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ASEAN International Trade Conflicts and the Emergence of Trade War

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1. Introduction

Nowadays, the major trading partners of ASEAN are Japan, the United States, and the members of the European Economic Community. Japan leads in both exports and imports due to her need for oil and gas and other raw materials from the ASEAN region, and her ability to supply capital goods (1), manufactured goods; and also in the establishment of joint ventures in ASEAN countries (2). Japanese investment stocks in the ASEAN nations doubled from March 1981 to March 1987, when they amounted to US$ 14,324 million. U.S. direct investment stocks in the ASEAN states, augmented, between 1980 and 1987, by more than 110 percent, totalling US$ 10,054 million. But EC investment in the ASEAN region as a whole is far behind that of Japan and the U.S.(3). Japan and the U.S. have the majority share in trade, official development aid, and foreign investment in the ASEAN countries(4).

These three principal parties are the potentially biggest markets for the ASEAN states. The European Community (270 million people), the United States (220 million people) and Japan (116 million people) together account for more than half the world's GNP and 60% of its trade (5). A major factor in the preeminence of these three main global economic centres of power is their 200 or 300 multinational corporations which are large enough to be able to view the world as a single global market (6).

At present, the ASEAN markets are largely concentrated in Japan, the U.S., and the EC. These developed countries are also ASEAN's major sources of imports(7). Therefore, we will emphasize trade wars among these countries and ASEAN.

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This article comprises five sections. Section One is an introduction. Section Two explains the definition of trade war. Section Three cites literature on trade wars. Section Four explores various aspects of the emergence of trade wars. Section Five discusses conflicts in world trade.

Before studying in detail ASEAN and trade wars in the current world, we should understand the meaning of trade war.

2. Definition of Trade War

Trade war is an international trade conflict without violence between states and groups of regional economic cooperation. Trade conflicts are worked out cooperatively and in them each country treats with other countries in trade matters for protection of her national economic interests which are occasionally directly against the national interests of other states. The war remains a possibility as long as each party seeks to ensure self-protection and to promote its individual interests. If the parties in competitive situations are governed by a short-term conception of their interests conflicts between them will occur and will extend. Thus, one state raises a tariff barrier to protect her industry against the competition of a trade partner, and the second retaliates, the retributive interaction being repeated until the two countries find themselves in a trade war. Trade wars end in conflict among states.

The outcome of international trade competitive behaviour leading to trade wars is clearly against the interests of the respective states, and it is rational for them to search for more desirable outcomes. Trade war also creates cooperative behaviour against the cooperative interests of others. In addition, it concerns the rationality of decision-making by individual states through a better understanding of the international trade environment. Concerning the strategy of confict situations between parties, one side's strategy generally depends upon that side's expectation of the other side's strategies. Then, one state's gain can be only at the expense of another state.

Generally, trade war defines how countries and groups for regional economic cooperation balance their expanding needs and wants against the limited resources and markets available to satisfy them, by a wide variety of interactions and exchanges across countries. Differences in aspirations, natural resources, technology, human resources, capital, cultural, social and political systems, and other factors are always apparent in the foundation of mutually advantageous economic competition and relationships.

Briefly, trade war is a situation in which countries engaged in international trade try to reduce competing imports by the use of quotas, tariffs and other import restrictions and expand their export through export incentives. It covers also protectionism(8).

After understanding the definition of trade war, it is interesting to look at literature on trade wars.

3. Literature on Trade Wars

In the 1980s, each nation was disposed to restrict trade for reasons of overriding national importance. In the U.S., the rise in imports was viewed as an imperative calling for trade protection both for particular industries, such as steel and textiles, and more broadly for the entire traded goods sector. Developing states, such as Brazil, believed that protection of infant computer industries and other high technology products was a vital ingredient of industrial and national security policy. Europe searched to create a common telecommunications market for its own suppliers before allowing foreign producers to join the party. Japan desired both to insulate her declining industries, such as petroleum refining, textiles and steel, from import competition, and to catch up with U.S. technology in aircraft, software, and pharmaceuticals production(9).

An industrialized country enforces trade restrictions when a loss in comparative advantage creates difficulties for domestic industries and labor(10). In this regard, protectionism may provide immediate benefits to domestic groups. Only protectionism does not foster the increment of productivity or movement of domestic firms into more dynamic sectors. Its objective is to give domestic producers a breathing spell, an opportunity to operate under conditions of restricted competition(11).

For example, the principal examples of protection[*] were the Common Agricultural Policy of the European Community[*] and the protection of the textiles and clothing industries against imports from "low-cost" suppliers in all OECD countries(12).

Textiles and clothing are by no means the only commodities from developing countries that have suffered from restrictions, but it is here that the comparative advantage of developing nations seems particularly strong(13). In this circumstance, protection should be imposed on products originating from countries where wages are low(14).

Since our stress is on ASEAN and trade wars among its three principal trading partners, we will illustrate the international trade conflicts of Japan, the U.S., and the EC with their trade partners, as well as ASEAN and its international trade conflicts.

