The move towards European economic integration and its implication for EC-Japan relations

Pierre Del Grande

Introduction

May I thank you first for inviting me to deliver the guest's speech today. I am impressed by the quality of the audience which I have to address. Last year you had the privilege to hear my Ambassador, the former Prime Minister of the Netherlands, Mr. van Agt. Next year Mr. Noël, former Secretary-General of the Commission for more than 25 years and at present President of the European University of Florence, will deliver his thoughts to you. I am myself an official of the EC Commission since 25 years and I have been involved in Community-Japan affairs since 1982. I intend to draw your attention to some elements of the problematic regarding the unification of Europe and its possible consequences for the years ahead on the relations between two out of the three major present economic Western poles. I wish to be a constructive element in the reflections of the EC Gakkai today.

A. Progress towards 1992

As everybody can realise, the process of unification of Europe has entered into a phase of acceleration in all of its aspects: commercial, economic, fiscal, financial, politic-institutional. Europe seems to go through a state of grace in which decisions of historical importance can be reached. The perspective of a Community without internal frontiers has, as President Delors said, "rekindled enthusiasm" for Europe. A vast majority of its citizens are conscious that something should happen, even if the reality is not fully grasped. 1992 is happening. Almost everybody in Europe dreams of an area without frontiers where people, goods services and capital will circulate freely.

This objective was already that of the Common Market, and it should have been reached in the 1970's. The common market and the single market basically cover the same idea, even if the Single Act contains new elements notably as regards institutions (in particular the majority vote in the Council of Ministers and the cooperation with the European Parliament for the adoption of several measures).

Why, after such a long period in which the Community did not always show its ability to cope with internal and external challenges, did it have to return to the source, fixing for itself an objective, a time-scale and defining the actions to be implemented? I would think that the main reason is that the world has changed and that European citizens and politicians progressively have become aware of this phenomenon. The international economy has become a global one in which international competition has enormously intensified. Many newcomers are catching up fast: all want

to export. To survive in such a competitive race requires competitiveness, investment on a large scale, an innovative drive and immense research and development efforts. It became evident that the removal of internal constraints, like differences in technical regulations between EC countries, delays and costs at frontiers, restrictions on competition for public purchases, restrictions on freedom to engage in certain service transactions, would lead to a better exploitation of several kinds of economies of scale, to an improved efficiency in enterprises, to a rationalization of industrial structures and finally to new innovations, new processes and new products. Overall it would have been possible to enhance the Community's macroeconomic performance to a more satisfactory one, the result of which would be a reduction of the number of our 15 millions unemployed and of the protectionist reflexes such an unacceptable level tends to create. You know the conclusions of the study of Paolo Cecchini to evaluate the economic benefits of the 1992 programme. The combination of increased dynamism, the exploitation of opportunities it will provide to pursue growth-oriented macroeconomic policies, will allow the Community to benefit from a new stimulus for itself and therefore for the world economy.

What will really happen in 1992? Although we don't know the details, we know the objectives and the trend.

a) Nothing will happen on 31 December, 1992 at midnight, except what will be done day after day during the next 4 years. The date of 31 December does not have any automatic legal effects. There exists no legal sanction for non-completion of the internal market, but only a political commitment and a political sanction.

b) The Commission will, at the end of this year have tabled 90 % of the 279 proposals outlined in its amended 1985 "White Paper" and the

The move towards European economic integration and EC-Japan relations (Pierre Del Grande)

Council of Ministers has adopted 40 % out of the 279 proposals. I would not like to bore you with technical details, but globally a steady progress has been made as regards the abolition of frontier controls on goods, as regards the freedom of movement and of establishment of people, as regards the technical and standard harmonization. A strong momentum has been created in the service sector (mainly the banking and insurance sector) and in the liberalization of capital movements. Some agreements have been achieved in the telecommunications and transport sectors. However, much has to be done in the field of plant and animal health, for the opening up of public procurement markets, for company law and for the removal of fiscal frontiers (harmonization of excise taxes and VAT rates). There is also progress on accompanying measures such as the competition policy which has been sensibly strengthened, the regional policy which has the characteristics of a new Marshall plan (the resources given annually by the Community to small EC countries represent 5 % of their GDP), the technology policy and the monetary union actually under discussion in the Delors' Committee.

