EC-JAPAN: PARTNERS OR RIVALS?

MICHAEL LAKE

I am delighted to be here, giving my first major speech since I arrived in Japan a little over six months ago. It is very appropriate that I should be able to unburden myself, clear my mind, before this distinguished audience of friends who inspire me with confidence.

This occasion is, therefore, both an opportunity and a challenge. It is a great opportunity to explain to you the developments both in the European Community itself and in EC-Japan relations, and it is a challenge because recent times have been marked by great activity and, to be frank, apprehension about the future.

Because I feel myself among friends I shall try to respond to both the opportunity and the challenge by being as candid as possible and you will forgive me, I am sure, if I sometimes overstep the conventions of a routine annual academic lecture.

But first, a word about my predecessor Gilles Anouil who so much enjoyed speaking to the Nihon EC Gakkai. As you know he left Japan with much regret in April. I would like to say he had a soft landing back at the headquarters in Brussels. On the contrary, he hit the

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ground running, as the Americans would so vividly say, as deputy spokesman for the EC Commission. This means that he speaks to the second biggest press corps in the world (after the White House) every day and during the year he will have given private briefings to most of the 400 or so international journalists accredited to the EC Commission. I need not assure you that he pays particular attention to the six Japanese correspondents accredited to the EC Commission in Brussels, still practising his Japanese, and of course the Japanese journalists are delighted that they have a special friend in such an exalted position.

When Gilles Anouil spoke to you last he entitled his address: "EC-JAPAN RELATIONS AT A TURNING POINT." His message was that the Government of Japan, if not yet the ordinary people, had finally recognised the EC as a major world power in the field of multi-lateral trade and finance.

This is very important since it would be a mistake not to recognise this fact and the deep mutual interest we have in nourishing our relationship lest the pressures of the current trade friction bring about some sort of disruption. I am an optimist at heart but it would be dishonest of me to pretend that our relations are serene, The future is rather uncertain.

I have entitled this talk "EC-JAPAN: Partners or Rivals?" Of course, the simple answer to this question is that we are both. But we may usefully examine the proposition in more detail. And, since I hope we are all optimists, in reverse order, rivals or partners?

We are rivals in that we are competitors on the world market. If someone buys a Japanese product he is not going to buy another similar European product. And vice versa. Of course, there are a

few elements which should determine the consumer's decision, such as quality of the product, the price in terms of the quality or in terms of the money available for purchase of such a product, the innovative and durable qualities of the goods and, perhaps, the delivery time and after-sales service. There may also be a question of which country made the product or which countries made the bits and pieces which go into the product.

In the case of certain products Japan has excelled in the world market with what we tend to call laser-beam intensity. This involves all the elements I mentioned above plus a prolonged commitment to marketing. For the Japanese, market share is what the British call the "be-all and end-all." It also involves a deep commitment by financial services which, in Europe, are easily established by Japanese and other foreign financial corporations, banks, securities houses, financial and legal consultants, insurance companies and so on. Market share with top quality products tends to follow the financial services which are, if you like, the front-line soldiers in a larger campaign.

Japan has been very successful in certain well-known fields. The motorcycle which I rode as a younger man is no longer in existence, yet in my youth it was a household name, world-famous—BSA. So were other motorcycle firms—Triumph, Norton, Villiers, AJS and as the scooter became popular, Vespa. Few if any of these remain. They were wiped out by intense, torrential exports of Japanese products. And, of course, our consumers bought them.

I give motorcycles merely as an early example of what has been happening in certain sectors over the past 25 years.

To cut a long story short, Japan seized upon the opportunity offered

by post-war reconstruction to reorganise its business structure in close cooperation with its Ministries, to set in concrete a government-business-distribution-party political system which has scarcely changed in 30 years, to acquire technology cheaply from both Europe and the United States, to join and take full advantage of the multilateral trading system set up under the umbrella of the GATT—the General Agreement on Tariffs and Trade—and to maintain an important world currency somehow shielded from the pressures of a world reserve currency. In a word, the message in Japan was: “Export or Die.” I would suggest that this slogan and even the overall system is now out of date.