3.1 JAPAN AND HER INTERNATIONAL TRADE CONFLICTS

In recent years, Japan's better trade performance has caused conflicts with her trade partners, but trade conflict is not a new phenomenon. In the 1920s and 1930s, Japanese silk and cotton fabric exporters faced prohibitive restrictions in India, Canada and Australia. In the early 1950s, restrictions were enforced on selected products, including canned tuna, sewing machines, pottery and cotton fabrics by the U.S., and unbleached cotton fabrics by the U.K. Trade conflicts spread to iron and steel in 1966, to television in 1968, and to synthetic fabrics in 1969. Complaints concerned Japan's cheap export prices and the rapid increment in her exports, and antidumping suits were filed. In the 1970s and early 1980s, there were complaints about industrial machinery (1978), and automobiles (1981).

Where Japan could follow the industrialized countries in terms of industrialization and development, trade conflicts increased, particularly as new exports were developed. Every export sent to industrialized countries' markets competed with domestic goods. American and European producers requested protection, and the conflict was often settled by voluntary restrictions placed on Japanese exports, monitoring of export prices, and more tightly controlled trade arrangements(15).

There was great concern in Europe and the U.S. about the growth of Japanese exports, and there was fear over their prospective growth (16). Japanese industry could stand on its own and competed with the rest of the world. Japanese goods became so competitive during the 1970s that they did not need special support and feared protection encountered abroad. But, Japan had also been among the most protective nations(17). A good deal of the revival of protectionism has been directed against Japan, especially in the case of motor cars, steel and consumer electronics(18).

In the 1980s, a conflict in the overall trade relationship between Japan and her major trading partners emerged(19). Restrictions in the form of VER on imports of automobiles and of electronic products have been enforced by the EC and by the U.S. against imports from Japan, and steel import restrictions have been directed by both the Community and the U.S. against each other and Japan(20).

A new wave of anti-Japanese sentiment spread across Europe as public admiration for Japan's remarkable postwar recovery rapidly turned to fear that its economic juggernaut would smash key industries and conquer the unifying European market. Japan's expanding power was increasingly perceived by politicians as a major threat to Europe's ambitions to emerge as the preeminent economic superpower later in the decade(21). European analysts were also concerned about Japan's clout as the world's biggest creditor. They worried that Japan might be increasingly tempted to use that power to threaten capital-starved countries and to acquire further economic leverage over Europe.

The largest Japanese firms were skirting the threat of quotas and import duties by building plants in Britain so they could be assured of access to the entire European market when all national trade barriers were to be removed within the Community by 1992.

Japan's recent success in moving into Europe is reflected in new statistics showing that while her trade surplus with the United States had dropped by 20 percent over the past year, Japanese exports were surging into Europe. In May 1991, Japan accumulated a surplus of US$ 2.14 billion in trade with the Community(22).

But while the Japanese are keen to penetrate the European market with the U.S. nearly saturated, they are also aware that their economic expansion has many Europeans worried. So they will try to expand cooperation beyond the trade and investment sphere and offer explanations to deflect perceptions of Japan's economic advantage. Japan-EC relations will enter a new age. Now Japan wants to expand in as many fields as possible.

Many Japanese see the EC, with a market one-third larger than that of the U.S., as a stepping stone to markets in Eastern Europe and non-EC Mediterranean countries. With the integrated European market planned for 1993, the Japanese increased investment there by 70 percent in 1989, and began diverting trade from the U.S. to Europe(23).

Fears of protectionism may prompt Japanese firms to tread softly, but the lure of a single market will ensure that Europe gets a growing share of their direct investment funds. Europe will continue to increase its share of Japan's overseas direct investment for some years.

The attraction of Europe's single market after 1992 and worries that its market would be surrounded by protectionist barriers combined to boost Europe's share of Japan's total overseas direct investment to 25.1 percent in the year ended 31 March 1991, up from 21.9 percent in 1989/90. In 1991, the value of Japanese direct investment in Europe fell only slightly to US$ 14.29 billion from US$ 14.81 billion in 1990. This was despite a drop in overall overseas investment to US$ 56.91 billion from US$ 67.54 billion due to high interest rates.

In this regard, the new French Prime Minister Edith Cresson repeatedly lashed out at Tokyo, warning Europeans not to repeat the U.S. mistake of letting Japan destroy key industries. As for Japan, Mr Keisuke Totsuka, a senior economist at Sumitomo Life Research Institute said that a lot of factors go into an investment decision, but the most important is whether the investment is welcome or not.

It is unlikely that all of Europe will become protectionist, so Japanese firms will invest in other European countries and their goods will enter France without providing benefits such as employment or technology.

The British government's warmer welcome for Japanese firms and these companies' greater familiarity with Britain's language and culture mean it will remain a major focus of Japanese investment. Britain accounted for 12 percent of Japan's total overseas direct investment in 1990/91, while France and Germany each had about 2.20 percent. French attitudes inhibit investment, while Germany's close-knit business groups make investing there as difficult for the Japanese as Japan's economic structure does for foreign companies that want to invest in Japan. Spain and Portugal are likely to take a growing share of Japan's investment in Europe because of their relatively low wages; but East Germany and Eastern Europe have little attraction for the present due to economic troubles, frazzled infrastructure and potential political unrest(24). As for the EC, its surveillance system used to monitor Japanese exports of some sensitive items is a form of pre-protectionism signifying where conflicts may arise and inhibiting trade as Japan tries to avoid harmful friction. To avoid trade friction, what the Japanese desire most is a product that no one else has. In their drive, which borders on an obsession, to stay ahead of all competitors by augmenting productivity, the Japanese have developed an endless variety of automatic machinery and sophisticated machine tools(25).