c) Nobody can ignore the engagement, at the highest level of the Heads of State and Government, towards the implementation of the Single Market. The last one was given in Hannover, in June of this year, when the European Council confirmed the 1992 deadline and expressed the general policy line as follows : "The internal market should not close in on itself. In conformity with the provisions of GATT, the Community should be open to third countries ..." The Council has even in fact recognized that the creation of the Single Market can no longer be dissociated from the monetary aspect.

d) As the necessary choice has been made, now the Community must

assume its consequences. We have heard, recently, discordant voices. We continue to hear them. They relate to points of principle or to modalities of implementation of agreed principles. These negative positions expressed here and there by some governments have one point in common : the priority these governments give to what they consider to be the national interest in relation to the European one. The governments are engaged in the relinquishment of some of their powers in economic and social policy. This is not a technical but a real political choice. Are the governments ready to accept what Europe implies as structural transformation ? I would say that, in reality, there is no opposition of the national interest to the European interest. Each country has to understand that the national interest can be better realized in the European one and integrated in it.

B. The Community in 1992

What will the Community look like, after the completion of the internal market, as regards its relations with third countries ?

a) First, the Community will, without any doubt, meet its international obligations, where it is bound by them, in the GATT, in the OECD or bilaterally. Therefore, in the sectors covered by GATT Codes, like public procurement or norms and standards, the benefits of the Single Market will be made available on a non-discriminatory basis to all the signatories of the Codes.

b) Moreover, the Community integration will be accompanied by a move to greater liberalization of the multilateral trading system. The remaining disparities in import and export arrangements will be removed. In particular, the residual quantitative restrictions maintained by some

The move towards European economic integration and EC-Japan relations (Pierre Del Grande)

Member States vis-à-vis Japan will have to be removed although, in some cases, transitional Community measures will have to be envisaged.

c) There are also sectors not covered by international obligations for which the 1992 programme provides the opening up. This is the case for government procurement as regards water, transport, energy and communications. This is also the case for services. In the financial services sector, the Commission has stated publicly that there is no question of depriving the subsidiaries of foreign firms already established in the Community Member States of the rights they have acquired. As regards the free movement of capital, the Council of Ministers has adopted a directive which embodies the principle of an "erga omnes" liberalization of capital movements. For the other areas where international obligations do not exist, the Community will seek to provide access for foreign firms and products, on the basis of a mutual balance of advantages in the spirit of the GATT. Actually, concessions are exchanged by all participants of the trade system in such a way that a mutually advantageous balance of benefits for all parties emerges from the negotiations. This principle is called balance of benefits. The pursuit of overall reciprocity vis-à-vis the Community's partners represents the continuation of the multilateral approach to liberalization which underlines the GATT and various OECD instruments.

d) This idea of reciprocity enjoys considerable appeal due to the fact that it suggests fair and equitable treatment. The Community expects that the Uruguay Round negotiations will provide a major opportunity to apply this principle and therefore to achieve a further liberalization beyond existing international agreements. But this idea of reciprocity leads to apprehensions by Community partners — and especially Japan. Some people

say that the Community has not yet sufficiently defined the reciprocity argument. Some people fear that the Community will apply the principle as meaning, not reciprocity in access opportunities for trading, but reciprocity in result.

It seems true to me that this new word for an old reality will have to be more precisely defined. Only facts and decisions will do that. Last month, the Commission discussed the issue and formally declared that reciprocity was the same central element of trade policy as accepted in the GATT framework and that the Community was pursuing the same objective of worldwide market opening as embodied in the GATT. The Commission then gave some hints of what she didn't think about :

First — the Community was not seeking sectoral reciprocity in the sense of balanced trade in each sector between itself and each of its partners. That form of reciprocity was the basis of the Japan-US agreement on semiconductors against which the Community had fought successfully in the GATT;

Second — the Community didn't ask its trading partners to adopt legislations identical to its own. It will ask for equivalent treatment (which is a more subjective concept already envisaged in the financial services field). It may also require third countries to give national treatment to our companies, if their companies receive national treatment from us.

