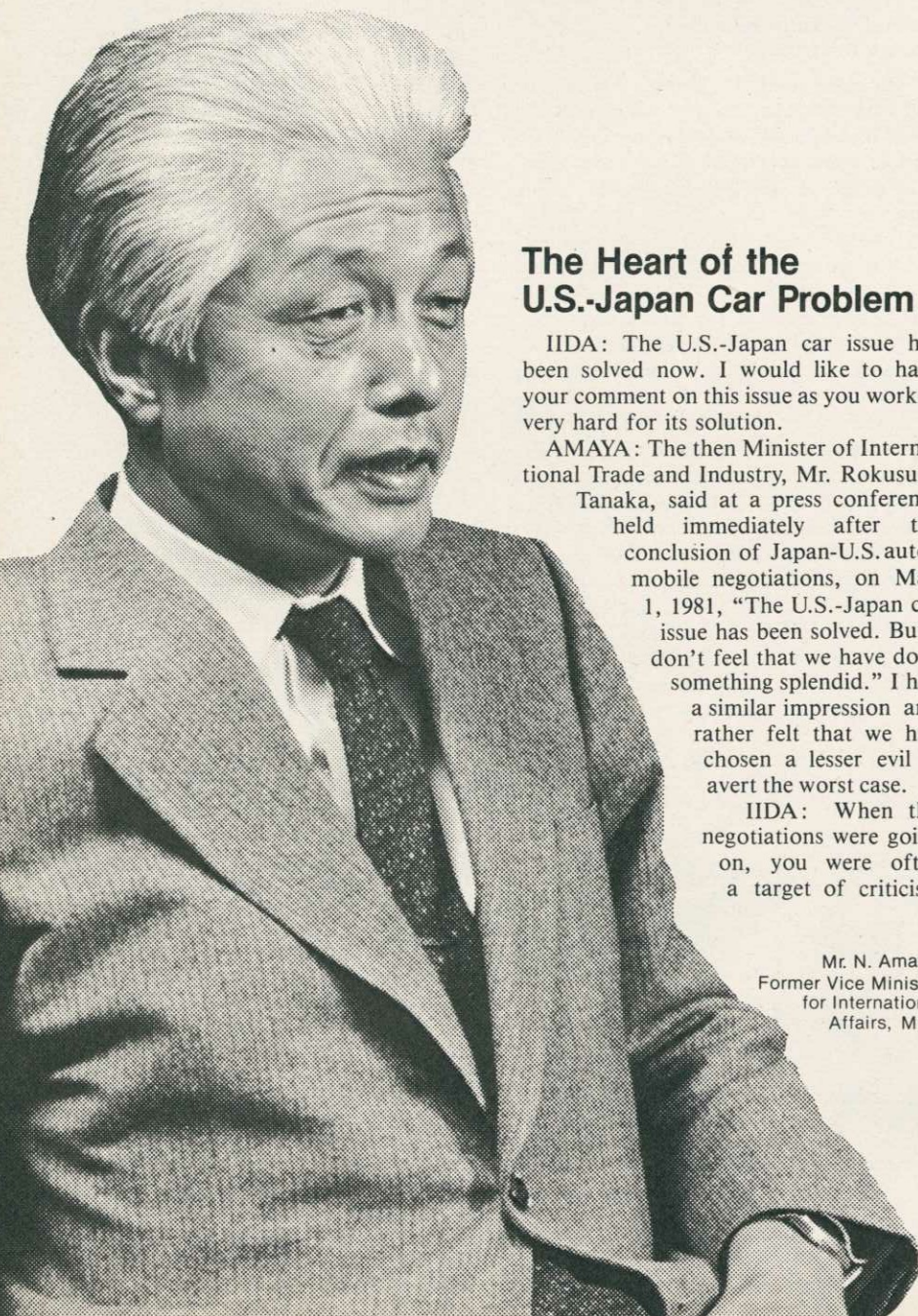


WHAT WAS THE U.S.-JA

Interview with Mr. Naohiro Amaya, former Vice-Minister for International Affairs of the Ministry of International Trade and Industry, by Professor Tsuneo Iida of Nagoya University.