The export strategy of Japanese firms, and the trade as well as industrial policy of the Japanese government, became objectives of criticism at summit and OECD ministerial meetings. The Japanese government received complaints from the EC (in September 1981), the U.K. (in October 1981), and the U.S. (in December 1981) concerning their persistent trade deficits with Japan. Other complaints pertain to the complicated distribution system of the Japanese market and the commercial practices that prevent foreign access. The trading partners requested market liberalization and import expansion.

Japan responded with a series of trade liberalization programmes such as unilateral tariff reductions, expansion of import quotas, improved import financing, and the despatch of import missions. Later, in July 1985, the Japanese government announced an Action Program - the seventh in a series of trade liberalization programmes since 1972 - to further decrease barriers and promote imports(26). In 1991, the EC and Japan pledged to provide equitable market access, and to strengthen the world trading system "by rejecting protectionism"(27).

Regarding the U.S.-Japan international trade conflict, U.S. exports to Japan amounted to US$ 22,600 million in 1985, while the U.S. bought US$ 74,400 million worth of Japanese products. During 1985-1987, the U.S. and Japan reached agreement on improving U.S. access to the Japanese market in many areas, such as telecommunications, medical equipment, forest products, semiconductors and cigarettes(28).

We can note that Japan has a large trade surplus with the U.S. The surplus was nearly US$ 12-13 billion in 1981-1982, but augmented rapidly to reach US$ 51.4 billion in 1986. In this circumstance, the U.S. made stronger demands for further liberalization of the Japanese market and a decrement of the bilateral imbalance to a tolerable level. Large trade imbalances are generated in the process of adjustment to changing conditions and comparative advantage positions. This is most evident in the conflicts between Japan and the U.S.(29).

Agriculture is also a major source of friction because it is increasingly the only sector in which some countries have any hope of boosting sales. If Japan will not purchase more manufactured products, what else can she buy other than raw materials and food? Therefore, Bill Brock promptly served notice that the Reagan administration wanted Japan to open her market further. High officials from Australia and New Zealand have made similar demands(30).

There are many examples of trade confict. Some are in electronics. Despite the huge American head start for computers and integrated circuits, the Japanese could catch up on her home market and also abroad. Owing to government subsidies and protection of the industry and the massive credit made available to boost output in order to have economies of scale, the Japanese companies can produce far more chips and other components than they need, as well as a growing range of computers. Sometimes, their technology is also superior. Besides, they can expand their production by cutting costs and pushing hard for each additional percent of market share(31).

In 1989, over half of Japan's exports went to the U.S. and Europe (32).

Economic relations between the U.S. and Japan are in the forefront of increasing problems characterised by a rising tone of competition and antagonism. The news generated over the past decade creates the impression of an incipent trade war rather than bickering between close allies(33).

Again in 1991, the U.S. cited Japan and China as having major trade barriers that contributed to the U.S. trade deficit of US$ 101 billion. Many of the most significant trade barriers that the U.S. faces continue to be in the Japanese market. The Japanese trade barriers ranged from high tariffs and restrictive quotas to rules on investment and onerous standards and testing procedures designed to exclude foreign products. The barriers with China were highlighted by a lack of protection there for intellectual property, with U.S. businesses complaining that they had lost millions of dollars in pirated patents and copyright.

Japan's chronic trade surplus with the U.S. will again make it the main target for American critics of unfair trade practices(34). In consequence, Japan bashing means the attempt to open Tokyo markets to American goods(35).

As for the U.S., to bring the trade deficit in line, the American economy will have to grow its way out of the problem. In the short term, the U.S. solution is dramatically to decrease imports of finished goods, while increasing exports by increasing import tax and decreasing trade imbalance.

Augmenting exports to Japan is simply not going to happen, while the Japanese are struggling with their own growth crisis. In the same vein, exports to Europe will not increase, while the Europeans are struggling with the problem of integration. Therefore, the U.S. should begin thinking of radical solutions to her export problems. The solution is obvious, the U.S. must exclude Japan from the American market (36). However, the U.S. has decided to solve her own economic problems through more aggressive exports(37).

As to Japanese trade conflict with other trading partners, we will illustrate her trade friction with Korea and Pakistan. In 1982, the Japanese Cotton Spinner's Association brought a petition to the Minister of MOF alleging that Korean goods had been dumped on the market and had caused material injury to the textile industry. She also claimed that the Pakistani government gave an export subsidy in the form of: (i) a kickback to exporters at the rate of 7.50 percent of the export price; (ii) tax reduction of 0.50 percent of the income derived from export; and (iii) export financing at a preferential interest rate. Because of the increment in imports aided by the government, there had been material harm to the Japanese domestic industry.

