common problems of international bureaucracies that hold down levels of task orientation, and these problems may become more serious because of conflicting pressures generated by national dissatisfactions with the spread of benefits from market integration.[37]

The promotion of consensus, principally in European industry groups, through initiatives from the Commission and perhaps from a European Council of Economic Advisors, will be helped if there are energetic Commission endeavors to foster the establishment of the European high technology consortia. Such consortia can offer numerous relatively small European firms arrangements for technology, production, and market sharing that can promise viability in competitive global markets presently dominated by US and Japanese enterprises. Some of these small firms will be driven into declines by larger European and foreign companies if sufficient consortia are not formed. Others, it should be stressed, will be drawn into restrictive European and foreign linkages. The extent to which a Commission effort to promote the development of European consortia will be successful will depend very much on the cooperation of German firms, because of their sizes, advanced technology, and management capacities, but fears of excessive German influence could disourage enterprises in other member states. Because of the attractions of linkages with US and Japanese companies the collaboration of member governments would be necessary to orient national firms toward the long term advantages of participation in the European consortia.

Leadership, at the Community level, has to be provided in the confederal system dominated by Gremany and France, until there is progress toward a federal system through the vesting of significant powers in the European Parliament and the establishment of an executive body responsible to that legislature and possibly also to a house of representatives from member governments, which could be formed out of the present Council of Ministers. The regionalisation of political parties will no doubt remain difficult but the regionalisation of major interest groups, which could be spurred by the formation of the industrial consortia, could provide a base for leadership emerging from the Community's economic elites. Over the longer term innovative inputs to policy learning among political elites, coming from research institutes and study groups, could activate socialisation processes conducive to leadership development.

Technocratic capacities, for the implementation of a common industrial policy, a common foreign direct investment policy, and of course a common technology policy, could be strengthened and expanded in the Commission if leadership were being provided for the formation of the industrial consortia. The development of those capabilities could be further encouraged as the consortia began to assert their interests, and could be given additional stimulus by a policy planning unit within the Commission, as well as, perhaps, by a European Council of Economic Advisors.[38] If strong technocratic capacities are not built into the Commission, in support of a wide ranging common industrial policy, there will probably be a proliferation of diverging and competing national industrial policies, to assist firms in member states struggling for shares of the single market.

The most demanding task of the new statecraft will be the development of broad cooperation with Japan. This will be demanding because of the long social distances, the breadth and complexity of the consensual decision processes in Japan, and the internal interactions that will be needed within the Community. The evolution of Japanese business interest will be encouraged if the formation of European industrial consortia goes forward rapidly and on a large scale, and this will also assist the mobilisation of support from industry groups within the Community for positive as distinct from defensive economic engagement with Japan. The Community's status in discussions with Japan will be affected to a considerable extent by its situation in relation to the USA. Demonstration of its capacity to act independently while maintaining rapport with the USA and countering any US pressures will be especially important for effective interactions with Japan. The capacity of the Community to offer incentives to Japan will depend principally on the overall demonstration of growth potential in the integrated market, and on the extent to which the European consortia seem capable of utilising that potential and expanding in global markets.

Understandings with the USA will have to be sought while the quest for Japanese collaboration is undertaken. The search for rapport will be difficult because of divisions in US elite opinion over macromanagement issues, including questions of trade policy, that have become very large and urgent. It will be imperative to formulate a set of principles and norms regarding the functions of governments, markets, and firms in the evolution of interdependencies, with emphasis on collective responsibilities for promoting balanced growth, to ensure symmetries rather than strains in interdependence. The presentation of such a doctrine will have to refer to the capacities of firms to internalise market forces and dominate others outside their own operations, and to the competitive involvement of national administrations in macromanagement tasks intended to increase growth, through gains from trade, in their own economies. It will also be necessary to refer to US macromanagement problems, including the heavy deficit financing and the stresses in the financial institutions, and to pressures affecting the role of the dollar in the international financial system. US responses will tend to reflect long standing ambitions to maintain a dominant role in the global political economy, with emphasis on preserving autonomy in the management of monetary policy, and insistence on the obligations of governments to allow wide scope for market forces. The dominant role in the world trading and monetary systems will be considered to be endangered by Euro-Japanese cooperation, and accordingly expressions of US opposition will have to be suitably countered without allowing these to strain relations between Community members. The need for strong cohesion within the Community will be acute while rapport with the USA is being sought for expanding Community engagement in the Pacific.[39]