"Free trade is only a product born of the process of history and such a product may also disappear in the process of history. Therefore, we should make efforts with religious care not to damage the fragile rules of free trade."



The Heart of the U.S.-Japan Car Problem

IIDA: The U.S.-Japan car issue has been solved now. I would like to have your comment on this issue as you worked very hard for its solution.

AMAYA: The then Minister of International Trade and Industry, Mr. Rokusuke Tanaka, said at a press conference held immediately after the conclusion of Japan-U.S. automobile negotiations, on May 1, 1981, "The U.S.-Japan car issue has been solved. But I don't feel that we have done something splendid." I had a similar impression and rather felt that we had chosen a lesser evil to avert the worst case.

IIDA: When the negotiations were going on, you were often a target of criticism

Mr. N. Amaya,
Former Vice Minister
for International
Affairs, MITI.

from weekly magazines and the like. Did you find any difference between the car issue and the other previous trade friction between the United States and Japan?

AMAYA: The car problem occurred after the textile, steel and color television problems. I think the U.S. car industry occupies the most representative position of all U.S. manufacturing industries. Psychologically the American people think that the car industry started and developed in their country and is one of the most typical American industries. And at the same time, it employs more workers than other industries. I think it is the car industry that was most strongly supporting the principle of free trade in the United States. So, when the car industry took a posture running counter to free trade, it reminded me of the phrase "You too, Brutus." At the same time, I thought it would pose a more serious crisis to the free trade system than, for example, the textile issue.

Negotiations on the textile issue had difficult sailing as political rather than economic friction. But it did not endanger the free trade system. America's economy at that time was much stronger than it is now, and the friction was only a sectional phenomenon in the whole U.S. economy. I believe the cases of the subsequent steel and color television issues were almost the same as the textile issue.

But when the car industry is endangered, it has a far greater meaning because it looks as if the bearer of the regimental colors of free trade were shot and fell.

IIDA: Those who are critical of the way

PAN CAR PROBLEM?

the car problem was solved say the governmental meddling in the issue runs counter to the principle of free trade. Would you please comment on this?

AMAYA: Legally speaking, GATT has rules to settle trade disputes in accordance with the spirit of free trade. So, to maintain free trade is to act in accordance with GATT rules. If Japanese car imports are found causing serious damage to Detroit, Article 19 of GATT is applied to the Japanese cars. But in November 1980, the ITC judged that Japanese cars were not guilty and that increases in Japanese car imports were not a major cause of difficulties faced by Detroit. Therefore, as far as Japan observes GATT rules strictly, it is allowed to export to the United States 1.8 million cars or even 2 million a year or as many as it can to meet demand there. That is the principle of free trade.

But practically speaking, if Japan exports in such a way, it is very likely that the Danforth-Bentsen bill will be passed by the U.S. Congress.