This means that Japan is not merely a rival, a fair, competitive rival on our domestic and other third country markets, but a problem. Japan is a problem. The above policy has resulted in a deep, structural Japanese trade surplus of such danger to the multilateral trading system that other, perfectly legitimate policies of deepening relations in other spheres, such as cultural links, are drowned. It is not possible to discuss Japan these days without “trade friction” rapidly becoming the Number One topic. This is why, for example, Japanese newspapers which earn their living by keeping their finger on the pulse of world events are so constantly worried by Japan’s image. This is why, perhaps, the Asahi Shimbun is assembling a task force of 20 journalists to travel the world and edit 30 front page articles next January in Japan’s relations with the rest of the world.

The key problems are imbalances in trade and lack of reciprocity.

It is not my task to discuss Japan-US relations. But I lived more than five years as the EC representative in New York City and I am rather

familiar with EC-US relations. The facts are that the rise in the US budgetary deficit and the dollar has turned a permanent EC deficit into a substantial surplus. But our EC-US problems—over steel, corn gluten, pasta, citrus fruits and so on—are always manageable.

We can fairly say that the Japanese surplus with the US is also due in large measure to the size of the US budgetary deficit and the long overvaluation of the US dollar.

This is not the case with Japan's surplus with the EC. Quite the reverse. The Yen has appreciated by 95 percent against the ECU, the basket of EC currencies, since 1981. Yet our deficit with Japan has remained much the same. Recently it has even widened with two very worrying characteristics: the total volume of trade has dropped and the quality of EC exports accepted in Japan—the level of sophistication and value-added—has also deteriorated.

Yet in the various fields of satellites, rockets and semi-conductors, pharmaceuticals, wine and liquor, not to mention areas of so-called invisible trade such as financial services, the EC is the best. This is not reflected in the trend of trade figures. Our sales to Japan do not reflect the change in European exchange rates. Our deficit with Japan has therefore become a growing structural problem.

Japan's surplus with the United States, although much more a function of the overvalued but rapidly falling dollar, is of such magnitude that if protectionist measures now before Congress slip past the Presidential veto and bilateralism becomes the new name of the game, then the GATT upon which our peace and prosperity has been constructed will break down. The GATT has few rules. It has no sheriff, no chief of police, and no gaol (jail). If the contracting parties don't play the multi-

lateral game, it is finished and the future is unpredictable.

There is no doubt at all that the Government of Japan, and specifically Mr Nakasone, recognises the problem. He has gone to enormous lengths to expound and explain a policy of balanced trade expansion, to redress the imbalances in trade and investment, to overcome years of consumer resistance to foreign goods, in other words, to drag Japan more fully into the multilateral trade, investment and monetary system. No one could ask more.

The problem is the translation of the Government's wishes two ways—vertically through a bureaucracy which has its own entrenched views and a longstanding, deep relationship with Japanese business, and horizontally in passing the genuine and often heartfelt, even painful decisions of a key ministry along to other ministries and agencies.

This year has seen a great activity in exchanges between the EC and the Government of Japan. The EC Council of Ministers and the EC summit meeting have issued strong declarations about our dissatisfaction. Prime Minister Nakasone has been to the EC headquarters in Brussels and in January EC Commission President Delors will visit Tokyo. Next week—or rather on Monday week, November 18—three members of the EC Commission will sit in plenary session with Japanese Ministers to discuss the Action Programme and its impact on our relations. After that, and before President Delors' visit, the EC Council of Ministers—the legislative body of the EC Member States—will consider and make decisions on a year-long analysis of EC-Japan relations.

I make all this clear because you will no doubt return to your homes and your universities and other institutions and will want to explain the situation when the opportunity arises. I would suggest you watch the

newspapers during the next two weeks very closely.

Well, so much for the question of whether or not we are rivals. Are we also partners ?

Of course we are. The underlying assumption of such frank speaking is that we are partners and friends who have common interests.