As to the Korean dumping issue, there was a conference in Korea between the representatives of the Japanese and Korean industries. In consequence, the Korean industry decided to effect a voluntary export restraint.[**] The Japanese industry accepted this settlement and then withdrew its petition. As for the Pakistani subsidy issue, there was a conference between the Japanese and the Pakistani governments, and the Pakistani government promised to annul preferential financing and rebate. In this regard, the Japanese government, considering that the tax reduction would have only a minimum effect, decided to terminate the investigation.

Later in 1987, the import of knit textile products surpassed the exports of Japan. The main foreign sources of supply were Korea and China. The Japan Knitting Industry

Association, seeing exports to Japan from Korea had been dumped, claimed a petition in 1988 under the antidumping regulation. In consequence, in early 1989, the Korean exporters announced that they would restrict the export of the goods voluntarily. Therefore, the Japanese association decided to withdraw its petition(38).

3.2 THE U.S. AND HER INTERNATIONAL TRADE CONFLICTS

It is well known that the U.S. has been able to remove foreign barriers to U.S. exports through bilateral negotiations and agreements(39). In this circumstance, the negotiations are aimed at securing "additional benefits for the international trade of developing countries, and a better balance as between developed and developing countries" in the sharing of the advantages resulting from the expansion of international trade(40).

Among the NICs, only Korea and Taiwan have negotiated bilateral export restraints with the U.S. in several sectors(41). Textiles are the first example. From 1969 to 1971, the U.S. was in grave conflict with her trading partners over the unlimited import of textiles into the U.S. The conflict culminated in a voluntary export restraint (VER) arrangement and later become a major point of negotiation between the United States and the Asian NIEs.[*] These negotiations finally resulted in a managed trade network under the 1974 Multi-Fibre Arrangement. Many export products destined for the U.S. or Europe are still controlled by VERs, which reveals a continuation of the conflict between Japanese exporters and American or European producers in certain sectors(42).

Hong Kong, Taiwan and South Korea are likely to confront greater restraints on their textile exports under a new Multi-Fibre Arrangement (MFA) that was negotiated in Geneva. The restructuring of their textile and clothing industries can gradually reduce their economies' vulnerability to protectionism against cheap and mass-produced textile goods.

The NIC's increasing exports of electronics and telecommunications equipment, as well as electrical products, into the U.S. and the EC have aroused protectionist sentiments. Besides, they are likely to lead to a further decrement or removal of privileges under the Generalized System of Preferences (GSP) in 1987. These items are competitive based on cost and quality considerations, not on GSP; and they have already secured significant market shares.

Unlike Hong Kong, South Korea and Taiwan will come under intense U.S. pressure to apply greater import liberalization and various other trade promoting policies(43).

Later, a major trade bill, aimed at providing general protection to a whole range of products, namely the Omnibus Bill, proposed changes to existing U.S. trade legislation comprising:

- Requiring the government to retaliate against any country that erects barriers to American goods,
- Assuring that the U.S.'s trade partners with large surpluses drop barriers to U.S. exports and/or take other immediate domestic measures to narrow their trade surplus,
- Taking measures to help U.S. exports gain access to foreign markets, and,
- Facilitating the process by which U.S. industries can receive relief for foreign unfair trade practices involving patents and copyright(44).

Regarding trade conflict between the U.S. and West Germany, in 1980, the U.S. exports to West Germany amounted to US $ 10,600 million. But, in 1985, they had decreased to US $ 9,000 million. The U.S. aircraft industry alleges that West German government support, both economically and politically, for the Airbus has cost it 150 commercial aircraft sales. Concerning telecommunications, the West German telephone administration uses selective bidding procedures, that permit only well-established enterprises to submit bids; and discriminates in other ways against foreign companies without manufacturing facilities or other significant technical presence in West Germany. Besides, West Germany enforces unrealistic testing and certification requirements on U.S. terminal equipment(45).

Another prelude to EC-U.S. trade wars may have come in 1992. The development of the Internal Market of the EC in 1992 changed the balance of world economic trade to the possible disadvantage of the U.S. Already U.S. influence has declined in relative terms and the U.S. Congress is likely to take a stronger attitude toward European trade relations(46). 1992 would find the U.S. being pushed out of markets in Western Europe, Eastern Europe and Russia(47).

The combination of increased American sensitivity to any form of discrimination against her exports, the augmentation in the American propensity to protect and the potential threat of higher Community external barriers can create an explosive situation. On the other hand, the EC has maintained on several occasions that what it does internally is its own business and must not be negotiable with outside parties. While this is juridicially right, it is difficult to believe that a period characterized by trade wars between the U.S. and the EC can serve the interests of either party (48).

By the end of 1992, the EC planned to remove all internal barriers to trade among its twelve members. The U.S. and Canada both ratified a new treaty to create a common market that will be fully effective by 1 January 1999.

While the members of these two blocs claim that their plans conform with the rules of the General Agreement on Tariffs and Trade (GATT) and that they will not damage trade with non-members, there is wide perception that the world is heading for a fragmentation of the global trading system.

The other trading states have three alternatives to tackle this new development:

- The GATT system can be adjusted to absorb the new blocs without damaging the principles of free trade.
- Individual countries and groups can negotiate bilateral agreements with the EC and North America to protect their individual interests; and
- Regional trading partners can form their own common markets to increase regional trade and to negotiate more effectively with the two super-blocs(49).

