



At EU, left to right, Prime Ministers Prodi of Italy and Blair of Britain, with President Chirac of France.

EU Leaders Urge Reforms by Tokyo

Blair Calls Japanese Slide World's Greatest Economic Peril in 2 Decades

By Tom Buerkle
International Herald Tribune

CARDIFF, Wales — The European Union urged Japan on Monday to press ahead with tax cuts and to speed up the reform of its banking system to prevent a further deterioration of Asia's economic slump.

Prime Minister Tony Blair of Britain said that the economic decline in the Far East posed the greatest risk to the global economy in two decades.

Concern about Asia permeated the opening session of the EU's semiannual summit meeting here as the yen tumbled anew on currency markets and stock prices were in retreat around the world.

But EU leaders expressed guarded confidence in the ability of their economies to weather the crisis. They stressed that Europe's recovery is based increasingly on demand from domestic consumers and investment, and said Asia's woes should help keep inflation and interest rates low.

Mr. Blair portrayed Europe and the United States as "twin pillars of economic stability" because both were pursuing "sound policies based on price stability and sound finance," according to his spokesman.

He also credited the single European currency, whose launch has dictated European economic policies, as a force that "will help generate stability and growth."

The level of European concern about Asia was evident as EU finance ministers, who met separately here, took the unusual step of issuing their own declaration.

It called on Japan to speed up the carrying out of a 16 trillion yen package of tax cuts and public spending announced in April, and renewed urgings that Tokyo undertake reforms to help the country's banking system cope with mountains of bad debts.

"Further structural reform and the implementation of measures to strengthen the financial system are necessary to restore business and consumer confidence," the ministers said in a statement.

As in the United States, officials in Europe are concerned that Japan's deterioration will undermine recent signs of stability in other hard-hit Asian economies like South Korea, Malaysia and Thailand.

They also fear that a further slide in the yen could prompt China to devalue the yuan to maintain its competitiveness, something that could trigger a fresh wave of devaluations across the region.

"The decline of the yen, if it continues, is clearly going to put pressure on China's currency," Sir Leon Brittan, the EU trade commissioner, said in Brussels on Monday. "This could have far-reaching consequences for the region and the world economy."

Sir Leon said the crisis would increase trade tensions by pumping cheaper Asian goods into Europe and the United States while reducing Asian demand for Western exports.

In addition to economic issues, EU

leaders held a wide-ranging discussion of the Union's political institutions, prompted by an unusual convergence of views among Britain, France and Germany that EU bodies like the European Commission were too remote from citizens and suffered from a lack of public legitimacy.

Mr. Blair welcomed an initiative by President Jacques Chirac of France and Chancellor Helmut Kohl of Germany last week calling for a reinforcement of

the role of national and local governments on EU policies.

Mr. Blair said the EU should be more active in areas like combating crime and protecting the environment, but he said it should do so in flexible ways rather than "going into every nook and cranny of national life."

There were no immediate conclusions, but leaders agreed to hold a special summit meeting in October in Vienna on the issue.