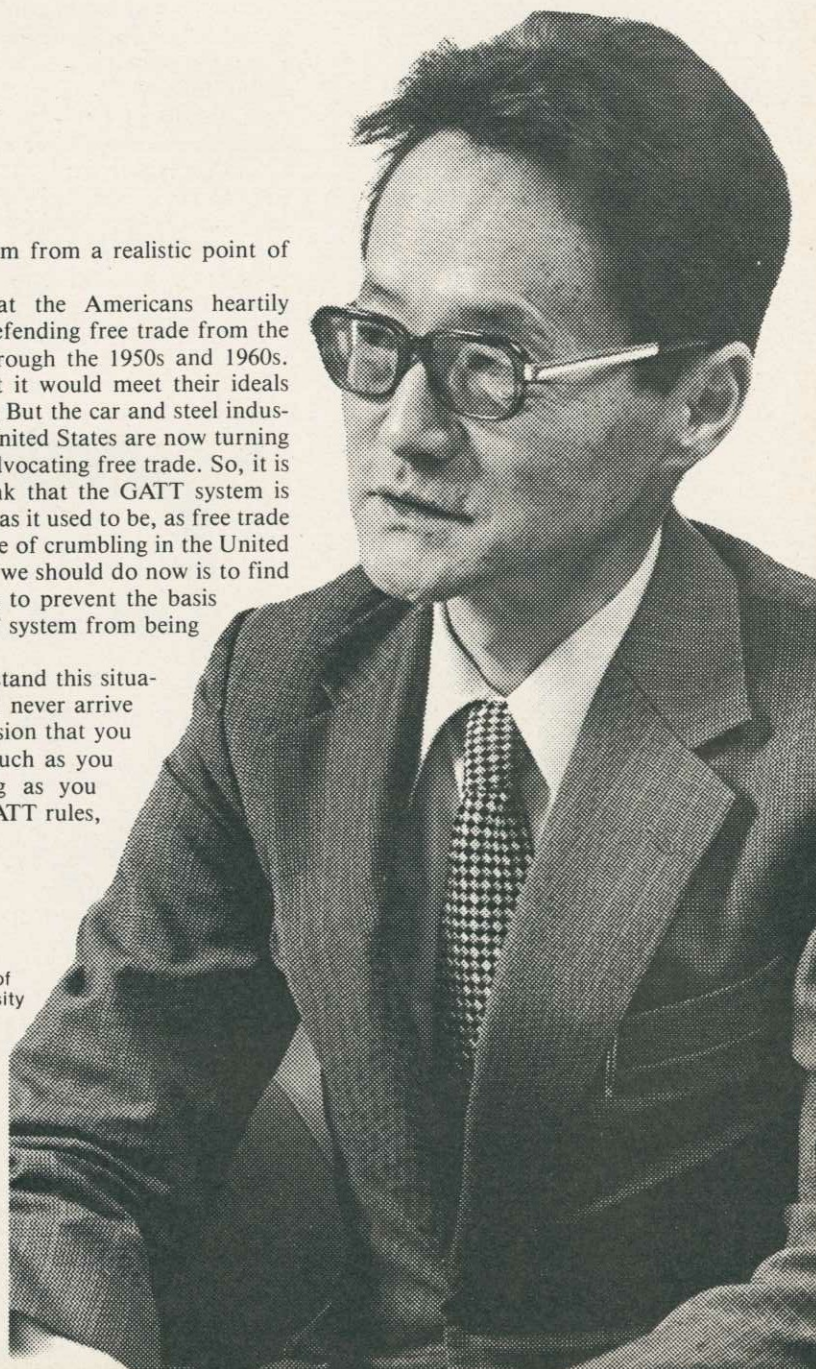
As you know, to the United States GATT is merely an administrative agreement which has not been ratified by the Congress yet. So, if the Danforth-Bentsen bill is passed by the Congress, it will have priority over the GATT agreement. In other words, the United States will have a law which will have priority over the GATT agreement and will discriminately restrict Japanese imports. This will be tantamount to the first step toward a collapse of the free trade system. We think we cannot defend the free trade system if we deal with trade problems only from a legal point of view. We think we should

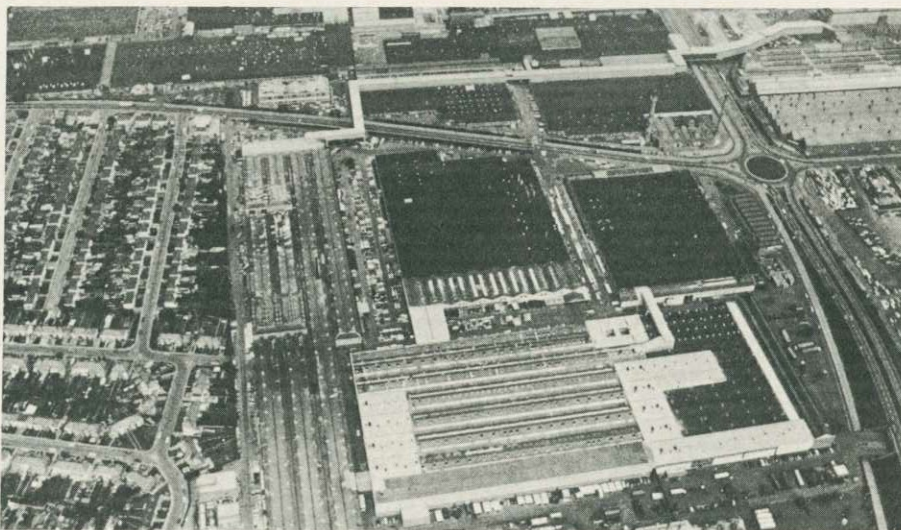
deal with them from a realistic point of view.