In my opinion, the questions about reciprocity will receive answer only by policy decisions the Community will take, as the 1992 programme is progressively put into place. It is at that stage that everybody will be able to judge the manner in which the concept will be effectively implemented. For the present, I would not like discussions on conceptual hypotheses to damage the perception of a Community which has given

The move towards European economic integration and EC-Japan relations (Pierre Del Grande)

so many examples of its attachment to the liberal world system.

e) Leaving the reciprocity argument and returning to a more general perspective, there are, in my opinion, two axes in the thinking of the Community concerning the achievement of the Single Market.

. on the one side, the identity of the Community has to be reinforced with the completion of a real customs union and the unification of the regimes and procedures actually in force. This movement will be accompanied by an affirmation of the Community's external identity in areas in which a common internal personality is being created. Some third countries would certainly prefer the actual situation in which they can play each Member State against the other and against the Community. This will no more be the case after the completion of the internal market.

. on the other side, the Community, while trying to restore its firms to economic health and a strong competitive position, has every objective interest in a further expansion and liberalization of world trade in goods and services. That is the best guarantee as regards a continued liberal approach to trade by the Community.

f) The Community continues to devote a major part of its resources to farm spending: in 1993, even with the doubling of the actual means of the structural funds, 60 % of total spending will be in the agricultural sector. The European competitiveness in the industrial sector has to be enhanced with the objectives of better balanced and intensified Euro-Japanese economic and technological relations. This enhancement could result from the impetus of the Single Market. You know the scenarios which have been developed by the Commission and by independent consultants and which are compiled in 18 volumes. These scenarios have not been the object of any criticism up to now. They figure an increase of

the Community GDP by 4 to 7 % in 5 to 7 years, with the creation of 2 to 6 million jobs, the scenario with the higher GDP growth and job creation implying no change in the external aggregates (Budget deficit or Balance of payment equilibrium). The Commission wishes, therefore, higher growth, less unemployment, no change in global external aggregates and no protectionism.

This is already happening. I would like to refer here to the very positive annual Economic Report published one month ago by the European Commission: there has been in 1987/88, an increase in production capacity, in the industrial sector as well as in the services sector. This has allowed product development to be more flexible and has created jobs, without heightening inflationary pressure. For the first time in years, the number of jobs has gone up, by 1 million persons. The market's perception of the possibilities opened up by the prospect of 1992 has undoubtedly exercised a positive influence to that end. The growth is already accelerating, becoming more a Community phenomenon as said by Antonio Maria Costa, Director-General of Economic and Financial Affairs of the Commission.

C. The consequences of 1992 for Europe-Japan relations

Let me turn now to Europe-Japan relations. Everybody is aware of the very rapid technological changes, with profound implications for economic structures worldwide, which are developing into the world economic scene. The innovations as well as the deregulation phenomenon have resulted in a movement towards international integration and globalization. This movement implies adjustment costs which have led, in the US and in Europe, to an increased politization of economic issues.

The move towards European economic integration and EC-Japan relations (Pierre Del Grande)

At the same time, in parallel and I would say in relation with the movement towards globalization, we can observe a great number of initiatives towards regional integration. This has been the case evidently for Europe. Other tentatives are on the way, notably in the Pacific region. We all know that one hasn't to overstate too much some of these tentatives and see, immediately, the end of the liberal trade system and the return towards protectionist blocs. We all know that the vitality at regional level will constitute a stimulus for the global system of trade services. This is the way in which we have to apprehend all these initiatives.

How will Europe-Japan relations be inserted in these new realities ?