In these circumstances, the Japanese government has called for international rules to govern the emergence of regional economic zones. Moves towards a single market in the European Community and a free-trade zone grouping the United States, Canada and maybe Mexico should thus be monitored by the General Agreement on Tariffs and Trade. There is a growing need for multilateral rules regarding economic integration. Economic integration may end up significantly reducing the world economy and world trade if the wrong method is employed.

All member nations of GATT, especially those which are not members of any economic union, need to assume the role of monitoring trade practices, to make sure the economic integration in question does not exclude or unfavorably treat non-member countries. Trade diversification could again emerge with the formation of the single EC market, with more competitive imports from outside the region being diverted by less competitive imports from other EC members(50).

3.3 THE EC AND ITS INTERNATIONAL TRADE CONFLICTS

International competitiveness comes not only from lower labor costs, but also from dynamic gains such as new technology and economies of scale obtained in the catching-up process. Trade conflicts have now extended to some high-tech industries where the importing countries need to protect domestic production for security or other strategic reasons(51).

In the EC, there exist various forms of protectionism such as customs barrier restrictions on textiles, more strict health certification restrictions on meat plants and a strong buy-national policy especially prevalent in telecommunications equipment, the transport sector, and heavy electrical equipment. It keeps a system of export subsidies on a wide range of agricultural products such as wheat, wheat flour, beef, dairy products, poultry and certain fruits. The EC members also aid their exporters to sell to less developed countries by mixing development aid with export credit financing, thus putting non-subsidizing states at a competitive disadvantage(52).

In 1991, the EC warned that many of its trade partners would have to pay more respect to copyright and patents if they wanted a bigger share of the lucrative European market. Mr Hugo Paemen, leader of the EC negotiating team at current GATT negotiations at Geneva, said infringements of intellectual property rights cost the EC several billion dollars a year. He said some countries had not accepted the concessions on trade-related intellectual property rights they would need to make if they hoped to benefit from a lowering of EC trade barriers.

The EC was widely accused of causing the collapse of the GATT negotiations in December 1990, because of its swollen subsidies for agricultural exports which give EC producers an unfair edge on world markets. A recent GATT review also criticised the EC for imposing such trade barriers as export restraint accords on low-cost producers of such products as textiles, cars, machinery, and electronic goods. But EC officials frequently warn that concessions are needed on all sides, and that success in the resumed GATT negotiations depends just as much on progress in such sectors as intellectual property rights and services.

EC officials said in July 1991 that infringements of patents, copyright, and trademarks, along with false labelling and piracy, were increasing because of fast industrialization in the Third World and rapid transmission of ideas. They named China and India among the countries which gave no patent protection to pharmaceutical products developed in the EC, and allowed cheap generic alternatives to be marketed. The officials said these countries would suffer in the long run because EC companies would be unwilling to pay for research into diseases prevalent there.

India was also singled out along with Japan for labelling local spirits as Scotch whisky, Thailand for pirating phonograph records and Japan for "allowing widespread semi-commercial copying of compact discs, records and tapes". The officials said the EC was a major victim of intellectual property "piracy" and that about 10 percent of the value of its exports of books, records, software and entertainment products was pirated. They stressed that Third World and Asian nations were not the only offenders, and that the wine industry in Australia and New Zealand had the habit of disguising local wines as European (53).

Following the EC single market in 1992, Europe would clearly need to strengthen the east in order to secure the continued harmlessness of Russia. In integrating the east, or only East Germany, into its structure, the EC must create a system of protection for Eastern Europe's agriculture and infant industries. 1992 could have kicked off a series of trade wars. The Europeans will protect Eastern Europe by limiting access to the entire EC market, especially limiting Japanese consumer goods and American agricultural products (54). Europe's integration in 1992 would likely have closed Japan off from some of that market(55).

France, which has come out with the toughest language used in Europe against what it sees as Japan's unfair trade practices, so far looks alone in taking on openly the world's biggest financial power. Japan had a US$ 12 billion trade surplus with the twelve European Community countries in the first five months of 1991, and the surplus could hit US$ 30 billion by the year end. At the same time, Japanese investments in Europe are 17 times higher than those in the opposite direction.

Mrs Edith Cresson, French Prime Minister, had said that the Japanese were seeking to "conquer the world" and for this reason were the "common enemy" of the Western nations. She is against protectionism and the Japanese system, which is hermetically sealed. She was backed by the chiefs of Peugeot and Thomson, who both accused Japan of cheating on its Western partners and trying to kill competition, particularly in Europe. However, critics outside France who have previously accused Japan of keeping her market impenetrable have not echoed her tough words.

The Italian government has refrained from making abrasive comments against Japan. Spanish Prime Minister Felipe Gonzales said that he would welcome further Japanese investment in his country, while calling on Japan to reduce her huge trade surplus with Spain. In the Netherlands, Mitsubishi's purchase of 33 percent of Volvo Car BV, the Dutch subsidiary of Volvo Sweden, did not bring hostile reactions. A total of 287 Japanese firms have set up business in the Netherlands where they invested more than US$ 2 billion in 1990. Japanese companies, especially Honda and Toyota, are also investing heavily in Belgium.

