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U. S. -JAPAN AUTO TRADE DISPUTE

1 OF 1

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JPRS L/9293

10 September 1980

Japan Report

(FOUO 22/80)

U.S.-Japan Auto Trade Dispute

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JAPAN REPORT

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U.S.-JAPAN AUTO TRADE DISPUTE

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ECONOMIC

REKINDLED JAPAN-U.S. AUTO TRADE DISPUTE ANALYZED

Differences in Two Industrial Structures

Tokyo ASAHI JINARU in Japanese 11 Jul 80 pp 8-9

[Text] There is a rekindling of movement to limit import of Japanese automobiles into the United States as evidenced by the resolutions being introduced in the United States Senate and the complaints of the United Auto Workers Union to the American International Trade Commission (ITC). When the American trade representative Askew visited Japan in May, it seemed that the issue of "friction" between these two countries had been settled for a while, but this problem seems to have been reopened. This friction actually has its background in the problem of differences in the "industrial structures" which envelope the automobile industries of these two countries. Put in more concise form, the United States side is in a state of transition to production of compact automobiles while the Japanese side is overly involved in export particularly of complete automobiles. As a result, this friction will not be relieved by minor "situation saving proposals." Only a "structural innovation" involving considerable time can produce an effective treatment.

Looking first at the American situation, the incorporation of energy conservation is under way. The first oil crisis of 1973 was the opportunity for the United States Government to start to disengage itself from overseas dependence on energy, mainly oil. What became the target of attack was the large automobile which guzzles gasoline. Where the fraction of the national oil used for automobile gasoline was but a little over 10 percent in Japan, the United States used the very high rate of close to 50 percent. As a result, the "energy conservation law" formulated by the Ford administration in 1975 strongly urged the various American automobile makers including General Motors (GM) to promote "small car plans."

The "energy conservation law" established standards for the average fuel consumption (miles per gallon) for the entire fleet of cars produced by a given automobile maker, and any maker not conforming to these standards

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became liable to fines. These standards become stiffer by the year, and the 1985 models which are the last to be covered by this law require the fleet average to be 27.5 miles per gallon.

The American Industry in Desperate Miniaturization Plans

While fuel efficiency can be improved by improving the engine and lightening the vehicle through the use of aluminum alloys, the most rapid method for realizing this fuel efficiency is to design an automobile which is "even smaller." The situation is that the automobile industry headed by General Motors is feverishly working on "miniaturization plans" involving their entire fleets from full size to compacts and subcompacts. While this does not mean that the large automobile will disappear from the highways which traverse this broad country, small automobiles with total displacement of less than 3,000 cc are beginning to appear in greater numbers. In other words, automobiles to compete with the Japanese products are being produced.

It may be said that there would have been no friction with the Japanese automobile makers had the American makers continued to be occupied with the large cars. The situation, however, is the exact opposite. Not only is the American automobile industry being turned toward small car production by law, the market demand has been for the small cars even beyond the makers' expectations as the result of the ever rising cost of gasoline. For example, the small passenger automobile "X-car" series which GM started to produce after ploughing in vast development cost has experienced such great response that production is not keeping up with demand. On the other hand, the large cars are experiencing extreme sales resistance, and many plants have been shut down while about 300,000 workers have been laid off and are on relief. At the same time, some large car plants have been shut down in order to replace facilities and machinery for the conversion to small car production, and the employment picture is deteriorating.

The American makers have made clear their policy to market small passenger cars starting this fall and extending to next spring as evidenced by GM's "X car" to be followed by its "J Car," Ford with its "Erica," and Chrysler with its "Omni," "Horizon," and "K Car." The American market has seen sharp rise in the sales share of small cars imported from Japan with this share increasing to 23 percent of the total sales this last May. This has demonstrated the inadequacy of the small car production system of the American industry in transient manner.

Now, this large loss in business is a serious situation, and the gross take of these makers is decreasing because the production and sales of the large cars which net much more per vehicle are down. To make matters worse, there is a sharp cooling off in the economic picture, and the sales market itself

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is shrinking. This is why the cries of the legislative bodies and the United Auto Workers Union to "limit the introduction of Japanese automobiles" is not necessarily unreasonable.

The American market has been extremely wide open to foreign car exports. Because the so-called "Big Three" companies of GM, Ford, and Chrysler had been actively exporting their products primarily to Europe, it was difficult for them to go on record to establish protective policies. In any event, the "import car" including both Japanese and European models were "small cars" while the domestic product involved a "large car," and there was a distinct difference in the sales picture. This is what is threatening to blow away the "free trade" standard.

Onset of a "World Automobile Conflict"

On the other hand, no matter what form of restriction is adopted, there is a situation on the Japanese side which has to bear the brunt of these export restrictions into the United States which stands against any simple conformation. Ever since the oil crisis of 1973, the Japanese automobile industry had been casting sideward glances at the other Japanese industries which were in depressed state because it alone has been enjoying prosperous times. This was because it could export its product to compensate for its depressed sales at home. Looking at the one year record for 1979, there was a total production of 10 million automobiles produced including trucks of which a half or 500,000 cars was distributed overseas. Of these exports roughly 40 percent was shipped to the United States which represented 20 percent of its total output.

There are some voices raised in opposition to such an excessive dependence on exports even within the industry itself. Not only is the business experiencing some instability due to the fluctuations in the exchange rate but there is the fear that this present course will sooner or later bring on some application of the protectionist principle as evidenced by the present Japanese-American friction.

On the other hand, the actual situation does not allow such a move. Mass production is aimed at lowering cost, and any decrease in exports is bound to create severe reverberations within the production structures of the various makers who have been continuing expanded production.

The reason here, first of all, is that the "automobile society" in Japan has matured, and the domestic demand is not expected to undergo any major increase henceforth. In the face of this situation, the overseas market is also not one of great promise. With the exception of West Germany, the European market presents an array of import restrictions. At the same time, the developing countries face limitations to expansions as long as the income

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of their people does not increase. If exports to the United States were to be limited on top of all this, there will be no room for expanded production. The reason the 11 Japanese makers have been able to coexist thus far has been the orderly expansions of the domestic and foreign markets. If the future of such a pattern becomes clouded, there is no guarantee that the Japanese automobile industry will be free from some hard times.

The Japanese-American automobile friction is a product of direct confrontations of the situations of both sides. The American makers have ventured into what had been an exclusive small car area of the Japanese automobile, and this picture has been augmented by the entry of the European makers in what is a conflict amounting to a "worldwide automobile war." The true intent of the American automobile industry seems to be "lay off for a while until we have a chance to put our small car production system in order." In addition, the Republican Party has nominated Reagan who is a strong protagonist for a protectionist policy, while the high unemployment in the automobile industry is a source of considerable headache to President Carter who is seeking reelection. Even in such a situation, he cannot bring himself to lower the standards of "free trade." In any event, it now seems that this situation will result in the Japanese side adopting export restriction or some sort of self restraint. On the other hand, will this friction be dispersed and disappear once the presidential election is over? While it may be possible to limit export of complete cars, there can be no drastic measure which will prevent production of passenger vehicles in the United States as contemplated by Toyota and Nissan, the likelihood is great that this chronic "Japanese-American friction" will continue.

Collision of Two Different Cultures

Tokyo ASAHI JANARU in Japanese 11 Jul 80 pp 10-17

[Article by Akira Kubota, Professor of Political Science at the University of Windsor, Canada, and Guest Lecturer at the Sociological Research Center, University of Tokyo]

[Text] Akira Kubota: Born in 1932 in California. He went to Japan when he was 4 years old and earned a law degree at the University of Tokyo. He was granted a doctorate from the University of Michigan in 1966, and he has been a professor at the University of Windsor in Canada since 1970. He is now a guest lecturer at the Sociological Research Center of the University of Tokyo. He is an American citizen.

The automobile industry of the United States which once prided itself as being the world's foremost automobile industry is now in a state of retreat as the result of an onslaught by foreign made small cars. Spearheading

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this onslaught are the Japanese forces, and the American automobile worker has come to regard this Japanese counterpart as his enemy and is calling loudly for protective trade. While President Carter has not lowered his standards for free trade, this Japanese-American automobile friction seems likely to develop into a major political problem between these two countries. On the other hand, this automobile problem is not simply an economic problem but can even shake the props of American culture. Where the Americans are concerned, this situation is akin to the arrival of foreign ships. (Editorial Section)

Douglas Frazier, President of the United Auto Workers Union of the United States visited Japan early this year to confer with the heads of Toyota and Nissan and strongly requested that the Japanese automobile companies set up assembly plants in the United States. The Japanese automobile industry while treating President Frazier with the utmost courtesy refrained from giving him a clearcut answer with regard to this all important invitation to put up assembly plants. When Frazier returned to the United States, he went straight to Washington and proposed the enactment of a law to restrict import of Japanese automobiles to the joint congressional bodies. His basic outlook is to protect the jobs of the American automobile worker. In this regard, he envisions the creating of Japanese assembly plants in the United States to create new jobs for American workers or to restrict export of Japanese automobiles to the United States and thereby increase the production of American cars and bring about reemployment of the American workers who are now unemployed.