I believe that the Americans heartily thought of defending free trade from the late 1940s through the 1950s and 1960s. They thought it would meet their ideals and interests. But the car and steel industries of the United States are now turning away from advocating free trade. So, it is better to think that the GATT system is not so secure as it used to be, as free trade is on the verge of crumbling in the United States. What we should do now is to find realistic ways to prevent the basis of the GATT system from being cracked.

If you understand this situation, you will never arrive at the conclusion that you can sell as much as you like, as long as you follow the GATT rules, I think.

Professor Iida of
Nagoya University





British Leyland assembly plant

The Reagan Administration's Basic Policy

IIDA: Do you think it right to think that policy makers in the Reagan Administration are determined to defend the free trade system or is their determination not so strong?

AMAYA: People in the Reagan Administration were divided into two over the matter, as you know. Such free-traders as Mr. David Stockman, Director of the Office of Management and Budget, and Mr. Murray Weidenbaum, Chairman of Council of Economic Advisors of the Executive Office of the President, said an anti-inflation policy was the most important policy and restrictive measures to curb car imports should not be taken as they ran counter to the policy. On the other hand, Mr. Malcolm Baldrige, Commerce Secretary, and Mr. Andrew Lewis, Jr., Transport Secretary, said that theoretically it might be right but it was an empty theory. They also argued they could not sit idle if Chrysler and Ford were about to go bankrupt as a result of free trade competition. Mr. Baldrige and Mr. Lewis also said it was political common sense to take emergency measures to keep Chrysler and Ford out of trouble and that the most effective means was to call on Japan to restrict its exports for the time being. I think Mr. Alexander Haig, Secretary of State, and Mr. William Brock, Representative for Trade and Negotiations, were between the two groups.

I think President Reagan himself is basically a free-trader. But he was not in a position to ignore political realities mentioned by Mr. Lewis and Mr. Baldrige. Therefore, when he met Japanese Foreign Minister Masayoshi Ito, he said Detroit was now in great difficulties and that if nothing was done, the possibility of the Danforth-Bentsen bill being passed was

very great. And he said once the bill was passed it would be very difficult for him to exercise a presidential veto. Mr. Reagan, asking Mr. Ito to understand the situation, stated he was very much interested in Japanese moves for voluntary restrictions on car exports to the United States. The President then expressed the hope that the car issue would be settled before Japan's Prime Minister Zenko Suzuki visited Washington. I do not know what Mr. Ito replied concretely to Mr. Reagan. But I believe he showed understanding to the U.S. situation. As a result a so-called framework of tacit understanding was established for solving the car issue.



U.S. Trade Representative William E. Brock

Conditions for Revitalizing the U.S. Car Industry

IIDA: Let's now discuss how bad America's economy is. What impression did you get of America's economy and politics through the negotiations?

AMAYA: We cannot make out how soon the U.S. economy will recover under President Reagan's economic reconstruction plan. What we can do now is just

hope for its success. As to prospects for car sales in the United States, the U.S. side says the number will reach 9.5 million cars in 1981, 11 million this year and 12 million in 1983. But there is nothing to guarantee this estimate. In any case, one of the important conditions for recovery in car sales is that the current high level of interest rates needs to be lowered to some extent. But I cannot predict when it will happen. Let's see the situation of the suppliers' side. For example, the hourly wage of the UAW workers is \$15, or \$5 higher than an average wage in other manufacturing industries. It means the UAW workers are labor aristocrats. They have so far been able to survive because the Big Three have monopolized the market for big cars. Only American makers have produced big cars, which enabled them to earn big profits and made the high wage of \$15 possible. But I think it will be difficult for the U.S. car industry to continue to pay \$15 when it has to turn to the small car market where it has to compete with Japanese and West German cars. Practically speaking, it seems difficult for the U.S. industry to lower the wage. One of the important points to watch is whether it is possible to lower real wages in the process of inflation and how much cooperation management can get from UAW. This time UAW is showing readiness to cooperate with management. The key is to what extent it is ready to cooperate.

