

**Schriften zu Regional- und Verkehrsproblemen
in Industrie- und Entwicklungsländern**

Band 54

Economic Cooperation in the 1990s

**European Common Market and Pacific-Asian Cooperation
in a Changing Global Framework**

edited by

Takashi Matsugi

Alois Oberhauser



Duncker & Humblot · Berlin

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Herausgegeben von J. Heinz Müller und Theodor Dams

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Editors' Foreword

The joint seminars held by the Faculties of Economics of the Nagoya and Freiburg Universities are already a tradition. Economic cooperation between Japan and the Federal Republic of Germany requires "staying power". Personal commitment on both sides, institutional validation by both Universities and mutual support of both technical and personal nature are required.

The editors are pleased that this tradition of Japanese and German cooperation includes the publication in this series of the papers presented at seminar meetings. This publication contains the contributions made at the 12th Joint Seminar.

The theme "Economic Cooperation in the 1990s: European common market and Pacific-Asian cooperation in a changing global framework" is of current significance. Europe wishes to achieve economic and political union by the turn of the century. The Pacific area with its economic dynamism is seen as a challenge. It is of great importance to understand the development of both these - next to the USA - gravitational centres.

In the name of the Faculty of Economics the editors wish to thank the Ministry of Sciences and Arts for the financial support of the Freiburg meeting, as well as the Rectorate of the Albert Ludwig University for its supportive interest over many years. A mention of thanks is also due to the Scientific Society of the Freiburg University for financing the printing of this publication.

Freiburg, March 1992

J. Heinz Müller

Theodor Dams

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Impacts of the EC Single Market 1992 on the Japanese Economy, with Special Reference to Manufacturing/Automobile Industry

Takashi Matsugi

1. Introduction

The EC Single Market will be formed at the beginning of 1993 and all efforts will continue until the end of 1992. There is great interest from Japanese companies and direct investments in EC member countries have increased remarkably in recent years. This is one of the economic adjustments to the enlargement of the EC market in the near future.

The EC market integration is said to be motivated by the consciousness that the electronics industries in the EC have fallen behind Japan and the United States, as well as by the fact that disarmament has been negotiated directly between the US and the USSR. The economic reason seems to be reflected in recent restrictive policies taken by some EC member countries against Japanese manufacturers, who then had to adjust and started local production in several European nations.

Related arguments are made towards the so-called EC fortress, initiated by the United States who on its part is applying protectionist measures. Who will protect us from protectionism¹? The common concern is how to maintain the world free trade system. In this paper we will consider the impacts of the EC single market 1992 on Japanese corporations, with the maintenance of the free trade system in mind.

¹ See *Blinder, Alan S.: Hard Heads, Soft Hearts - Tough-Minded Economics for a Just Society*, Chapter 4. Addison-Wesley Publishing Company, Inc., 1987.

2. Economic meanings of the EC single market 1992

When the plan for the EC single market is completed at the end of 1992, the EC market population will have grown to 320 million. It is to expect that chances for sales promotion will increase and scale economies will be pursued, so that enterprises are keen to invest more and the market itself will be more competitive within the Community.

The market integration gives rise to merits and demerits for those who are concerned in the Community². One of the merits is that the terms of trade will be more favorable to member countries, for volumes of trade are expected to increase within the EC market and decrease between the EC member countries and others outside the market, as a consequence of reduced duties. Another merit will come from hopefully realized scale economies. Operations will be rationalized and costs of production will be reduced under more competitive conditions resulting from the market enlargement. At the same time the expectation of increased profits will invite direct investments from abroad and these may contribute to more efficient resource allocation through competition.

On the other hand disadvantages will exist if the EC trade policy is inclined to be protective. If import duties are not reduced and the market is not fully opened to foreign exporters, trade with countries outside the Community will decrease. The fear is that a vicious circle in world trade would be brought about. The EC agricultural common market is typical in the sense that the price for protective policies against foreign countries is paid in terms of subsidies to remove excess agricultural products.

At present EC officials deny the possibility of the so-called EC fortress. The fear expressed by the United States will remain an illusion, if EC foreign policies continue to be liberal in trade. But up to today some restrictive measures have been taken with respect to imports of high-technology related commodities, mostly from East Asian countries. Trade restrictions are exemplified in such cases as local content, product origin, dumping issues and the reciprocity. The policy stance as to

² Economic Planning Agency: Economic Survey of Japan 1988-89, section 3-3-3 (in Japanese). Printing Bureau of Ministry of Finance, Tokyo, 1989.

international transactions is considerably different from country to country in the Community and it seems that Great Britain and France stand at extremes of the spectrum. It will not be an easy matter to reconcile the one with the other by the end of 1992.

According to the market competitiveness EC manufacturing industries can be classified into three groups³. The most internationally competitive industries include fashion, chemicals, pharmaceuticals, plant engineering and heavy machinery. They are strong in technology and product development and engaged in successful international businesses in the world as multinational companies. The second group comprises automobiles, home electric appliances and telecommunications equipment and services, which are as competitive as American and Japanese makers. As far as the position of European automobile industry in the world market is concerned, some models are more competitive and some are less so when compared with the US and Japanese products, so that trade frictions in the car market appear to be complicated matters of concern. The third group includes precision machinery (watches and cameras), shipbuilding, semiconductors and new electronic media. Such European products as timepieces and cameras were famous worldwide a couple of decades ago.

Today they have been beaten together with shipbuilding. Semiconductor production and electronic media are typical high-tech industries, but European high-tech industries have got a late start, lagging a lot behind the US and Japanese production standards. But it is in the field of electronic products that the most profound economic frictions exist between EC and Japan.

Judging by the debates on trade frictions in the past, an EC fortress could be firstly built for the third group of industries and then for the second group.

³ The Long-Term Credit Bank of Japan: EC Unification - Strategies of EC to Japan and Adjustments of Japanese Enterprises to Them - (in Japanese), Monthly Report No. 250, June 1989, pp. 35-37.