While the reaction of the Japanese side is another story, the general American and particularly the automobile worker considers Frazier's approach a highly desirable one. It is said that unemployment among the ranks of the automobile workers presently runs between 200,000 and 250,000 which is equivalent of 1/7 to 1/8 of all the automobile workers. What should be noted here is that this Japanese automobile problem is not limited just to unemployment in a single industry but represents one end of basic changes in the economic relationships between Japan and the United States. There is the major problem of Japanese-American economic conflicts standing in the background of this problem, and there is the problem whether the United States can stop this economic attack on the part of the Japanese.

The Japanese automobile problem is presently a major economic problem in the United States, and the American mass communication media is giving this subject full attention. The radios, TV, newspapers, and magazines particularly in those areas of Michigan, Ohio, and Indiana which are the automobile production areas centered in Detroit play out this information night and day. The nearly 300,000 unemployed workers of the automobile industry, the almost weekly announcements of plant closings and loss of jobs by workers, the 20 year low in American automobile sales, the American automobile

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companies which all are being heavily buffeted, Chrysler which is said to be almost sure of collapse, and the depressed situation in the steelmaking, glass, and rubber industries are all front page items. The principle factor responsible for this distressed state of the American automobile industry is nearly always given as the export of Japanese automobiles to the United States.

When automobiles become such a large economic problem, they inevitably become a political problem. As evidenced by the television appearance of the legislators who represent the states bordering the five Great Lakes, restrictions in the form of quotas or large import duties are being proposed and George Bush former UN envoy who failed in his bid to obtain the Republican nomination as presidential candidate took up a quota system in his platform. The politician who is most actively working on this Japanese automobile problem is Senator Donald Liegel (democrat from Michigan), and Senator Liegel and Senator Howard Metzenabum (democrat from Ohio) have formed a group with presidents of the auto companies, union leaders, and several senators to put pressure on the federal government.

On the other hand, the problem of export of Japanese automobiles to the United States is not a situation which follows a formal diplomatic route when the international aspects are considered. There are no differences in opinion between the administrations of these two countries, and 1) both administrations try to persuade the Japanese automobile companies to set up assembly plants in the United States but are unable to force such a move and 2) they have no intent of assigning quotas to the number of Japanese automobiles allowed into the United States or limit the number entering. The two governments are in agreement on these two points.

Prime Minister Ohira visited Washington in early May to confer with President Carter. The subjects for discussion at that time were the Iranian hostage problem, the Afghanistan problem, the reinforcement of Japan's self defense force, and Japanese-American scientific research cooperation, and the automobile problem did not seem to have played a central role. President Carter had already spoken to reporters before Prime Minister Ohira's visit and stated that no quotas would be imposed on Japanese automobiles.

Now, there is great differences in opinion between the federal government and a fraction of the legislators, automobile company executives, and the labor organizations. At the present time, President Carter has adopted a policy of disregarding this confrontation in his administration, but there is considerable doubt whether he can pursue such a course to the end. The unemployment problem, the distress of the automobile companies, and the effect of this situation on the election all are expected to eventually come into play. No matter how much President Carter explains the role of efficiency, specialization, free competition, GATT [General Agreement on Tariffs and Trade] and

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other international trade agreement roles to the general public, there are limits to the economic losses which the American public can take such that a quota system for Japanese automobiles cannot help but develop into a self imposed restriction on the part of the Japanese automobile companies should the present trend continue.

The American Businessman Makes No Attempt To Understand the Japanese Position

If a country with meager resources and fuel such as Japan is to promote its industrialization, it naturally has to import large quantities of raw materials and fuel. At the same time, it must export large quantities of industrial products to pay for these materials. This is why Japan's production facilities, circulation structure, financial structure, tax system, and all the other administrative policies have to be structured on the basic principle of just how to keep exports at the maximum level.

On the other side of the picture, the United States is blessed with ample resources and fuel and is further advantaged by a large domestic market. It is a country which can depend on its domestic sources to provide its raw materials and fuel and to absorb the sales of its industrial products. As a result, foreign sales assume secondary or tertiary roles. Such a country has historically developed production facilities, circulation structure, financial structure, and governmental fiscal policy which, generally speaking, are not attuned to promoting trade. The production of goods slated for foreign consumption is particularly difficult, and any investment in ventures to produce such goods is perilous. It is not in a position to engage in practices such as dumping which leaves it as a disadvantage in price wars.

The next item is the cultural problem. The Japan-Canada Trade Roundtable Report (May 1979 edition) describes this situation admirably. To be sure, this article relates to the situation with regard to Canada, but it is a problem which essentially applies equally well to the United States or Canada.

Leaving aside purely business problems, the item that presents the greatest obstacle to close understanding between Japan and Canada is the psychological problem. In other words, it is the problem of the individual's preconception or attitude. For example, there are still some Canadians in high positions who still retain enmity against the Japanese for the beatings the Canadians suffered from the Japanese during World War II. While not associated with enmity against the Japanese, there are some who have superiority complex with respect to the Japanese. The superiority complex which the Canadian businessman has stems from his feeling that the Asian is unable to exploit the fruits of the capitalistic system and free market which the people of European stock originated better than the Canadian. This is why the Japanese economy which

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has performed so brilliantly over the past few years is somewhat of an enigma to the Canadian businessman. Such a record surely must have been achieved by dishonesty, trickery, or ruse. And the ones who through their own ignorance, arrogance, or negligence failed in their dealings with the Japanese are the ones who fervently broadcast such false information with missionary ardor. Preconceptions and attitudes are decisive factors even in the case of Europe and the United States. What is interesting here is that an unfavorable evaluation becomes even more unfavorable the more fierce the competition in the domestic market. What should actually be a reasonable criticism can be altered to an abusive attack.

The author recently read in a Dutch economic magazine the statement that "should Japan suddenly sink beneath the sea, there may be no country in the world which would shed a tear."

It may be overstating the case to say that the line of thought described in this article is one that is shared by the greater number of the financial people of the United States. On the other hand, an important lesson from this article should be that it is difficult for the American businessman to accurately grasp the nature of the quality and strength of the Japanese economy, and there is a segment of American financial people who despite its influential nature has no desire even to understand the Japanese economy.

It is unthinkable that Japan's first line economists do not comprehend the basis of the American economy. Conversely, the average American economist has a very limited understanding of the Japanese situation, and this weak level of understanding is hindering any reduction in the present economic friction between Japan and the United States. In addition, this problem in degree of understanding is a factor which is delaying any formulation and development of American policies with respect to the Japanese economic onslaught.

The Fading Standards of the Free Trade Principle

When the American mass communication media discusses the problem of the Japanese automobile, it concentrates on the domestic viewpoint and practically ignores the international aspects. That is to say, the argument is centered on unemployment policies or measures to rescue those companies in danger of going under.

There is a trend to forget the concept of free trade which the United States government had been stressing for a long time. The basis for free trade are efficiency and diversification in which the industries of different countries can compete freely in the international market almost the same as in its domestic market. The reason the United States actively supported free trade on the international scene during the postwar period was because it had assumed a protectionist trade policy before the war which had been a factor

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responsible for world-wide depression as a result of which there was some criticism that this depression had driven the international society to war. At the same time, there may have been a feeling among some of America's leaders which may have been involuntary that American business was beyond competition from foreign industry.

There are splendid arguments for the principle of free trade, and the United States proudly propounded this concept consistently at the postwar international conferences. The United States proposed great reduction in tariffs at last year's roundtable held in Tokyo. The United States is now about to make an 180 degree turn in its basic international economic policy, but it finds it difficult to make a complete change to the protective trade principle. Whether viewed from the standpoint that the United States is the world's protagonist of the free trade principle or from the viewpoint simply of preserving its face in the international area, the politicians and high ranking officials of the United States are not about to make such a simple change in policy. What the federal government is saying at the domestic political discussions is that each country has its strong and weak industries which compete on the international scene where natural selection enters the scene. There are plus and minus aspects of free trade to the United States, and this is still a desirable approach if both ends are put together. Carter is saying that Detroit's downfall arose from the fact that it had not heeded his warning a few years ago to place emphasis on small car production.

