REFLECTIONS ON A TRIANGLE

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1. I feel very privileged to be here today and to participate in this 3rd Annual Conference dedicated to E. C. Studies. This is the first time for me to be present in a session of your Association. As I have been posted in Tokyo only earlier this year, I still run frequently into that first-time type of experience. But I am familiar with the prestigious nature of the studies pursued by your Organization, and I am honoured, indeed, by your invitation.

2. In my remarks I will try to give some impressions of the state of international economic relations. I do not know whether I will be able to tell you things you did not already know or to present opinions that you had not already considered during your sessions yesterday and this morning. So I have to invoke your tolerance when I repeat arguments you already dealt with.

3. The suggestion was made that I address the relations between

Japan, the U.S. and the E. C., "*The triangle*". In doing so, one has, of course, to keep in mind both the resemblances and the differences. During his visit to Japan a few weeks ago, Mr. Kissinger, in a television programme, addressed a question that implied a comparison between Japan and the U.S. He said he did not want to make such a comparison between a country of 200 years old and one of more than 2000 years old. I wonder where that would leave me if I tried to extend his reasoning to the E.C. If I start counting Europe's history from the myth of Europa's abduction by Zeus in the shape of a white bull, it is older than 2000 years. But if I would start counting from the Schuman Declaration on 9 May 1950 (which is really the beginning of Europe as a separate political notion), it is just 30 years. So it is probably wiser to be on the safe side and be very modest about Europe's age.

4. The three main powers of the industrialized world have increasingly become *central to the free world's economic and political systems*. With all the differences they have amongst them they have also considerably evened up in recent times some of their largest discards. I will not use your time to demonstrate that statement with economic and scientific data. You are all familiar with the economic, social and demographic statistics. Suffice it to say that besides the resemblances, most differences have to do with the particular situations of the geography, the territory, the population and the traditions of the Japanese, the Americans and the Europeans. Looking at what the three regions have in common, I am in particular surprised when I see how close some future projections

are for the three. Just to give an example: average annual percentage increase projections for the population between now and the year 2000 are close to 0.5% for Japan, the U. S. and Western Europe (a little higher for Japan, a little lower for Western Europe). Only a part of Eastern Europe joins that range but the figure is much higher for the rest of the world. The average GNP growth until 2000 is exactly the same (3.1%) for the three, higher than for Eastern Europe and the Indian subcontinent and lower than the rest of the world. Projections for the per capita GNP growth are in a very close range for the three (2.5 for Japan and the U. S., 2.7 for Western Europe), higher than for all other regions of the world.*)

*) "GLOBAL TWO THOUSAND" Report to the President of the U.S. of 1980.

5. Even if we take into account that such figures are averages, covering highs and lows throughout the reviewed period, they do highlight how much the three main industrialized partners belong to one club. On the other side, the differences in population figures and in per capita growth announce increasing and probably dramatic confrontations between the have and the have-not nations of this world.

6. The importance of the 3 corners of the triangle in world trade today is confirmed by their shares in global world exports. The E.C. share in world exports in 1980 (excluding intra Community trade) was 19%, the U. S. share was 13.5%, Japan held 8%. Their relative importance to each other is very high too: the U.S. is the first customer both of Japan and the E.C. The E.C. is the first customer

of the U.S. and the second of Japan. Japan is America's third customer (after the E.C. and Canada) but only the seventh best customer of the E.C.