For observers, it is clear that something continues to be fundamentally wrong with the Europe-Japan relationship, despite the progress of the last few years. This essential relationship should be stronger and more developed in the interest of both Europe and Japan.

a) First, there is the need to develop the process of consultation and dialogue between Japan and the Community. This is true for the political cooperation. We have also to ensure a better macroeconomic coordination to correct the imbalances and to manage the transition to more sustainable patterns of growth and of interdependence in trade and capital flows.

b) The aim of the Community's policy towards Japan in recent years, has been to construct a balanced relationship. It has extended beyond trade to cooperation to lay the ground for closer ties on a wider basis, so strengthening the third side of the triangle formed by the US, Japan and herself.

c) As regards trade, the main problem lies in the explicit export-mindedness of Japan combined with her resolute domination over its home market. This market remains, despite the efforts of the previous and the present governments, one of the most difficult to penetrate in the world

and, in that sense, one of the most protected. For its part, 1992 will benefit Japan in many ways :

- more growth means more imports : no doubt that Japan will as usual make use of all new possibilities to export to the Community.

- the Single Market implies the removal of old quantitative restrictions against Japan : no doubt either that Japan will benefit from that removal.

- the completion of the Single Market in fields not covered by the GATT will, as the Deputy Minister of Foreign Affairs, Michihiko Kunihiro, recognized recently in London, “provide an incentive for outside countries to pay attention to these new areas themselves.”

There is therefore no question in any way that the EC market will close on itself to the detriment of Japan. It will provide new opportunities for Japan. The real question is therefore, will the Community be able to increase its exports to Japan in such a way as to restore a more balanced relationship with Japan? We know that EC-Japan trade is only part of a pattern which is globally positive for the EC. In that sense, Europeans don't have to worry too much about their trade deficit with Japan. But what is essential is that the restructuring and the opening of the Japanese economy be conducive to new opportunities for European exports. For the Community, the best hopes reside in a recovery of a new competitiveness as a result of 1992. In any case, a contribution by Japan in the form of improvement of market access, promotion of imports and of implementation of structural reforms is absolutely necessary and complementary to European efforts.

d) As regards cooperation beyond trade friction which should be the slogan for the years ahead, there is an impressive potential for wider cooperation. Too many people in Europe think that Japan remains an impossible country to conquer. Time has come to change that idea. Some

The move towards European economic integration and EC-Japan relations (Pierre Del Grande)

progress has been made in the areas of industrial cooperation, of energy conservation, of developing new sources of energy, of environment safeguard, of joint efforts to development aid.

Much has to be done for the active encouragement of increased exchanges of investment, notably to Japan, and of industrial technology and research. 1992 will bring new opportunities to Japanese investors in Europe who will be able to adopt strategies aimed at the whole Single Market. New incentives for Europeans to invest more in Japan have to be found.

I didn't touch today upon the monetary aspects of EC-Japan relations. As you know, the monetary union is not a formal part of the 1992 programme, even if links with it are obvious. There is, however, a growing political awareness of the need for a tripolar approach to international monetary problems, which will one day result in a strengthening of Japan-EC cooperation. The Delors' Committee is working : let's wait for its results and implementation.

Conclusion

During his visit to Europe, and to the Commission, in June of this year, the Prime Minister of Japan brought the Europeans a message, the substance of which was "participation and cooperation". The Europeans were surprised, because up to now the Japanese motto was rather one of competition. It is possible that the perspective of the large market with a less vulnerable Europe has pushed the Japanese authorities to give up circumstantial promises for more global solutions. A new tone appeared, less defensive, more self-assertive and more cooperative. It corresponds to some of the best European values : of openness, of tolerance, of capacity for assimilation. Mr. Takeshita pruned the principles of participation and cooperation, not

only in the economic field but also in that of the development of the Third World, in collective security and in culture.

After the decline provoked by the conflagrations of the past century, Europeans are finding a way to a new unity. Their involvement in the development of the Third World cannot be put in question. The hallmark of the European policy in this area remains in the Lomé Convention with African, Caribbean and Pacific Countries. Over the last few years, the Community has given increased attention to Latin America and Asia, putting emphasis on the support of the rural development and projects in the poorest countries, and on new means of industrial cooperation with the more advanced countries.

Finally, the values of culture continue to be a prominent aspect of European heritage.

Why therefore could we have doubts about the possibilities of a more fruitful cooperation between Japan and Europe? It's only a question of imagination and of courage to undertake. Lets have hope in the success of all these efforts, the contribution of the EC Gakkai being an integral part of that promising construction.