On the other hand, such a stand on the part of the federal government is faced with two difficulties when seen from the viewpoint of domestic administration. One of these is the fact that the federal government had not adequately explained the aforementioned international economic and political aspects through its mass communication facilities. On the other side of the picture, the people are essentially ignorant of these aspects. The unemployed automobile worker seems to be completely unaware of the international nature of the automobile problem. Frazier has said, "the Japanese automobile companies are irresponsible when they export large numbers of automobiles to the United States," and the "United States government has not taken up the problem of unemployment of the automobile worker in earnest." The worker who hears such statements is placed in a situation in which he feels that this international aspect can be disregarded. There is nobody who stresses the need to look at the international picture.

The other difficulty is the federal government's policies and intentions which involve a reexamination of the free trade principle. No matter how much it stresses free trade, the Japanese fibers, cameras, motorcycles, color television, tape recorders, iron and steel, and automobiles which are causing great commotion in the American market are facing considerable economic attack. No matter how large the American economy may be, it seems that the endurable limit is being approached. It is possible that there is

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some movement, possibly in secrecy, within the federal government to study a new direction in the form of a revised free trade or protective trade. There will be a presidential election in November in the United States, and pressure on the federal government to do something about the Japanese automobile is mounting daily.

American Scholars With Little Interest in Enlightening the Public

The number of scholars who specialize in Japanese economy or Japanese trade has become considerable even in the United States during the past few years, but these scholars never display their findings through the American mass communication media. In fact, the line of thought of these American scholars seems to be to shut themselves up in ivory towers and limit themselves to some very specific economic problem--for example, the price of wheat--which they explain with highly mathematical reasoning. These studies are researched in scholarly manner, and the findings are published in scientific journals. They seem to think there is no need to inform the general public. There is certainly some truth in the beliefs of conventional scholars, but the quantity and quality of American mass communication material with regard to Japanese related subjects are somewhat low. It goes without much emphasis that the manner in which the scholars stick to their old fashioned modus operandi is considerably wanting today when the automobile situation is such a major political problem.

There are considerable funds in the United States for enlightenment of things Japanese through the mass communication pathway. There are the Japanese-American Friendship Fund and the International Interchange Fund. There are also the Social Science Research Council, the National Endowment on the Humanities, and the National Science Foundation funds which are particularly designed to support scientific research on Japanese subjects. The use of even a small fraction of such funds should provide some effective public enlightenment on many Japanese-American problems such as the automobile problem.

Now, this has not been done. Many of these organs are managed by scholars from the elite American universities, and most of these funds are being used in scientific research in a very narrow sense. The fund which presents a special problem in this respect is the Japanese-American Friendship Fund. If the purpose of this fund is to promote better Japanese-American relationships, it should be more active in trying to gain the understanding of the American public through the mass communication media with regard to subjects such as the Japanese automobile. There seems to be no such effort at the present time.

There is a possibility that the problem of Japanese automobile exports to the United States will become much worse in the next 1 or 2 years. At the present time, Japanese automobiles account for about 20 percent of the

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American market, and there is possibility that this number may increase to 30 percent or even 40 percent. If such becomes the case, the American auto industry will fall into a state of "chronic danger" as predicted by Frazier. At the same time, the anti Japanese automobile policy movement championed by Senator Liegel will receive even greater public support, and the scale of this problem will go up one stage as a domestic problem. There will be direct and indirect cracks formed in Japanese-American relationships. It seems that Mitsui, Mitsubishi, Sumitomo, Toyota and Nissan have been donating large sums to American economists as research funds, but the scholars who are the recipients of these funds have been essentially silent as far as policies to ease these economic and political crises are concerned.

We next look at Japanese-American economic conflicts. These can be grossly classified under two categories. The first relates itself to the automobile problem while the second is the problem of the relative positioning of the overall economy.

Turning our attention first to the automobile, the Japanese automobile seems to be giving the American automobile considerable competition not only in the American market but in the world market as well. The market share of Japanese automobiles of the American market is 20 percent which in 2 or 3 years has the potential of increasing to 30, 40, or even 50 percent. In contrast, the American automobile has real competitive strength in the foreign markets, and the American automobile cannot compete with the Japanese automobile in the world market outside the American market. When the total Japanese automobile production is expected to exceed 10 million this year, the total American production is expected to be but 7-800,000. There is also considerable possibility that in the next 2 or 3 years Japan will surpass the United States and become the world's leading automobile producer.

Countermeasures Inadequate To Meet the Japanese Challenge

When the economy of a single country is considered, there is considerable possibility that by the year 2000 the gross national product of Japan (GNP) will come up to the GNP of the United States as was predicted by Herman Kahn in 1970 in "the Challenge of the Super Country Japan." The following specific factors can be cited to support this view. 1) Japan's rate of economic growth continues to be very large as before, 2) productivity continues to increase (productivity in the United States is declining), 3) savings are high on a world-wide scale, 4) it is better able to control inflation and interest rates, 5) the yen has gained in value, and its exchange rate is thought to have stabilized, 6) there is the comprehensive company system unique to Japan which is strong on overseas trade such that there is small possibility that Japan will be in the red in its future international trade balance, 7) the Japanese-American international balance in trade has favored Japan almost yearly during the recent years, 8) Japan's foreign economic movements extend to Asia, Latin America, Africa, Oceania,

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Europe, North Africa, and the communist countries thereby extending to all corners of the earth to rival the trade of the United States or even more, 9) Japan shows no particular inferiority to the United States in its ability to obtain resources and fuel from overseas compared to the United States, 10) Japan competes with the United States in many areas such as automobiles, iron and steel, vehicles, shipbuilding, machinery, office equipment, electronics, watches, and scientific and medical equipment, 11) there is a certain degree counterflow of scientific and industrial technology directed from Japan to the United States, 12) the United States seems determined to adopt a protectionist policy, 13) the Japanese administration seems to formulate better long term plans providing the country better stability, and 14) Japan is in a superior position compared to the United States where crime rate and labor disturbance rate are concerned.

When in the 1960s or the 1970s people such as Kahn began to say that "Japan will soon overtake the United States," most of the people considered such statements to be jokes. Now as the decade of the 1980's has come upon us, many more people have come to accept this prediction. Japan's high economic growth at one time was thought to be an exceptional and temporary occurrence, but the fact ran counter to such evaluations. For the present time, there seems to be no reason to think that there will be large decrease in the rate of Japan's economic growth. To be sure, Japan's absolute rate of economic growth has been lower than it was 10 or 20 years ago, but this rate is considerable in relative manner particularly compared to those of the various countries of the western world. In the special case of the comparison with the American rate of growth--presently a minus value--Japan's growth is amazingly high.

Let us next study the problem of just how the United States is seeking to counter this economic challenge on the part of Japan. This subject may be broken down into three phases. This problem can be broken down into just how much the American is aware of this problem, the search for counterpolicies from a domestic viewpoint as has been the American practice in the past, and the search for counterpolicies not on a domestic basis but on a much broader international scale and study of countermeasures while learning from Japan and other foreign countries.

We first discuss the problem of the awareness of the seriousness of the problem. There seems to be a considerable number of Americans who are aware that Japanese economy has enjoyed considerable success, but the leaders and the general public seem to possess but limited understanding of Japan. They have very shallow insight on Japan's economic quality, strength, and future potential. Even among the more knowledgeable Americans, there is but a few percent which is aware of the possibility that Japan's GNP may overtake that of the United States in about 20 years. It has been said that Japan's GNP recently overtook that of the Soviet Union, but it seems that it is a rare American who is aware of this occurrence. The American mass communication system does not seem to consider such subjects.

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Let us look at a few examples of the view of the Japanese side shared by the leadership layer of the United States. About half a year ago, President Roderick of America's prime iron and steel maker U.S. Steel addressed a famous economist club in Detroit at which time he accused Japan of dumping its automobiles on the American market. It seemed that he had not undertaken to make sufficient study, and there appeared little hope for any victory on the part of the American auto maker no matter how much he complained. As a result, his argument was soon lost. The American iron and steel makers have been forced to close a number of plants. In addition, they recently signed technological aid contracts with Japanese companies including Mitsubishi. While it may be that this industry is in a distressed situation that is now reacting in emotional manner, it is clear that the industry is lacking in its understanding of the Japanese picture.

Very recently, President Phillip Caldwell of the Ford Motor Company said, "at least 75 percent of all automobiles sold in the United States should have been produced in this country." The problem here is that if this restrictive method is actually implemented, all the foreign cars presently being marketed in the United States will have to be taken off the market. In other words, this proposal would mean the cessation of all international trade as far as automobiles are concerned. At the same time, Michigan Senator Carl Levin (democrat) is proposing an equalization duty on Japanese automobiles. The gist of this proposal is to levy a duty on Japanese automobiles being sold on the American market which is equal to the difference between the cost of an American car on the Japanese market and the cost of the same car on the American market. What becomes a problem here is that the efficiency of the circulation and transportation process is disregarded, there is departure from the objectives of free competition, and the cost of such an undertaking has to be made up by this duty. In any event, the proposals of Caldwell and Levin are not something which the American envoys at international trade conferences can propose without much apology.