7. Not only is the importance of the interdependence of the three confirmed by economic statistics but it also becomes visible in more political ways. *Consultation and concertation* amongst the three have considerably increased over time. As a representative of the European Community, I will abstain from comments on issues regarding military or defense cooperation. But in all other areas of economic importance, contacts of a political nature have intensified amongst Japan, the U.S. and the E.C. This does not only take place in multilateral contexts such as GATT, OECD, IEA, etc. but more typically the mutual consulting between the three has taken shape in new and original forms that have developed in recent years and that in spite of the absence of strong institutional frameworks have begun to develop an important impact on international decision-making. I am referring, of course, to the World Economic Summit and the quadrilateral meeting that grew out of these summits. The summits themselves have more and more exposed the role of the E.C. in international trade matters substituting for the 4 E.C. member states. On subjects of E.C. responsibility the Commission representative speaks on behalf of the Community. On such subjects the discussion has become one between the E.C., Japan, the U.S. and Canada. Moreover the need to discuss world trade matters is sometimes felt also in between summit meetings. This need has given birth to the so-called quadrilaterals, very infor-

mal meetings at ministerial level again between Japan, the U.S., the E.C. and Canada. In spite of such frequent reviews of the international trade scene we have just been able to contain but not to prevent or solve tensions in the different parts of the triangle and frictions amongst them.

8. One of the facts we have to face is that the *underlying economic conditions* have not been the same in all parts of the triangle, and that consequently the tensions in each part have distinct characters. For instance, it is clear that the present economic recession is less serious in Japan than it is in the U.S. and that it is more serious in the E.C. than in the U.S. Growth is still at a 3% level in Japan, 2% in the U.S. and less than 0.5% in the E.C. Inflation rates are at a 3% level in Japan, 7% in the U.S. and 10.5% in the E.C. Unemployment rates are 2.3% in Japan; they are approximately at a level of 10% in the U.S. and in the E.C. But the nature of the unemployment problem is considerably more serious in Europe, because there has been practically no creation of new jobs at all in the Community during the last decade (whereas the number of new jobs advanced by more than 20% in the U.S. and by 10% in Japan).

9. Consequently, the political problem that springs from *unemployment* and more particularly from youth unemployment and still more particularly from youth unemployment concentrated in certain regions, are more complicated and more serious in Europe than they are in the U.S. and obviously much more than in Japan.

I emphasize this point in particular because I sometimes have the impression that especially in Japan the seriousness of this situation is not always understood adequately. The Americans have less problems with that, because in the somewhat chaotic atmosphere that we presently meet in Europe, political protest often takes shape in demonstrations against military projects, such as nuclear armament, which bears directly on the military alliance with the U.S. Such demonstrations often form an outlet for anger that is deeply rooted in a socio-economic situation that cannot promise work to millions of people for years to come and that will even have to consider substantive reductions in levels of welfare and social protection as long as profound structural changes have not been realized.

10. Turning from the social to the *monetary* scene it is clear that Japanese interest rates (unlike those of the E.C.) have been relatively successful in resisting the pull of U.S. levels. This has, of course, been at the price of huge capital outflows and consequently of a thorough depreciation of the Yen vis-à-vis the dollar. In its relation to the ECU currencies the Yen has remained stronger but has not completely avoided erosion; but practically all experts agree that it is at too low a level anyhow. Meanwhile Japan tries to slow down to some degree the capital outflow by "organizing the queue" of foreign borrowers. As a consequence of all this, Japan and the E.C. attack the U.S. for not embarking on any action to reduce its high interest rates. The U.S. reproach Japan that it allows too low a value of its currency and consequently distorts markets in the world. Meanwhile the E.C. urges Japan to open up wider access to its finan-

cial markets.

11. Economic recession and growing unemployment have an enormous impact in the area of trade, especially in the U.S. and the E.C. This applies on the protection of ailing industries as well as in more general terms on efforts to do away with the largely negative trade balances with Japan. Let me quickly sum up the various *bilateral positions*.

A. US/EC

The boat of traditional U.S./ E.C. friendship has been rocked heavily, especially since the new administration came in, nearly 2 years ago. At times the defense of American interests has caused the administration even to raise doubts on the contents of its GATT commitments. But our dialogue has continued.