The European country that has most welcomed the Japanese is Britain, often labelled the "Trojan horse" for the "Japanese invasion". Under former Prime Minister Margaret Thatcher, the British government opened wide the doors to Japanese investment, resulting in a strong presence by Toyota, Nissan and Honda. Foreign firms in general control 20 percent of British industry, 60 percent in the car sector.

Germany has not come out strongly against Japan, since the big industrial groups have long felt they are strong enough to resist the Japanese offensive. But disquiet is starting to show in the most exposed sectors of cars and electronics(56).

Strong demand in Europe for Japanese consumer goods at the same time that Japan is cutting back on purchases of expensive European art and cars explained the increase of Japanese trade surplus with the EC(57). Mrs Edith Cresson, French Prime Minister, said Japanese firms charge high prices at home to finance cheap exports while sealing off the domestic market from foreign competition. Peugeot, the French car maker, was the most vocal in calling for controls on imports of Japanese cars when European nations formed a single EC market after 1992.

Until recently, France was seen as not welcoming foreign investment compared to other places in the EC(58). Mrs Cresson may need to protect French companies against the Japanese in other sectors, such as the car industry. But in fashion and luxury goods, it is the French who are invading Japan(59).

In order to resolve trade issues, Japan and the EC will set up a high-level group to help improve strained relations by tackling problems such as their swelling trade imbalance. In April 1990, Japan's trade surplus with the EC surged 77.1 percent to US$ 2.49 billion. If Japan's monthly surplus with the EC reached US$ 3 billion, it would create a greater distrust of Japan in Europe and strengthen groups wanting to restrict Japanese exports. EC President Jacques Delors commended Japan's efforts to reduce tariffs and other formal trade barriers, but echoed U.S. trade complaints by calling for a reform of "structural" barriers such as Japan's complicated distribution system and closed industrial groupings called "keiretsu"

As for Japan, the Japanese Minister of International Trade and Industry, Mr Eiichi Nakao, denied charges by newly appointed French Premier Edith Cresson that Japanese markets were tightly closed to imports. He said Japan had one of the lowest average tariff rates among developed countries while France still restricted imports of Japanese radios, televisions, cars, and other products. In May 1991, Mr Delors, EC President, also repeated a call made by U.S. Vice-President Dan Quayle earlier for Japan to share more world responsibilities(60).

3.4 ASEAN AND ITS INTERNATIONAL TRADE CONFLICTS

Nowadays, the ASEAN countries depend on international trade, and are particularly concerned with the issue of market access. Protectionism, rising in developed countries, impediments to the expansion of world trade, and the increment of bilateral trading blocs, as well as the outcome of the Uruguay Round of GATT[*], have important implications for the economic growth prospects of ASEAN(61). The augmentation in protectionist tendencies may limit the growth of exports of ASEAN members to the rest of the world(62). In this section, we will give examples of ASEAN's international trade conflicts with Japan, the U.S., and the EC.

From the ASEAN point of view, there has been a growing criticism of the closed nature of the Japanese market. It is a major cause of the Japanese trade surplus, that she has built up with her trading partners(63). In this circumstance, the Japanese rebut the accusations of informal barriers with claims that foreigners are trying to change Japanese culture, or that various policies in question are domestic ones with no original intent to block imports.

Japanese trade policies assume that certain industries will serve her national interests in the future, so that they deserve protection(*) from imports. In this context, it is realized that her government should provide incentives to encourage the continuous reallocation of resources, including the application of import barriers(64).

ASEAN has continued to meet difficulties in gaining greater access for its manufactured and semi-manufactured products into the Japanese market(65). In consequence, ASEAN repeats its call for greater access to the Japanese market.

Notably, ASEAN's import and export trade are dominated by Japan and the U.S.; thus, the second ASEAN international trade conflict is related to the U.S. On economic issues, ASEAN has attacked protectionism in the U.S. and other advanced countries, urging better access for semi-finished and fully manufactured exports(66). ASEAN has been especially concerned over American imposition of non-tariff barriers to exports to the U.S. in food and in textiles(67).

The rise of protectionism in the U.S. is evident. Concerning the ASEAN countries, it was the Jenkins Bill that placed severe restrictions on textile imports. Another example is the Farm Act of 1986. Especially galling to ASEAN is a lowering of U.S. rice prices. Rice exports from Thailand were most hit(68).

Moreover, a significant area of ASEAN concern has been the growing restrictions placed on the U.S. GSP(*). In ASEAN, Brunei became the first member to be graduated out of the U.S. GSP. This was effective from July 1988, because her per capita GNP had exceeded the US$ 8,500 limit. Besides, a number of the ASEAN nations were also threatened with GSP withdrawal because of failure to satisfy the internationally recognized workers' rights condition. In addition, a number of ASEAN states, including Singapore, were pressured into enacting copyright legislation, a move which triggered a political crisis in at least one ASEAN country. More than that, more alarming to ASEAN, was the

U.S. decision in January 1988 to graduate Singapore from her GSP programme with effect from 2 January 1989(69). In consequence, GSP graduation has diluted the incentives for ASEAN industrial complimentation and discouraged the setting up of supporting manufacturing industries in the region for GSP eligible products(70).