Need for Widespread Changes in the American Education System

The quality of the average American's knowledge of the Japanese economic competition is low where the average American is concerned. Let us consider here three examples of television broadcasts which were recently aired in the Detroit area. An American automobile sales outfit placed a Japanese automobile in a parking lot and gave a customer a sledge hammer to batter down the Japanese automobile while onlookers applauded this action. Pickets were placed in front of a sales outfit dealing in Japanese automobiles who exhorted customers not to purchase Japanese automobiles. Radio, television, and newspapers were used to call upon the patriotism of Americans as well as to dramatize the unemployment picture and urge the purchase of American made cars. What is common to these different actions is that the intended plan of resolution is superficial and sensation seeking in principle and does not come close to depicting the quality and strength of the Japanese economy in its proper light.

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There are a number of scholars, government officials, reporters, and foreign service officials in the United States who are well informed on the Japanese economy, but these people shared the common failing of excessively underrating the rate of growth of the Japanese economy. On the other hand, the American politician, industrialist, and specialist in international economy possess a meaningless confidence that "American industry can compete with any country's industry." As a result, the method of handling international trade which has been developed is not clearly defined as yet and is inadequate.

There are some Americans such as Kahn who are forward looking enough to sense at an early stage the superiority of the Japanese economy, but such people are exceptions on the American scene. Now, should the Kahn type line of thought actually sink into the people who establish American policy such as its politicians, foreign trade people, and economists, the United States presently should not be experiencing the difficulties it now faces in confrontation with the Japanese attack.

It appears that the American leaders in general do not seem to take seriously this Japanese economic attack. To be sure, the foreign trade envoys who directly handle Japanese-American trade negotiations, the heads of the automobile companies, the legislators who represent the automobile producing belts, and other people who are directly affected by the Japanese economic attack are completely embroiled in this matter. On the other hand, those people who are not as intimately engaged have but hazy awareness of the problem even though they may be in fairly responsible positions, and they are certainly not aware that there is any crisis. This is to say that the solution to this problem would not require some revolutionary approach. It can be said in a general manner that the American to date has not attempted to study the examples of other countries and thereby improve the lot of their country. Most of the leader stratum at the present time seem to think that problems can be resolved by applying effectively some method they select from their store of knowledge rather than study the systems of other countries.

For example, there was a gathering very recently of about 150 financial people, scholars, government officials, and politicians at Harvard University where the subject of discussion was focused on the international competitive capability of the American economy. According to the account appearing in "Time," the following measures were proposed in order that the United States avoid becoming a second class nation similar to the United Kingdom. 1) There be closer dialogue between the workers and the capitalists, 2) government regulations with regard to industry and production processes be simplified, 3) business taxes and individual income taxes be lowered, and 4) program to enlighten the general public on this type of economic program were some of the proposals made. This article makes no mention that Japan's rate of economic growth far exceeds those of other countries or that Japan's GNP may

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soon overtake that of the United States. There is a reference to Ezra Bogel's "Japan as Number One," but there does not seem to be any hint of this gathering considering the possibility of learning from Japan.

Finally, let us discuss methods by which the United States can learn from Japan and other countries. Since the Bogel text already lists in specific manner some of the items which the United States can learn from Japan, there may be no need to list these in detail here (some of the items most frequently listed are Japan's bureaucratic system, police system, and trade policies). The author himself is in agreement with this line of thought. There may be a considerable number of areas where the United States can learn from Japan which the American leaders are not aware. On the other hand, it is the author's belief that even more important than all this is a revolutionary alteration of the American educational system. If the United States truly and sincerely seeks to introduce the various Japanese systems for its use, there must be a large scale change in the basic American educational system, and the American elementary schools, intermediate schools, high schools, and universities must adopt basic subjects such as Japanese history, culture, economics, and language.

Generally speaking, any attempt to transplant a foreign social system has little chance of success if just the administrators, government officials, and scholars work as comparatively small groups to carry out this transfer. Such an effort must not be confined to a limited number of elite but there is need to obtain support from the middle class, general public, and public opinion. At the same time, there is again a need to obtain the cooperation of society's education system in order that such wide spread support be obtained. If the United States were to imitate in earnest the many Japanese systems, there must be replacements in the ranks of the American educational philosophers.

Let us look at a specific example. There was an incident in which some American administrators and government officials considered adopting the Japanese system of comprehensive companies (similar event occurred with Canada). Where the United States is concerned, it is presently troubled with excessive imports from Japan making it necessary to sell large quantities of American products to Japan and other countries such that the comprehensive company system of Japan is all the more desirable. On the other hand, it seems that a decision has been made not to adopt this system because it was found as the result of researches on the part of business administration specialists that such a system will not fit in with the American industrial system and customs.

There will always be the problem of cultural differences or cultural resistance when there is a shift from one society to another no matter what system is involved. If now this cultural resistance is relatively small, the transfer process will be comparatively simple. If, on the other hand,

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this resistance is large, the transfer will be extremely difficult. When there is extreme difference in culture as is the case of a comprehensive company, there is the inevitable conclusion that the possibility of a successful transplant is very small. On the other hand, what should be noted here is that any such cultural difference is relative, and this difference can be overcome to a certain degree by will and effort.

Have the Japanese Democratic Principles Taken Root?

It is common talk among political scientists that the administrative system known as the democratic system which was nurtured in the United Kingdom and the United States will stand little chance of success on Japanese soil. As is very evident upon a scrutiny of the Japanese democratic principles before the war, this Japanese democratic system underwent great changes, and the end result just before the war was one of failure. With the end of the war, Japan once more attempted to introduce administration by democratic principles, and it has put forth great effort in making it work. At the present time, it is considered that the Japanese democratic system has more or less succeeded, but there are still a considerable number of people who are still doubtful that real and permanent success has been demonstrated. In any event, the introduction and transplant of an administrative system which was developed in a strange cultural sphere is no ordinary feat.

The Japanese people since the war have put forth great effort to convert to a democratic state. The Japanese were thoroughly indoctrinated with the true nature of the democratic system through the educational system, and the Japanese politicians have been functioning under the very strict eyes of the mass communication media and learned men. At the same time, the road to democracy was continually advanced through the ceaseless efforts of the Japanese leaders and the people in general. It is through such exceptional determination and effort that it becomes possible to overcome the obstacles of cultural differences to a certain degree.

A problem which must not be overlooked is that the general American public considers Asians and Asian culture to be something very foreign. Even those Americans with no bias toward Japan tend to feel remoteness toward the Japanese when some specific incident involving something very close comes up. Let us look at a few such examples. These include Japanese method of expression--particularly the use of Chinese characters--the special accent when Japanese speak English and the problem of grammar, the singular taste of Japanese food, Japanese etiquette and social relationships, Japanese culture such as Noh and tea ceremony, and the custom of harakiri practiced by the Japanese warriors. It is needless to say that a part of Japanese culture including judo, haiku, and flower arrangement has found great favor with a segment of the American populace and is finding considerable expansion. On the other hand, these trends are limited at the present time. Where the average American is concerned, the Japanese and Japanese culture are something completely strange.

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The foreign feeling which stems from such cultural differences becomes a considerable hindrance when an American seeks to learn something from the Japanese. If there is excessive awareness of the presence of such an obstacle, there is tendency to simply copy or even lose any desire to learn. The most effective way of removing this psychological barrier is to teach things Japanese through a basic education approach starting at childhood. The structure of Chinese characters is complex and strange to an adult American. To understand or to learn such a method of representation not only involves great difficulty but may be unthinkable. On the other hand, the situation is different with children. Even the understanding of Chinese characters will alter the feeling of remoteness a person may have toward Japanese culture.

Should such a line of thought be promoted, the end result will be that the basic problems of the United States at the present time will be the recognition of the American situation to accurately grasp its deficiencies and problem areas, understand and research good systems found in Japan and other countries, and seek out solutions to the many problems which face the United States. That is to say, there is need for a reinvestigation of the self evaluation system and basic self contemplation.

There is no previous example of such a major switchover in the history of the United States, but this has occurred in Japanese history. One such example is the arrival of the American fleet under Admiral Perry near the end of the Tokugawa shogunate. This incident made great impact on Japanese government and military structures, and this impact was responsible for a reevaluation of the Japanese situation at that time and a restudy of the Japanese value system. One of the results of the studies was the establishment of Japan's modern educational system, and one of the important elements in this educational material was American in origin.

It is probable that at the present time the export of Japanese automobiles to the United States will not have the impact on the American economic system that Perry's arrival to Japan imparted to Japan. In any event, there is still very shallow knowledge of Japan where the United States is concerned despite the appearance of texts such as that of Bogel. It may be proper to think that there is need to alter the basic education foundation for America's learned, educational specialists, and general public.