At the beginning of this year we had 4 serious differences on our Agenda. 2 of those have been solved: Export credits and E.C. steel exports to the U.S. The *export credits* issue was in reality a wider issue that was solved, together with Japan, in the OECD consensus. The *steel* problem was negotiated during summer and early fall by the Commission and the U.S. administration. The result is a limitation of E.C. steel exports of certain categories to a fixed % share of the U.S. market, in return of which the U.S. industry has withdrawn its antidumping and countervailing complaints against European steel industries.

The Soviet *pipeline* conflict is highly preoccupying us. The U.S. decision to prohibit export of goods and technology on oil and gas and to extend such prohibition to subsidiaries of U.S. companies

abroad, contains elements of extraterritoriality and retroactivity (in as far as it applies on contractual obligations engaged before the decision was adopted) that are hard to understand and to accept. Its consequences in terms of trade and international reliability can be very damaging. Fortunately discussions have begun recently between representatives of the Summit participants to explore solutions for this issue.

Finally our *agricultural* differences. The Americans accuse the E. C. of dumping our surpluses in third markets at the detriment of U. S. exports and with a negative impact on world market prices. The issue at stake here is the GATT Code on subsidies which provides that export subsidies on agricultural products must be avoided if they would result in obtaining a more equitable share of world exports. In our view this is clear language. It means that as long as our percentage share of world trade does not go up (which it doesn't; for some commodities it actually goes down) we abide by the rules. The U. S. have brought a respectable number of cases before the GATT (wheat, flour, sugar, poultry, pasta, canned fruit and citrus) for settlement of the dispute. We will deal with them there.

B. US/JAPAN

Serious *trade imbalances* with Japan have preoccupied both administration and congress for several years. Congress has shown to be more sensitive to protectionist pressure than the administration, that has, at times, fought an uphill battle to prevent the worse. But the discontent and the frustration of the U. S. Government in the absence of progress in its trade negotiations with Japan is

considerable.

I will not try to give a complete list of all outstanding differences. They cover a wide range of agricultural and marine products (import restrictions, in particular for beef and citrus), tobacco (import tariffs and limitations on sales of American tobacco by Japanese retail outlets), leather (tariffs and Q. R. 's), standards (the baseball bat issue) and Japanese "import cartels" for some petrochemicals. One or two cases are submitted to a GATT panel, the others are subject to bilateral negotiations.

A special point is trade in *high technology products* and in particular the question of access to government sponsored R & D. An agreement seems to be possible on that issue.

According to some press comments the U. S. pressure on Japan is bound to increase after the mid-term election but I do not want to speculate on that yet.

C. JAPAN/EC

The E. C. 's chronic and structural *trade deficit* with Japan is much more dramatic than that of the U. S. The E. C. 's exports to Japan only cover 1/3 of Japan's exports to Europe. Social and political pressure to bring about a profound change of this balance have come to a boiling point. Such change should take shape in real improvement of access to Japan for European manufactured products and in effective moderation of Japanese exports to the E. C. in sensitive areas.

In order to achieve these objectives, the E. C. has chosen an approach which is different from the U. S. We have, of course, not given up our right to review or negotiate sectorwise individual trade problems but we have started a parallel approach under Art. XXIII

of the GATT. This is based on the idea that there are several "rings" around the Japanese market that make its propensity to manufactured imports lower than that of comparable economies. One ring is the import tariff, a second ring is the implementation of N. T. B.'s and a third ring is the so-called "self-sufficiency syndrome". By this I mean a domestic economic structure or organization (with all its ramifications in the form of big business groups, Keiretsu, industrial associations and an opaque and expensive distribution system) that systematically will work in favour of the Japanese product in every case where there are alternative offers. This is not, as some think, an attack on the Japanese system or even a request to change it. It is the demonstration of the ways in which a given structure has a negative impact on imports, together with a request for action that can encourage a shift in public and private decision-making in favour of more manufactured imports.

Our consultations under Art. XXIII have started in May and have so far not shown any tangible results.