Another problem is the quality of labor and management. Recently, U.S. car makers have been introducing Japanese-style quality control methods.

For example, GM has coined a slogan "Quality of Work Life" and is making all-out efforts to control the quality of its cars by introducing a Japanese-style QC method. As to introduction of industrial robots, the negative response from labor has been strong, but GM is about to introduce them extensively.

I think that in the U.S. economy the supplier's side has more flexibility and can change greatly. On this point the U.S. industry is superior to Europe.

How Negotiations with Foreign Countries Should Be Handled

IIDA: You said that the car problem was solved as a result of both sides reaching tacit understanding. As I read newspapers, I had the impression that the Foreign Ministry and the Ministry of International Trade and Industry (MITI) were disputing the leadership in the negotiations. As a Japanese I thought it very regrettable. But I also found that in the United States, too, there were similar disputes between Mr. Brock and Mr. Haig and between USTR and the State Department.

AMAYA: Yes, particularly among four people, Mr. Brock, Mr. Haig, Mr. Bald-

rige and Mr. Lewis.

IIDA: Could you tell me a bit about the dispute between the Foreign Ministry and MITI?

AMAYA: The Foreign Ministry has traditionally thought that diplomatic negotiations should be carried out through one channel. Therefore, I think the Ministry regarded the car problem as a diplomatic issue and considered it should deal with the issue. On the other hand, MITI thought it was a trade issue which it naturally should handle. MITI argued that it was better suited to solve the issue in a rational and realistic way because no one who did not have close contact with the industry could deal with it properly. And it said that to increase the number of negotiation channels would only confuse things. But I think such "territorial" disputes are common to humans, so on this point there is no difference between the Americans and the Japanese.

So, when one issue arises, it may have at times aspects of diplomatic, trade and industrial policy. It also may have other aspects of finance and economic cooperation problems.

In short, any issue has various aspects and is pluralistic, and it is impossible to treat it as one simple problem by singling out just one of the various aspects the issue contains. So, the best way in handling an issue is to judge, case by case, which aspect of the issue is the most weighty. In

other words, government leadership should decide whether the Foreign Ministry or MITI should lead negotiations depending on the issue.

One of the problems on the part of Japan in the last textile negotiations with the U.S. was that there was no clear understanding on which ministry should have leadership. In the car negotiations, MITI practically took leadership, although there was trouble in mid-course. It is realistic for the Agriculture, Forestry and Fisheries Ministry to take leadership in salmon negotiations and is rational for the Foreign Ministry to take a leading role on the question of economic sanctions against the Soviet Union in protest against its invasion of Afghanistan, I think.

Future of the Car Industry

IIDA: Next, I would like to ask for your view on the future of the car industries of Japan, the U.S. and Europe. You have often given your opinion of civilization that, historically speaking, it is very difficult for one to regain strength once it is lost. I quite agree with you. All European car industries except that of West Germany have declined to a miserable state while the Japanese car industry has grown by taking up the lost market shares. Furthermore, it has taken more than 20% of the U.S. market. In short, European car industries are in the poorest

state and the U.S. car manufacturers, except GM, are not doing well while only Japan has continued to grow.

AMAYA: Development of the world's car industry began in the 1920s and it made great progress when oil prices remained at \$2 per barrel. In terms of the amount of the world's oil supplies (or consumption), it reached 20 billion barrels in 1972 from one billion barrels in 1929, and during this half century oil flooded like water and it was the car industry which used it most effectively, I think. But now oil is priced at \$36 per barrel and nobody knows how it will change in the future. Anyway, the oil supply situation is unstable, compared with that before 1973 oil crisis. Therefore, it will be almost impossible to expect the world's car industry to grow as fast as it did before, not only because of the direct effects of increased fuel costs but also because the whole world economy is suffering from a long-standing recession. I think its growth sooner or later will reach its limit.