On the other hand, it may be that the present day American may in a certain sense becoming to recognize the need for such a switchover in involuntary manner. The major problems which the United States experienced over the recent years such as the Viet-Nam war, the Iranian incident, the Watergate incident, the FBI and CIA scandals, the worsening international trade balance, the decline in productivity, the stagnant GNP, the galloping inflation and high interest rates, and the declining living standards of the average American all point to this eventuality. It is possible that the

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United States may in the near future follow the Australian example and revolutionize its educational system in dramatic manner and introduce Japanese related material to a considerable degree. The American educational system may incorporate a degree of flexibility much greater than we anticipate.

A reasonable insurance contract involves the payment of a suitable fixed insurance premium and the receipt in cash in the event a certain misfortune should occur. On the other hand, the actual picture is that there is the possibility that no misfortune will occur. If no misfortune actually transpires, then the premium payments would be wasted. On the other hand, should a misfortune actually occur, the premium payments will constitute future looking investment. Where the present Japanese-American economic conflict is concerned, the United States has wisely insured itself and is not entirely unprepared. On the other hand, the United States is putting forth only a very small premium which is highly inadequate. This is almost skin to water on burning rock if based on the lines of thought expounded by Kahn and Bogel.

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ECONOMIC

JAPANESE AUTO INDUSTRY'S MOVE TO ALLEVIATE CAR TRADE DISPUTE

Automakers Plan Corrective Measures

Tokyo NIHON KEIZAI SHIMBUN in Japanese 11 Jul 80 p 7

[Text] In the midst of the deepening Japan-U.S. and Europe car trade dispute, the large scale Toyota-Ford tie-up has emerged. It is undoubtedly helpful to dissolve the Japan-U.S. dispute, but it seems unlikely that the massive chorus of attacks by the U.S. and Europe against Japanese cars can easily be alleviated. Following the Toyota Motor Company-American Ford tie-up, Honda Motor Company which had already decided on advancing into Ohio, U.S.A., purchased a plant site on the 10th. In addition, Nissan Motor Company started an investigation on reducing the production of cars to be exported to England where criticism against Japanese cars has been intensifying. All of these measures are being taken as a first move in anticipation of the escalating talks about restricting Japanese cars.

MITI still analyzes: "The friction will not be eliminated unless the Japanese side demonstrates self-discipline in export." The Japanese auto industry, however, is moving speedily to avoid friction.

On the 10th, Nissan Motor disclosed that they were in the process of investigating a potential reduction of the production and export of cars to England. This step was taken in correspondence to the growing voice for restricting imports in England reflecting the continuous expansion of Japanese share (market share) in the auto sales in England since the starting of this year.

However, Nissan Motor maintains "It is presently at a stage of investigating the base of production. When and how much to be reduced is yet undecided." They are projecting to make the final decision by the end of this year.

Japan-U.S. trade dispute has been a great problem concerning cars. Recently, also in Europe, the rapid increase of Japanese cars is noted and this is developing into a problem. Especially in England, the percentage of Japanese

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cars cutting into the domestic passenger car sales has reached 12.87 percent this year compared to 10.78 percent in 1979. The Japanese and British auto industries voluntarily had agreed: "The share of the Japanese cars shall be contained at an annual 10 percent level." This agreement has been broken now, contributing to the rising demand for restricting imported cars in England. Also, there was an incident wherein Lord Privy Seal Gilmore who attended the late Prime Minister Ohira's funeral requested "self-discipline". Nissan Motors which dominates nearly one-half of the Japanese cars exported to England has started to investigate a potential reduction of the export of cars.

Undersecretary Yano of MITI has officially disclosed MITI's view in regard to the Toyota Ford tie-up issue on the 10th at a regular press interview: "We welcome with open arms the movement toward cooperative production announced by U.S. President Carter at the Japan-U.S. summit conference in May. If any problems develop during future negotiations, MITI will respond with consultation and assist in putting the negotiations on the right track." However, considering the present condition that lay offs (temporary dismissal) reached 300,000 workers in the American auto-industry, Undersecretary Yano forecasts that this movement alone is not enough to appease the complaints on Japanese cars, and stressed: "I would request each automaker to exercise self-discipline in exporting cars to the U.S. lest the share of the Japanese cars (market share) shall increase excessively."

Undersecretary Yano also added: "Toyota explains that they are considering cooperation with Toyo Kogyo on embarking on cooperative production with Ford," suggesting that there was a good chance that Toyo Kogyo which had already engaged in a capital tie-up with Ford, would join the Toyota-Ford cooperative production. Nonetheless, he said: "This would hardly lead to a reshuffling of the automobile industry in Japan."

Referring, furthermore, to the point that the expected Toyota-Ford cooperative production may be entangled by the U.S. anti-trust law, he stated: "We hope they will conclude the negotiations with precautions against such a development."

Chairman Shohachi Hanai of Toyota Motor Company made a statement concerning the Cooperative Production Plan to be operated in the U.S. with Ford on the 10th: "We discussed what we should do to solve the problems of mutual concern. Concretely speaking, the talk will be bogged down after it shifts to the subject of business operations." He stressed that Toyota was willing to make an effort together with Ford for the consolidation of the plan in the future.

Concerning the talk between President Peterson of Ford and Toyota Motor Company and Toyota Motor Sales Company held on 24 June, it is reported that both sides frankly discussed focussing on the Japan-U.S. dispute. According

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to Chairman Hanai, "We are only in the stage of showing interest in each other, but haven't reached a decision whether or not to start the relationship," although they discussed the possibility of cooperative production. He pointed out that there were many issues to be examined in the future. However, Ford seems to be, from one aspect, interested in a speedy solution due to belated small car development and the fuel cost restrictions imposed by the U.S. Government. Fairly pointed talks were carried out at the center of the conference, for instance, Ford specified car models demanded in the U.S. market and the number of cars to be produced.

President Ichiro Isoda of Sumitomo Bank who served as a mediator for the Toyota-Ford tie-up held a press interview in Tokyo on the afternoon of the 10th, and disclosed his view on the purpose of adding Toyo Kogyo in this tie-up negotiation.

President Isoda disclosed: "In order to avoid any arrangement which would leave out Toyo Kogyo who has already been tied up with Ford, Ford and Toyota agreed to form a joint concern comprising the three companies including Toyo Kogyo."

Furthermore, "Participation of Toyo Kogyo is inevitable since those concerned fear that the Toyo Kogyo-Ford tie-up would be weakened if Ford supported Toyota as a partner more wholeheartedly." He added that the Sumitomo Bank, acting as the main bank of Toyo Kogyo, injected its influence for the rebuilding of Toyo Kogyo's business operation.

He envisions that the concrete details of the tie-up "will be decided no sooner than one year," and concedes: "The definite role of Toyo Kogyo in the three-company joint management will be defined after Ford and Toyota mutually decide upon their functions first." However, "In the future, if Toyota approves, Toyo Kogyo may possibly have a share of the production area to some extent," says Ishida, who emphasized the great significance of the presence of Toyo Kogyo in the overall picture of the present tie-up negotiation.

Move To Alleviate Car Trade Dispute

Tokyo NIHON KEIZAI SHIMBUN in Japanese 3 Jul 80 p 8

[Article: "Japanese Car Import Restriction by U.S. Inevitable"]

[Text] "I wonder if the U.S. Government who affirmed until very recently that they would restrict the import of foreign cars will really change its policy. There is nothing we can do now but watch its next move for a while and wait for the decision of ITC (US International Trade Commission)".....

Leaders of seven Japanese automakers who export to the U.S. such as Toyota Motor Company and Nissan Motor Company, held a "Presidential Conference" on the 2nd to discuss Japan-U.S. automobile problems. According to the

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explanation of Managing Director Toshio Nakamura of the Association of Auto Industry, who was among those who attended the conference, the climate of the presidential conference was as follows: Compared to the recently accelerating auto-related anti-Japanese situation in the U.S., the Japanese response was rather "leisurely".

Of course, it is not a wise policy for the Japanese auto industry to put itself forward to enforce voluntary restriction when the U.S. Government has not yet indicated a definite request to Japan. Such a highly calculated assessment characteristic of the auto industry may have bolstered the attitude of the participants.

Nonetheless, the position of the industry represented by "Not moving (toward voluntary restriction) for the time being" is strictly facade. Aside from this official principle theory, the true feeling of each company is unitedly expressed by the acknowledgement: "Some measures of restriction of exports to the U.S. cannot be avoided." Although it is reported: "The question of voluntary restriction in exports to the U.S. has never been discussed," (Managing Director Nakamura) at the presidential conference held on the 2nd, this statement might have been issued for fear that this type of discussion might conflict with the U.S. anti-trust law and the Japanese counter-measures might be leaked out to the U.S. before they were required and implemented. On the back stage, it appears, there are exchanges of pointed opinions between MITI and the industry concerning the possible restrictive measures and the corresponding export guideline standards.