12. In terms of protectionist effects of such trade disputes at *legislative* levels, the U.S. have successfully held a highly visible place on the scene during the past year with their various efforts to pass "reciprocity" and "local contents" legislation but it looks as if new actors in Europe are now drawing attention to a new play with a different name but still ranging in the same category of protectionist action. It is hard to say at this moment how far French efforts to put up new N. T. B.'s will go. In as far as the ongoing procedure ex Art. 169 of the Rome Treaty by the E.C.

Commission would result in a rejection of such measures as lacking conformity with the Rome Treaty we will have an internal legal problem to deal with. This is not the first time and the Commission has successfully operated in such cases in the past. But the political context is different now and one cannot exclude a spreading of the protectionist mood at the political level in the sense that governments of member states might push for more Community action in view of increased protection of the European Common Market against torrential imports of manufactured products from abroad. It is too early to give an opinion on the degree of possibility of such a development but as I indicated before the situation is extremely dangerous and if we want to preserve for the free world the great good of free trade we might have to become—as it is said in the Bible—our brother's keeper, and necessarily we look toward Japan with its strong economy and its enormous trade surpluses, for a substantial contribution to that purpose.

13. Such a contribution can take different forms. And first things first: the *trade imbalance* is the issue with the highest visibility and the greatest political sensitivity. So we will have to try to solve that first. But at the same time we should not limit our views to trade problems. Beyond the exchange of goods and services there are many fields where our common solidarity and our mutual interest can meet. Industrial cooperation and cooperation in science and technology are such fields, that hold for the medium and long term promises for industrial growth, employment and expansion of trade.

14. *Industrial cooperation* should, of course, be a two-way street in which ideas and initiatives can freely float. Both Japan and Europe have incredible potential in technological knowhow and entrepreneurial spirit. They have the possibilities to invest in promising projects and to train qualified workers to do the job. Why is it then that no Japanese companies have tried or managed to become a partner of such promising enterprises as the European Aircraft industry? To give one example: Airbus industries' share of the non-communist world market went up from 1980-1981 from 20 to 42%. It developed an aircraft that consumes considerably less energy than its closest American competitor. Major Canadian aircraft industries are since recently trying to join the band wagon. But Airbus' success in Japan has remained very limited. Likewise the results of other European aircraft industries' sales promotion have been disappointing.

15. Another area is nuclear fusion. Japan and Europe are both equally dependent on expensive and often unreliable supplies of imported hydrocarburates. They both have an interest in developing the means of their energy independence. Again they both have the capital, the technology and the scientists necessary for successful cooperation. Why is it then that we have not been able to achieve Japanese active participation in the Joint European Taurus?

16. In the same area of energy and energy independence, would it not be worthwhile, in particular against the background of recent international movements around the supplies of natural gas, that we

join in studies regarding alternative sources of LNG and possibly in the development of common sources?

17. Finally, I would like to say a few words on our common responsibility towards the *Third World*. Development aid is not only a contribution to more political stability, it is also a necessary act of solidarity towards the poorest nations of this world. The E.C. has contributed in 1980 nearly 1/2% of its GNP to O.D.A. (more than 90% of which were grants). Japan has given less than 1/3% of its GNP and less than 3/4 of that were grants. The U.S. were at approximately the same level as Japan. In terms of imports of all products from developing countries (1979): the value of such products measured in % of GNP was 2.3% for the E.C., 1.6% for the U.S. and 1.2% for Japan. I do think that there is a strong case that Japan with its large surpluses on its balance of payments increase its assistance to or its imports from the L.D.C.'s.

18. We live in very dangerous times and sometimes it looks as if much of our energy goes to fetching and mending highly delicate political and economic issues on a day-to-day basis. But we have to go on because there is no alternative to free trade that we can live with. We cannot allow any of us to quit the ranks and turn protectionist. One rotten apple spoils the whole barrel. We are bound to stay together and solve our problems not through conflict but through cooperation.