In this situation, I think Detroit has two big problems. One is that it made a misjudgment on timing the switch from big to small cars. But this is not an irrevocable mistake. Particularly, GM will be able to overcome the problem. The other problem is the decline in labor quality. This has occurred not only in Detroit but also more seriously in Europe. On the contrary, in Japan labor quality has become better and

President Ronald Reagan works at his desk in the Oval Office of the White House in Washington.





One of Tokyo's highways

better. As a car industry needs a huge amount of good quality labor, the decline of labor quality adversely affects the quality and cost of its products. So, the Japanese cars have strong competitive power. In Britain, Italy and Detroit there have been appearing those poor manufacturers which cannot cope with the two problems of the decline of labor quality in the stagnant demand situation as a whole.

So, it is a common sense to think that it will be difficult for these manufacturers to survive unless some measures are taken and that some of them will be eliminated. According to Adam Smith's law, it is a natural result. But when it is seen from the political aspect of the issue, it is not as simple as that, and there will be considerable impact when one enterprise fails even though it is a poor one. Such a failure will cause major political and social friction and will strengthen pressure for protectionism. Readjustments and elimination of a car industry cause not only economic problems but also big political and social problems. The most important thing is how to carry them out without causing big friction. You cannot solve problems by only advocating the protection of free competition. The big question is what to do then, but unfortunately there is no fixed formula for a solution.

Overseas Advancement by the Japanese Car Industry

IIDA: At present Japanese car manufacturers are about to build plants in Britain and Italy where a decline in labor quality is very remarkable. I think it is a natural move now that Japanese car makers cannot any longer expand their

shares of overseas markets by exporting cars produced in Japan. Do you think they will be able to do well in such countries where labor quality is poor although they may be armed with the so-called secret weapon of Japanese-style management method, which recently is over-evaluated?

AMAYA: That is a matter for private companies to judge and is beyond our judgment. But in Britain Japanese electric home-appliances makers are doing well. Television sets produced in Japanese-invested plants have now become an export industry.

IIDA: Yes, Sony Corporation was awarded a medal.

AMAYA: I cannot say whether car makers will be able to do well as television makers. Anyway, depending on the methods they use, they can overcome the problem of labor quality in Britain to a certain extent. One recommendable method is to talk with trade unions. I have heard that bad customs can be rectified through negotiations with trade unions when new plants are built.

I have also heard that another method is to pay a wage a bit higher than the average for local workers of regions to which Japanese enterprises want to advance as unemployment is high there and by doing so they can reduce the number of absences without leave.

In addition to these, the Japanese television set manufacturers have employed the Japanese-style management method, which has proved a success. In case of cars, the biggest problem is how to procure parts. The TV makers also had difficulties in the initial stages despite the fact that they use fewer parts and that their shipment and storage are cheaper. To car manufacturers it is a far bigger problem. The question is to what extent

the problem can be solved. At present it is most profitable to build cars in Japan and export them. But this best way for Japan creates unemployment problems in other countries. Under the principle of free competition it is only natural that those poor quality workers lose their job. But, as long as we have to face the realities, we should positively think of capital advancement overseas as much as possible.

IIDA: While I was in Britain for two months late in 1980, there were constant labor problems in British Leyland and British Ford, and the *Financial Times* carried articles on them. One of the episodes carried by the newspaper was that a factory stopped for days following labor disputes over how to use newly installed lockers—whether all workers should go to change clothes all at once or in groups in turn. The newspaper reported that during the walkout parts were left scattered all around the factory. It is really an awful thing, isn't it? The key is whether well-disciplined production can be achieved in Japanese-run factories. But, I had a strong impression in Britain that it would be a fairly difficult task.

Measures to Canada and EC

IIDA: The EC and Canada have starting raising car problems with Japan following the settlement of similar issues between Japan and the U.S. How do you think the problems will develop?