On the other hand, the auto industry has its own reason for not intentionally changing its apparent passive attitude of "waiting for a move by the U.S. Government": the U.S. Government's political schedule holds the key to forecasting future developments regarding this matter. The greatest point of concern is what President Carter will choose as a policy against Japanese cars interpolating from the report compiled by the U.S. Government Special Task Force for Automobile Problems (Chief: Secretary of Transportation Goldschmidt).

For the time being, it is not certain which of the following alternatives President Carter will choose to take: (1) Send signals to the Japanese side to direct her to move toward voluntary restriction; (2) Make a move toward acquiring the presidential right in order to enforce the restriction of Japanese cars by means of OMA (Orderly Marketing Practice). No matter which he chooses or what reasons America gives, it cannot be denied that the dominant principle of the free trade doctrine which to date has been embraced by the Carter administration will collapse. In consideration of the position that has been taken, some in the auto industry hopefully expect that the president might not go so far as to abandon the principle of free trade. However, it seems America will undoubtedly press some sort of restriction on Japan as they change their conventional trade policy, when considering

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heresay that the rival presidential candidate Reagan will choose to talk about automobile problems and attack the Carter Administration at the Republican Party Convention on the 14th, June.

It is forecasted that President Carter's statement on automobile problems or high request to Japan through diplomatic channels will be delivered in the middle of this month. MITI and the Foreign Ministry are planning to start investigating definite steps in expectation of the U.S. move. The auto industry judges it to be extremely improper to move indiscriminately before the governments of both nations consolidate their attitudes from the point of commercial negotiations. Moreover, MITI also seems to have reminded leaders of each company: "Even a proposal based on individual cooperation such as self-discipline in exports shall be preferably restrained."

A leader of the industry admitted: "I can understand the hardship of Mr Carter and the frustration of the U.S. auto industry which submitted to a mass lay-off. Restrictions on exports to the U.S. are inevitable." This leader also believes that the following conventional view will not change: The share of Japanese cars in the U.S. (market share) will fall without fail and the great ground for criticizing Japan will disappear in the air when the American 'big three' start to sell new small car models around the beginning of autumn. He emphasized that the measures taken now are strictly temporary treatment until then. Also, although some say that the ITC which accepted the case presented by UAW (United Auto Workers Union) intends to speed up the investigation of the damages inflicted by Japanese cars, the results of the investigation will come out at earliest in the middle of October. If President Carter moves toward restriction like OMA after the return of the ITC investigation results, his action will be too late for the schedule of the presidential election. Even from this point of view, he definitely needs some measures to fill up the time.

"Restriction is inevitable" is the mood prevailing at this time in the auto industry which has always issued aggressive announcements on this problem although jeered as "ignorant of the political situation". This feeling is partly attributable to the industry's preference to avoid the worst situation like OMA. With any of the measures, exercise of a Trade Control Order, restriction based on Import and Export Trade Law or MITI's administrative guidance, the operation of each company will not be greatly rocked if it is handled through the form of voluntary restriction. The number of cars exported to the U.S. in 1978 and 1979 were practically stabilized to 1,800,000 and 2,070,000. However, as an export level, they were very high. It is estimated that this year's export to the U.S. will be the same as last year, which is, however, a figure that can only be achieved if each company produces at full capacity. All of the companies are confident that they can somehow manage this squeeze if the period for restriction is about one year, assuming compliance with the export restriction guideline or 1978 or 1979.

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The question is what form will be taken to enforce export restrictions. There are some ways to restrict exports, but each one has good and bad points and may likely bring a scene where conflicts of interest disturb the industry from within. For instance, the trade control order once exercised in 1973 might have been interpreted to have no limit to the number of export cars, and the import export trade law might have made the inauguration of the export cartel itself vulnerable to the law suit by U.S. dealers charging for nonfulfillment of supply. The voluntary restriction led by administrative guidance of MITI and enforced in 1979 (hold down the exports to England and the U.S. to the level of the preceding year), is the mildest measure, but it is too optimistic to believe that this can win the consent of the American side.

In the days to come, the auto industry will try to take more steps for restriction through MITI's advice and guidance after Carter's announcements. At any rate, their unanimous opinion is that they would like to avoid at all costs the OMA which is highly likely to prolong the restrictive period (normally 3 years) and to affect the European nations.

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ECONOMIC

TOYOTA'S COOPERATION WITH THE U.S. ANALYZED

Well-Calculated Decision Described

Tokyo NIHON KEIZAI SHIMBUN in Japanese 11 Jul 80 p 1

/Text/ The tie-up of Toyota Motors, the largest auto maker in Japan, and Ford, the world's second largest auto maker, and the cooperative production plan for passenger vehicles to be pursued by the joint concern composed of three companies, Toyota, Ford and Toyo Kogyo, sent shock waves through the world's automobile industries. In the world's small car trade war which triggered Japan-U.S. automobile friction, various forms of tie-ups and cooperative relations have been proved beyond the previous limits of capital and national boundaries. The Toyota-Ford tie-up can be said to be the peak of these trends. Therefore, let us look into the wily calculation of Toyota which played the major role in the present tie-up drama, the direction of the current Japan-U.S. automobile friction and a sketch of the international scale reshuffling of the auto industries.

"Japanese automobiles will never be deemed guilty as a result of the lawsuit presented in the ITC (International Trade Committee of the U.S.)" boasted Chairman Shoichi Hanai who acknowledged himself to be the "head clerk" of Toyota Motors after the late Taizo Ishida (former president), and he has not changed his inherent positive disposition even immediately after there abruptly appeared a feeling that an "Orderly Marketing Agreement is unavoidable", in conjunction with the instruction issued by President Carter in Detroit immediately before his visit to Japan to the effect that ITC should promote an investigation. His pronouncement sounded as if "Toyota's dictionary contains no letters such as OMA".

Chairman Hanai's bullish attitude was not at all a bravado. His affirmative expression was backed up by the tie-up with Ford. Ford has been way behind not only rival GM (General Motors) but also European and Japanese auto makers in the development of small cars, and their North American Division has dropped into the red since last year.

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Ford, under the circumstances, started to indicate their intention to present a case to the ITC working with the UAW (United Auto Workers Union) aiming to regulate the import of Japanese automobiles. If Ford with their hidden influence over U.S. politics helped in appealing to the ITC, President Carter could not ignore the case. Toyota had been secretly negotiating with Ford for a tie-up, and those concerned in Toyota believe that Ford will not join the signatories to the appeal.

The Toyota side restricted the information relating to the tie-up agreed to at this time. However, both MITI and Ford asserted that, "Toyota requested". The story being told by the parties concerned in Japan and overseas goes like this: Ford asked Nissan and Toyota if they were interested in buying Ford Mahway Plant in New Jersey which was recently closed. Nissan immediately declined this offer, but Toyota indicated interest in this deal and sat down at the negotiation table. Toyota's cleverness is shown after this. First, they attracted Ford by showing their interest in the deal, then they counter-proposed the production of passenger vehicles through a joint concern during the process of the negotiation. They carried the negotiation at Toyota's pace. Joint management is said to have been suggested by President Eiji Toyoda.

The story of the parties concerned continues even more. Toyota initially planned to involve Ford in two-party joint production in the U.S. However, the Sumitomo Bank who acted as a mediator for the capital tie-up between Toyo Kogyo and Ford, strongly opposed this idea. Finally, Toyota compromised and the deal was agreed upon under the condition that Toyo Kogyo would be included in the joint venture. The Sumitomo Bank cautiously aborted the nurturing of the impression that Toyo Kogyo's influence would be lightened and, in the long run, the impression that "Ford cut off Toyo Kogyo" by the joining of Ford with Toyota.

"In order to maintain free trade and friendship between Japan and the U.S., Toyota should produce passenger vehicles in the U.S."..... MITI leaders reiterated this rhetoric more often than we can remember, aiming to serve as a trouble-shooter in the Japan-U.S. automobile friction. They tried again and again to persuade Toyota, at one time, by inviting Toyota's "brains" to MITI and at another time, by visiting Toyota's headquarters in Nagoya. Every time they met, Toyota defiantly shook their head on the strength of "business management theory and profit supremacy doctrine", and they did not change their position of all-out resistance even when being criticized as "ignorant of political situation" and slandered as a "hillbilly".

Finally, stubborn Toyota suddenly turned around. The timing was also excellent. President Carter was in Japan to attend the funeral of the late Prime Minister Ohira. The stage effect was perfect, and the title of the play would be "Magnificent Turn of Toyota". However, this stage-show like trick, they say, materialized by a well-calculated assessment which could be only attained by Japan's number one profit organization, and by the excellent stage-management of MITI and Sumitomo Bank who saw through the situation Toyota was in.