It also noted the U.S. should concentrate her efforts on developing broader international standards and continue to improve its own system of enforcing intellectual property rights(71). American traders will be very interested in the protection of intellectual property rights which is something that is supportive of their own trading position(72).

As for ASEAN, protection of intellectual property rights implies an increment in outflow of payments. On the other hand, the absence of protection of intellectual property rights will not encourage its own R&D activities, because multinationals will also hesitate to transfer their technology and technical knowhow(73).

In the case of Thailand, the U.S. recently announced a reduction in GSP benefits in order to retaliate against Thailand, since she refused to comply with all the U.S. requests to protect intellectual property rights.

After considering the U.S.-ASEAN international trade conflicts, this study moves on to ASEAN-EC international trade conflicts.

The EC has increasingly moved toward several forms of non-tariff protection both on its internal and external frontiers. Non-tariff border protection is strongly directed against certain relatively unskilled labor-intensive products from semi-industrialized nations that combine efficiency in production with low wages(74).

ASEAN is now suffering from the rising threat of protectionism, which adversely affects its exports. In this context, France, the U.S., and Ireland are the three outstanding nations which delimit ASEAN textile fabrics and clothing exports, especially from Thailand(75). The ASEAN nations have also found tariffs regularly reimposed on wood and articles made from wood. Particularly, Singapore has had tariffs often reintroduced on umbrellas, image projectors and capacitors; Thailand on glutamic acid, glazed tiles and certain types of shoes; Malaysia and the Philippines on shoes(76).

ASEAN views the growing protectionist threat from the West with great anxiety. There is a constant sense of uncertainty about access to markets in the West, including those of the EC(77).

But the EC is concerned at the lack of adequate protection for patents, trade marks and copyright in certain sectors, and in certain countries in ASEAN, which it considers as an important obstacle to futher expansion of European investment and trade in the region(78).

Before proceeding to describe conflicts in world trade, it is important to explain the emergence of trade war.

4. Emergence of Trade War

This article focuses on the major trends and recent developments in international trade relations and conflicts in so far as they affect the ASEAN countries. All the major issues of international trade conflict between the economic powers (principally Japan, the U.S., and the EC) are to a greater or lesser extent products of domestic concern or constraints in origin.

All of these three economic powers possess political systems based on the principle of representative democracy. More dominant in the councils of international debate is the theme of the protection of their national interests. Recent years have seen an alarming resurgence of protectionism by the U.S. and the EC. This has been the response to a decade of economic crises, stagnant growth, industrial decline and rising unemployment. Japan has been roundly damned for being highly protectionist, but has made some progress in opening up markets to foreign goods.

Protection in the early 1980s took the form of replacing free international markets by bilateral agreements, or sometimes unilateral fiats. The new protectionism has been partly a response to successive anxiety about rapid advances in competitiveness first in Japan, later in the newly industrializing countries (NICs), and now in the emerging economies of Asia. Today, the displacement of domestic suppliers by other developed countries is an equally powerful force for the restraint of trade(79).

In the U.S., there has been and continues to be increasing pressure to impose protectionist measures(80). The EC has been on occasion a willing accessory, and in some instances the protagonist, in the erosion of free trade principles. The Community instituted the first Generalized System of Preferences (GSP), limited duty-free access to certain of its markets to different groupings of the developing countries, while trade between the member states is completely free of tariffs(81).

On the non-Parliamentary level, sectional interests, opinion polls, and lobby groups are all playing a large part in decision-making by the national governments of Japan, the U.S., and the EC. Protection is afforded to certain interest groups e.g., the farmer's lobby in France and Italy, or the steel-makers of the U.S.

At the same time, the high technology sector of Japan, the U.S. and the EC are geared to the same essential objectives. They are increasingly competitive with each other in a limited market.

The trade war threat lies in the development of the great U.S.-Japan Trade Conflict and the great U.S.-EC Trade Conflict(82).

Regarding trade conflicts with Asian countries, Japan's trade conflicts are not limited to the U.S. and Western Europe. Consistent trade surpluses with the Asian NIEs and some ASEAN nations have created major issues at bilateral governmental talks and the Japan-ASEAN Forum. Japan's trade surplus principally reflects the strong import demand for machinery, parts, and industrial materials needed by these states for their development. It also shows the different stages of development between Japan and these Asian countries. Therefore the demands made of Japan concentrate on the expansion of imports to Japan, ameliorated market access for major ASEAN exports such as bananas, plywood, and boneless chicken, as well as improved GSP. Since these Asian nations are aiming to catch up in their industrialization, Japan was also requested by the NIEs and ASEAN countries to augment import of new manufactured goods (Indonesia), invest in new industries (Thailand), and support better access to high technology (Taiwan and South Korea)(83).