I have flown here directly from Sapporo, Hokkaido, where we have just had an "EC week" which was so encouraging, so warm and rewarding that we shall pursue EC Weeks wherever and whenever we can certain in the belief of a genuinely warm welcome and growing interest. It was instructive that our lecture on monetary affairs at Hokkaido University—a Public—an old Imperial University—was the first given by an EC speaker there. We have made new friends who have stated in the Hokkaido Shimbun that they seek permanent, regular contact. We shall enthusiastically oblige.

The partnership is actually deeper than you may realise. Not only have we committed more people and more energy to our relationship this year than ever before, not only have we appreciated more than ever in a troubled world the fundamental importance of a strong, democratically-governed partner in a sensitive part of the world and at the United Nations, but you will also find that Japan is surrounded by other partners of the EC, such as the ASEAN group to which we have a busy permanent EC delegation, the Pacific Islands where we have permanent official delegates and Australia and New Zealand, where we also maintain a permanent diplomatic presence.

In fact, you will find EC delegations of varying sizes in nearly 90 countries of the world, as well as the United Nations, the GATT, the OECD and the I. A. E. A. We now have a fully fledged foreign, diplo-

matic service.

There is no need to explain all this to you who have so clearly demonstrated your personal interest in EC relations. The reason I have been so explicit is that I feel I am among friends and that the message is so important that we need messengers to carry it further.

You know, meanwhile, that our Delegation in Tokyo is always at your disposal, for information on EC legislation, studies, books, background and pamphlets. Many of you will be associated with our EC Documentation Centres around Japan. I should say here, perhaps, that Mr Deprelle whom many of you knew has returned to Brussels as a key promoter of the EC programme of worldwide exhibitions. His successor is an old friend of mine, a real professional, Mr Giancarlo Pau, who will be our new Italian colleague. He speaks perfect English and French and is learning some Japanese. We call him Carlo. (I don't know if he can sing—most Italians do—but we already have a Japanese and an Irish singer in the Delegation so we may have a trio soon.)

I hope that our association can prosper and even grow. I am wondering if we can usefully enlarge it to include a wider range of members. We need the intellectual interest and stimulus of the universities, of the teachers and the aficionados, but we also need to touch a large section of the population whose orientation has largely been American-Asian-Chinese. Don't forget, we are your second biggest trading partner, and for the countries of ASEAN, we are Ichibancho. Number One.

I have not yet mentioned what, to me, is an exciting adventure in our EC relations with Japan. Because of a reorganisation of departmental responsibilities in the EC Headquarters in Brussels, I find I am now not only the Counsellor the press and Information but also for

Cultural Affairs.

Cultural Affairs can mean many things: Nice movies, exchanges of exhibitions of paintings—and I am very pleasantly surprised by the number of important European paintings regularly put on exhibition in Tokyo and elsewhere—and crafts. As it happens we are helping as a go—between for the EC Crafts Association and the Japan Crafts Association which will be holding a joint exhibition at Matsuya Department Store in Ginza next September to celebrate the 30th anniversary of the Japan Crafts Association. This year was also the “European Year of Music” in which Japan was the only foreign country participant. We also had a European choir at the 40th anniversary remembrance ceremonies at Hiroshima which, incidentally, my predecessor Gilles Anouil flew out to attend.

My own member of the EC Commission, Mr. Carlo Ripa di Meane, has met Mr. Miura, director general for cultural affairs at the Ministry of Education, to discuss future exchanges, and I have since met Mr. Miura to discuss an exchange of letters between the two Ministers to identify such areas—writing, architecture, music, painting, town planning, women’s affairs—we have just had an EC woman specialist in women’s affairs attending a conference in Tokyo—and so on, films, dance, fashion and, of course, television. I hope by now you are getting the message that cultural affairs are not simply a frivolous luxury about which people sit and chat over coffee and brandy, but that all of the above sectors are industries which spends billions of dollars or Ecus or Yen and employs millions of people and, of course, lives or dies by consumer reaction.

So we have many positive things to pursue. In television, as we

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move away from the early sets of 525 or even 405 or 625 lines, we shall have to reequip, in terms of production and consumption. Think about that. Think about the production of future programmes !

I thank you most sincerely for your patience and I should be very glad to answer any questions. Please do not hesitate. Questions and answers are usually more illuminating than any speech. Thank you. Arigato gozaimasu.