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The U.S. market is Toyota's life line. Some 617,000 cars, almost half of Toyota's total export of 1,384,000 cars (1979) were exported to the U.S. Speaking of contribution to profit, it was far in excess of 50 percent. If a new plant with a monthly production of 10,000 were to be built in the U.S. by investing a huge sum of 200-300 billion yen, the export cars to the U.S. would be reduced to three-fifths of the current figure by means of a simple calculation. Taking into consideration the depreciation cost of the new plant and the reduction in productivity due to unfamiliar overseas production, the profit which had been realized in the U.S. would be further reduced.

"Toyota really thought of a tactful measure," said speechless President Takashi Ishihara of Nissan Motors who in this rivalry had decided one step ahead to make small size trucks in the U.S. Joint management requires only half of the fund obligation, and the product quality will not deteriorate significantly if essential parts are sent from Japan. The greatest benefit is that "few risks in labor management" which Toyota takes the most precautions against "is expected". (President Ishihara)

A source related to the business world pointed out, "In order to suppress U.S. pressure on Japan, we must first bring Ford over to our side, although the securing of help from UAW and congress is equally important." Ford is the acute cat's paw of criticism against Japan, and also suffers from aggravating business performance. Because of these circumstances, the union between Ford and Toyota with superb small car technology can demonstrate its effectiveness as serving two purposes, helping Ford and opening Japanese plants in U.S. It is evidenced that President Ichiro Isoda of the Sumitomo Bank, an old friend of the leaders of both Ford and Toyota, started to prepare the ground work since May and MITI produced the timing and momentum for the "announcement". At the beginning of this year, President Toyoda anticipated, "I might be pressured into making an economically unreasonable decision," and his hunch turned out to be true.

It is not at all new for large industries to enter into joint management among themselves. In the case of color TV sets which were driven into the OMA due to the trade friction developed before the presidential election just as automobiles are at the present time, Hitachi, Limited who's investment in the U.S. was initiated following that of rival makers, joined hands with GE (General Electric) as a measure for their revival, and applied to the U.S. Department of Justice for the establishment of a joint concern. However, due to entanglement by the anti-trust law, this joint venture was rejected and tragically cancelled.

The Toyota-Ford joint venture also must climb over the wall of this anti-trust law. Nonetheless, even if the venture is obstructed by this wall, the effort will firmly implant in the minds of Americans the impression that "Toyota is willing to invest money in the U.S."

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Toyota also has a plan ready in case the idea of the joint venture turns into nothing not because of the anti-trust law but because of a possible disagreement with Ford in future negotiations. Toyota has not withdrawn the investigation commissioned to three Japanese and American think tanks in order to obtain information useful in deciding whether or not to bring their business operations into the U.S. If worse comes to worse, it can advance into the U.S. independently based upon the results of this investigation. This report is useful for future negotiations with Ford even without considering the worst that could happen. The fee for the investigation amounts to one million dollars, but the money will not be wasted whatever happens to the deal.

HISTORY OF TOYOTA-FORD RELATIONSHIP

1933 autumn: Founder Kiichiro Toyoda started to make trial models of Japanese automobiles, using Ford automotive parts.

1935-38: Negotiations for a Toyota-Ford tie-up were held repeatedly, but none of them worked out.

1950, June: Shotaro Kamiya then president of Toyota Motor Sales (currently honorary president) visited Ford. He started negotiations for technical cooperation, but the negotiations were interrupted by the start of the Korean War.

1950, July-Dec.: Executive Director Shoichi Saito (current consultant) and Director Eiichi Toyoda (current president) went to Ford Company in the U.S. to attend a training course.

1951, February: 5 year plan for "Production Equipment Modernization" was projected based upon the learnings from the inspection tour of Ford Company.

1951, June: "Idea and Device Proposal System" was introduced with reference to "Ford's Suggestion System".

1957, October: Toyota Motor Company, Toyota Motor Sales Company and U.S. Toyota Sales Company were established.

1958, July: Passenger car export to U.S. started.

1960: Encouraged by the free trade policy of the government, negotiations for business tie-up were pursued, but collapsed owing to unnegotiable conditions.

1977: Ford Company contacted Toyota affiliated parts maker for purchasing of Ford small car parts.

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1978, June: Chairman Ford II of Ford visited Toyota Motor Company (Toyoda city) for the first time.

1980, June: Both companies basically agreed upon Toyota-Ford tie-up.

Global Strategy, Its Impact

Tokyo NIHON KEIZAI SHIMBUN in Japanese 13 Jul 80 p 1

Text "Advocating protectionism is not what is needed to cope with the situation. America must learn from Japan who is an expert in exporting manufactured products, and compete against her efficiency in the international market. Otherwise, America will drop to third among industrial countries in the 1990s following Japan and West Germany".....

Thomas A. Murphy of the world's greatest auto-maker GM (General Motors) who renewed his overseas sales record for a continuous 4-year period stated the above at the end of an announcement of its remarkable achievements in the spring of this year. Last year, GM sold 1,870,000 cars in the overseas markets alone, excluding the U.S. This figure is just about equal to the number of cars exported from Japan to the U.S. GM's willingness to discard protectionism and to stand for free trade attributes to nothing but the logic of the strong.

Taking advantage of the first oil crisis, GM initiated a massive aggressive attack in the international market. The company gave chase to American Ford who had been one step ahead in international strategy, and attempted to sweep Japanese and European auto-makers who mutually shared the control of the international small car market. "World Car Concept", which is supposed to assemble one million cars per one model by delivering parts from GM families scattered in every nation in the world, has become the target. Needless to say, the challenge by the giant GM shook Japanese and European auto-makers. This threat made Toyota Motor Company utter, "It may not be as threatening as to wipe us out, but GM is truly devilish" (Chairman Shohachi Hanai), and even former Chairman Ford II was astounded, "The GM cyclone is acting up".

The GM attack further escalated. Chairman Murphy proclaimed at the general meeting of shareholders in late May: we will expand equipment investment in the next 5 years from 38 billion to 40 billion dollars (approximately 8 trillion yen), and increase the small car production capacity approximately 5 times over the current figure to over 6 million cars by 1983". This movement is a good contrast to that of Ford suffering from deteriorating business performance which, on the contrary, forced the company to take a sizable

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reduction in equipment investment relating to development and production of small cars. It is truly a wonder (menance) that GM shows an attitude and composure enabling it to go for an all-out attack with its mighty capital power during this unprecedented auto-market slump.

"In order to survive against GM, there is nothing we can do but join hands with one another beyond the realm of nationalities" (president Yoshiki Yamazaki, Toyo Kogyo). This notion has become a common understanding of the world's auto-makers. It also becomes the chart of the international scale auto-industry reorganization.

Toyota-Ford Small Car Cooperative Production Plan has great significance as the peak of an international reorganization drama in addition to its importance as a first step toward the solution to the Japan-U.S. trade friction and the multinationalization of Toyota. Realization of the large size tie-up between the world's second and third companies, will ignite an immediate surge of ripe opportunity for tie-up among the Japanese and European auto-makers. Especially European makers cannot quietly overlook the marriage between American and Japanese companies.

Chairman Giovanni Aniel of Fiat, the largest Italian auto maker, recently disclosed that they are promoting a "Cooperative Parts Production Plan for six European makers". The six companies include BL (former British Leyland) of England, VW (Volkswagon) of West Germany, Renault Public Corporation of France, Peugeot Citroen of France and Volvo of Sweden in addition to Fiat. The six companies just finished concluding a "Joint Research and Cooperation Agreement" in the spring of this year. The new plan is intended as an expansion of the said agreement.

"If parts like speed change gears are standardized and mass-produced among the European makers, the price can be reduced. Without solidarity in such an aspect, European makers cannot cope with the aggression by America and Japan" (Chairman Aniel). This sense of threat lies in the root of such a "EC (European Communities) Alliance Plan". To the European makers, not only GM but also Ford and their current enemies, and the greatest threat is the aggressive export tactics used by the Japanese makers. The Japan-U.S. alliance will be an undefeatable competitor.

Here is an interesting story. This March, a secret document compiled by a certain investigation company was distributed to the leaders of West German auto makers. In the text, a following shocking report was said to have been contained, "There is no guarantee that the West German auto makers can continue to exist in the latter half of the 1980's. It is because the Japanese makers will conquer the international market by 1990." An influential West German paper which printed this story analyzed it as, "Aggression of Japanese cars in Europe is also a result of the "expansion of armaments" by the giant American makers."