Japan has responded to trade conflicts from the 1970s to 1980s by revising her trade policy. Market liberalization measures and export restraints are the chief changes. Market liberalization measures comprise the abolition or expansion of import quotas, tariff reduction, the improvement of standards and procedures, as well as the liberalization of services trade (finance, construction, and legal services). Tariffs on manufactured products were decreased substantially through unilateral reductions in the 1970s and previous GATT multilateral trade negotiations. Besides, tariffs on commodities from developing countries were exempted or halved under GSP(84).

As for ASEAN trade friction, we will elaborate the cases of Singapore and Malaysia.

In Singapore, growing export competitiveness of her electrical products, electronics and telecommunications equipment may result in the GSP graduation of such items(85). Besides, her success in the export of radios, television sets and semiconductors to the EC may lead to a removal of GSP privileges for those items(86). As in the case of other NICs, the removal of GSP benefits for some of Singapore's products will not seriously undermine the domestic production and export of such items. This is because of the strong hold on a significant share in the foreign markets, and because competitiveness is largely based on lower production costs and product quality, not on GSP privileges(87).

However, the threat of removal diminished Singapore's attractiveness as an offshore manufacturing center in comparison with other developing countries, and to the developed countries with immense market opportunities(88).

Being export-dependent and lacking in natural resources, protectionism will often pose a threat to Singapore. Government efforts in assisting local exporters with market and product diversification strategies as well as at lobbying can only provide a limited hedge against protectionism(89).

Notably, Singapore is relatively free of trade barriers, except for meat imports controlled for health and sanitary reasons. However, her free port status has made her a center for the sale and export of counterfeit goods. Singapore has drafted a new copyright law that would decrease counterfeit trade, but copyright protection will remain inadequate until Singapore adheres to the international agreement on copyright protection or establishes bilateral copyright relations with the U.S.(90).

As to Malaysia, in June 1991, the International Labour Rights Education and Research Fund urged the United States government to suspend Malaysia's duty-free benefits under the Generalized System of Preferences (GSP) programme, alleging that Kuala Lumpur has not complied with the worker rights standard (91).

Since ASEAN must face up to foreign competition, Singapore's Prime Minister Goh Chok Tong urged ASEAN countries to face up to the new realities of two potentially powerful economic groups, namely Western Europe and North America, and safeguard their individual interests by taking a similar path towards regional economic cooperation. In this regard, ASEAN nations " must abandon out-of-date thinking that they are primarily competing against each other."

1992 would see a new Europe consolidate into a single market and a North American Free Trade Area involving Canada, the U.S. and Mexico being created. This could be worrying for ASEAN, especially if the North American Free Trade Area negotiated bilateral trade agreements with other countries individually and separately. Such an imbalance of negotiating power would make it difficult for individual ASEAN countries to adequately safeguard their interests. Notably, foreign investments had already flowed into Mexico and Canada because of the promise of free trade in an enlarged market that would be made up of some 360 million people. The Single European market in 1992 would be made up of 340 million people. These are economic superpowers intent on increasing their GNP and share of world trade.

ASEAN's common interests are best served by increasing ASEAN's attractiveness to investors by presenting together an ASEAN mix of comparative and competitive advantages. ASEAN's future lies in export industries, which must meet the discipline of external competition(92).

After considering the emerging of trade war, we should note briefly conflicts in world trade.

5. Conflicts in World Trade

Individual nations can no longer determine a major change in the world economy. In the past, the world economy was dominated by the leadership of American trade and underpinned by the American dollar. The International Monetary Fund (IMF) and Bretton Woods helped to stabilize the monetary relationship between the United States and Europe.

Selective trade protection devices constitute an example of difficulties facing European governments in the trade-off between internal and external economic policies. The classic defence of protectionism supports it in order to provide time for the home industries' products to become competitive with foreign imports. A significant example of this process is in the world trade in textiles, which are governed by a permanent arrangement protecting the industrialized countries from the relatively cheap exports of the developing countries(93).

Moreover, the world trade system depends on the extent to which each trading country is prepared to allow competition in its national market between the products of its own industries and those of other countries. The questions and conflicts this formula raises are primarily political. The price that each national trader pays for access to other markets is competition in their own markets. If national industries lose to foreign competitors the domestic government must face unemployment, and the consequent political opprobrium(94).

Finally, at the beginning of the 1980s, there was serious talk of trade war between the major industrialized trading powers, particularly those of Japan, the U.S. and the EC(95).

7. Summary

Although ASEAN was established primarily for the purpose of intra-regional cooperation, the need to develop relations with developed countries, particularly, in the field of trade and commodity issues, has become important(140). The industrialized countries, mainly Japan, the U.S. and the EC are principal trading partners and major direct foreign investors in ASEAN. Therefore, this article concentrates on ASEAN as well as international trade conflicts and cooperation among these parties.

In these circumstances, external developments that point towards increased protectionism and the formation of regional groupings make it essential that ASEAN countries strengthen their economic cooperation(141).

Besides, while the emerging web of linkages with Japan and the NIEs has economic benefits for the ASEAN countries, these linkages could generate centrifugal forces in intra-ASEAN economic cooperation. They could also draw the ASEAN countries into Japan and the NIE's bilateral trade conflicts with the U.S. and the EC. ASEAN should therefore, take an "activistic" role in wider regional economic groupings so that these linkages could work to its advantage.

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