If the Community fails to achieve greater unity and is unable to assert firmly and persuasively a rationale for Pacific involvement that promises more equal partnership with the USA and that allows scope for collaboration with Japan the continuation of current trends at the transnational level will tend to reduce cohesion in the Community, hinder the realisation of gains from full market integration, and increase Community losses of world market shares. European firms will lose more and more of the roughly 50% share which they have of the internal market for higher technology products, principally because of the increased activities of US enterprises that are currently expanding their presence in the integrating market. Shares in the Community market for intermediate and lower technology products will also be lost to Japanese, East Asian industrialising, and US exporters. Frustrations with the benefits of full market integration will cause frictions between Community members and increase pressures on member governments to implement industrial measures, favoring national firms, for greater competitiveness and improved growth. Further advances toward a federal system of collective management will be made difficult, thus causing a vicious circle in which the failures to deepen integration will produce greater obstacles to institutional progress in a federal direction. Community firms will remain significantly disadvantaged in world markets, because of technological lags and weaker resources, and will have increasingly potent incentives to seek linkages with US and Japanese multinationals.

The efforts needed for rapport with the USA on active Pacific involvement may be considered excessively demanding, because of the degrees to which problems of governance affect the American foreign policy orientation, hindering policy learning and policy planning, and contributing to the persistence of a pragmatic and disjointedly incremental policy style. The organizational weaknesses of US business associations and of the major US political parties, together with the internal divisions of the US Congress, can discourage optimism about the prospects for generating a broad elite consensus in response to a European doctrine on Pacific engagement.[40] Community leaders however cannot avoid responsibilities to cope with the foreign economic policy problems assuming prominence because of full market integration. Their attempts to reach understandings with US decision makers moreover **could be seen** as constructive initiatives obligating acceptance, by those decision makers, of greater external accountability in the shaping of foreign policy. Initially, some modest successes in securing US appreciation of the Community's interest in the Pacific's growth potential would allow latitude for the development of economic cooperation with Japan.

Notes

1. See David B. Audretsch, The Market and the State (Hertfordshire:Harvester Wheatsheaf,1989) ch 9.
2. See William D.Coleman,"State Traditions and Comprehensive Business Associations", Political Studies XXXVIII,2, June 1990, 231-252; W. Coleman and W.Grant," The Organizational Cohesion and Political Access of Business: a Study of Comprehensive Associations", European Journal of Political Research, 16,5, September 1988,467-488; and Michael M.Atkinson and William D.Coleman,"Strong States and Weak States:Sectoral Policy Networks in Advanced Capitalist Economies", British Journal of Political Science, 19,1,January 1989, 47-67.
3. See Stephen Wilks and Maurice Wright (eds), Comparative Government-Industry Relations:Western Europe, The United States, and Japan (Oxford: Oxford University Press, 1987), and Audretsch, cited, chs 2&6. See also Gavin Boyd, Structuring International Economic Cooperation (London:Pinter Publishers, 1991) ch 1.
4. See Roy C.Smith and Ingo Walter, Economic Restructuring in Europe and the Market for Corporate Control (New York:Stern School of Business, New York University,1990); Regional Economic Integration and Transnational Corporations in the 1990s: Europe 1992, North America, and Developing Countries (New York:United Nations Centre on Transnational Corporations, 1990); and Transnational Corporations and International Economic Relations:Recent Developments and Selected Issues (New York:United Nations Centre on Transnational Corporations,1989).
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