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Some tie-up dramas were played in Europe in the past year. Renault Public Corporation concluded a capital tie-up agreement with American AMC (American Motors) and American Mack Company, and it also made a capital participation agreement with Sweden's largest industry, Volvo. The world's number five Peugeot Citroen extended their hand to help the dying American Chrysler. Nissan granted emission gas technology to Peugeot. Additionally, Fiat and Peugeot are presently negotiating for a tie-up. There is no question that greater tectonic movements will occur in the future.

The Toyota-Ford tie-up also had a severe impact on the domestic automobile industry where 11 finished auto-makers are competing against one another. Nissan Motors concluded a capital participation agreement with the Motor Iberica of Spain, and is negotiating for a tie-up with Italian Alfa Romeo. A leader of Nissan Motors commented with a serious look on his face when he heard about the Toyota deal, "It's hard to believe." President Takashi Ishihara managed to lighten the importance of the news, "Toyota goes her way, and we go our way", but his true feeling may be, "Why above all with Ford? I thought Toyota was a champion of nationalism...."

Although the automobile industries experienced a large scale reorganization due to the rough waves caused by the liberalization of capital transactions, it is again in the same mud, "we cannot predict what happens in 1980's. We cannot see an inch ahead." (a leader of a maker with foreign capital) It is possible that the current following chart may be repainted: The two strongest, Toyota and Nissan, in the center, Honda Motor Co. going her independent way on the periphery, three companies, Toyo Kogyo affiliated with foreign capital, Mitsubishi Motors and Isuzu Motors in the third power, and two companies, Daihatsu Kogyo and Fuji Heavy Industries in the Toyota and Nissan groups respectively.

Toyo Kogyo and Mitsubishi Motors will be in the eye of the hurricane. The position of Toyo Kogyo turned extremely delicate after the Ford-Toyota alliance. Although Toyota (President Eiji Toyoda) places Toyo Kogyo as "a member of Ford group", the relationship between Ford and Toyo Kogyo cannot be said well established only in a year or so after the capital tie-up. It is understandable that the Sumitomo Bank, the main correspondent Bank of Toyo Kogyo is strongly cautious about Ford's liberation from Toyo Kogyo.

Also, Mitsubishi Motors shaken by the Chrysler's operational crisis will have difficulty in future steering. They have intensely followed Toyota and Nissan in both domestic and overseas markets, but now they are at a standstill harmed by the relation with Chrysler. They tried to find a way to operate without Chrysler, but it is not certain whether or not they can survive the future merciless small car war even if they can find their own way, Honda style.

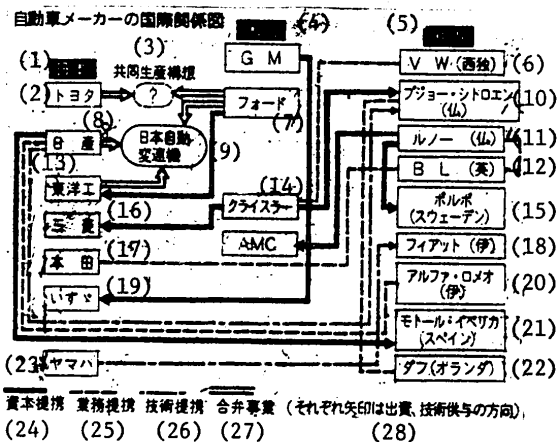
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It is highly calculable that second and third tie-up dramas following Toyota-Ford will be staged on an international scale. From now on, the Japanese automobile industry for the first time after the war will enter into an era of troubles both at home and abroad, specifically, "Sales tapering-off in the domestic market, and sales stagnating in the international market". Giant GM stands in our way, the EC alliance line against Japan and the nationalization policy of the developing countries which aim to block the finished car exports, a specialty of Japan, are actively in motion. The environment that surrounds the Japanese automobile industry is starting tectonic fluctuations which cannot be coped with by any existing concepts.

If the 1980's auto industry is the place where makers join hands with one another beyond national boundaries and the fences of capital affiliations and the iron-clad rule of winning or losing is pursued in this grouping process, the Toyota-Ford tie-up has truly opened the curtain for an international reorganization.

INTERNATIONAL RELATIONSHIP CHART OF AUTO MAKERS



- Key:
1. Japan
 2. Cooperative Production Plan
 4. America
 5. Europe
 6. VW (West Germany)
 7. Ford
 8. Nissan
 9. Japanese automatic speed exchange gear
 10. Peugeot Citroen (France)

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|-------------------------|--|
| 11. Renault (France) | 21. Motor Iberica (Spain) |
| 12. BL (England) | 22. Doff (Holland) |
| 13. Toyo Kogyo | 23. Yamaha |
| 14. Chrysler | 24. capital tie-up |
| 15. Volvo (Sweden) | 25. business tie-up |
| 16. Mitsubishi | 26. technical tie-up |
| 17. Honda | 27. joint venture |
| 18. Fiat (Italy) | 28. Each arrow indicates the direction |
| 19. Isuzu | of capital subscription and tech- |
| 20. Alfa Romero (Italy) | nology given. |

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ECONOMIC

JAPAN'S CAR EXPORT RESTRAINT WILL NOT HURT ITS ECONOMY

Tokyo SHUKAN SHINCHO in Japanese 10 Jul 80 p 27

[Article: "The State of the Economy and "Japan-U.S. Friction" Relating to the Auto Industry: Some Hold That a Limited "Recession" May, in Fact, be Beneficial"]

[Text] A sudden collapse of the auto industry would undoubtedly lead to devastating disorder on a major scale.

Last year, at any rate, the industry produced one million cars, and that, combined with the output of related industries such as rubber and gasoline as well as subcontractors in the iron and steel area, makes it by far the largest industry in Japan.

Things may not reach the tragic levels of the 20's and 30's when families were forced to sell off their own daughters, but there is little doubt that unemployment would become rampant and society would be plunged into tumult.

Of course, a panic of such dimensions is not likely to occur overnight, but for the time being a major intensification of tensions has occurred within the auto industry because of the question of Japanese exports to the U.S.

Newspapers are alive with headlines reading, "Japanese-U.S. Friction Over Auto Exports: An Atmosphere of Unrest;" "Self Regulation Inevitable," and weekly news journals print articles projecting, "Unemployment figures of 50,000 workers."

"For all that, we do not foresee any panic," an official of a certain auto maker said, laughingly. But then, a concerned expression on his face, he added, "It's an emotional issue for the U.S., so it is possible a government level agreement on export figures may be reached by the end of the year. Such an agreement made three years ago with respect to color television exports resulted in reductions in exports of about 30 percent. Any

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reduction in auto exports would have to be absorbed directly because domestic sales over the last 4 months are down from last year, and other export markets will not help because we have friction with Europe and the Middle East market is limited."

Still, some now seem intent to reprimand the Japanese Government for its tendency to emphasize the crisis and to acquiesce to U.S. demands. One wonders, nevertheless, what would happen were exports to the U.S. cut by 30 percent. At present, slightly under 50 percent of automobile production is for the export market, and of that some 40 percent is destined for the U.S. In short, there would be an overall reduction of some 6 percent.

In the words of the executive quoted above, "A reduction of 30 percent over a 1 or 2 year period would be devastating. But with determination we could survive. We are far from calling for voluntary retirement. We are now operating at full capacity, so there is room for a fall in productivity, and some of the fat we trimmed during the oil crisis has reappeared. We can afford to drop that."

Economic experts generally, however, anticipate no need for governmental agreements resulting in large scale reductions in exports.

At any rate, Japanese automobiles are at a premium among U.S. consumers, causing dealers who handle Japanese cars to threaten Japanese makers with breach of contract suits if they reduce supplies. Besides, economic conditions in the U.S. will hardly allow for the locking out of the inexpensive, fuel efficient Japanese auto, whether from the standpoint of anti-inflationary measures or the preservation of energy.

Thus, experts believe a self-imposed reduction of about 10 percent in exports to the U.S. will be sufficient to placate the U.S.

Consequently, that reduction, coupled with the general decline in exports to the U.S. brought on by the economic recession there, will likely make a slowdown in the Japanese economy unavoidable. Nevertheless, through unemployment rolls will swell, there is little chance we will see any major recession.

"Indeed, such a slowdown may be ideal economically," the chief of research at a metropolitan bank has said. "Currently, willingness to invest in equipment is strong, with many industries operating at full capacity. Continued activity on the current level could lead to inflationary conditions fed by a diminished ability to keep up with demand. Hence, an economic recession is just what we need at the moment because it would bring a reduction of 2 or 3 percent in the current 6 percent growth rate as well as price stabilization."

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Be that as it may, as long as the Japanese produce a superior product we can expect a recurrence of Japan-U.S. friction related to auto exports. In such an event, if we are to continue to stand for free trade, it appears inevitable that we move in the direction of "international division of labor," though it means such measures as liberalization of food imports or increased aid to developing countries.

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