AMAYA: Both Canada and the EC are calling on Japan to apply the same or similar measures as taken for the United States. I cannot understand their arguments as they are different countries and their markets are different from the U.S. In other words, Japan is in debt to the

U.S., I think. Japan had delayed the freeing of its car market up to 1965. If the U.S., on the strength of the GATT agreement, had strongly demanded that Japan free its market in 1960, Japan would have done so and its car industry would have been quite a different one from as it is now. But the U.S. gave Japan a 10-year-long respite before freeing the market after Japan joined GATT in 1955. Japan should appreciate this and thank the U.S. for it and regard itself as in debt to the U.S. And now the U.S. which is in trouble is seeking Japanese help. And it is not good for Japan, forgetting the fact that it was once given a handicap, to insist that the U.S. should be on scratch in the auto production race.

But Japan owes little to Canada and Europe in this respect. And at least the United States has a blueprint for restructuring its car industry. We do not know whether Canada and Europe have such reconstruction plans. We need to listen to what they have to say, anyhow. It is true that unemployment rates are high in both Canada and EC. We plan to have talks with them to find ways to solve problems. There is no way other than to make trial and error.

IIDA: On the car issue, one American said the Americans still remember that

Japan resisted freeing its trade and capital markets until the final moment and this has a great influence on the U.S.-Japan frictions. I think this is true, although it was inevitable for Japan to do so at that time.

AMAYA: I think it is not good for anyone to say that he does not like free trade while he has no competitive power and that he will not allow others to abandon free trade once he has become strong enough.

Of course, those who ask for a handicap should be humble in doing so. And we also should avoid helping create a paradise for fools by giving an excessive handicap. After all, to maintain the free trade system depends upon whether the participants in the game are wise enough to restrain themselves.

IIDA: For the last question, how do you think Japan should tackle trade friction with foreign countries in the future?

AMAYA: Professor Iida, you once wrote that when unfair trade practices are criticised, they should be rectified. But what should be done when friction arises from fair trade practices? The car issue is exactly typical of the case and Japan is now confronted with the problem. In this case, I think the one who has strong competitive power should restrain himself. A

race among competitors on scratch is possible if they sometimes win and sometimes lose. But if one certain competitor always wins, the other competitors do not want to join the competition any longer. This is also true with free trade. Therefore, I think it is necessary for the strongest competitor to restrain himself and try not to win too much.

IIDA: To win too much is surely not good. But there are often cases in which one strong competitor, while restraining himself, can still win on the opponents' errors, for example. It is the opponents' big error that they failed to switch quickly to the small cars.

AMAYA: It exactly so. But if someone is one-sidedly strong and always wins, problems always occur. If one country has a huge military power, it may say "you have to play in accordance with my rules and if you violate them I will shoot you." But Japan has won too much without military backing. So, Japan needs utmost prudence in this case. There will be no problem if free trade is natural law. But it is only a product born out of the process of history and such a product may also disappear in the process of history. Therefore, we should make efforts with religious care not to damage the fragile rules of free trade. ●

Measures concerning the export of passenger cars to the U.S.

May 1, 1981, Ministry of International Trade and Industry

1. The Government of Japan (GOJ) fully recognizes that the U.S. government has formulated an auto recovery program and is implementing the de-regulatory part of that program in order to cope with the difficulty that the U.S. auto industry is facing, and that the U.S. auto industry and the auto workers union will jointly make every effort to renovate the U.S. auto industry as put forth in the various statements they have made to date.

GOJ, assuming that these efforts will be made in the U.S. and in light of the general situation, has decided to take the measures referred to in paragraph 3 below as very temporary and exceptional measures in order to maintain the free trade system and to develop further the good economic relations between Japan and the U.S.

2. (omitted.)

3. GOJ will take the following measures during the maximum period of three years from April 1981 through March 1984, based on the understanding that the next three years are crucial for the U.S. auto industry to recover.

(1) GOJ will obtain monthly reports,

during the three-year-period through March 1984, from each company on its passenger car (JAMA classification basis) exports to the U.S. (as defined to be exported to the fifty states and the District of Columbia) under its authority in the Foreign Exchange and Foreign Trade Control Law to introduce and implement a new monitoring system on passenger car exports to the U.S.

(2) During the first year (from April 1981 through March 1982), MITI will restrain the volume of passenger cars to be exported from Japan to the U.S. by MITI directives issued to individual companies as an administrative measure. The total volume of passenger cars to be exported to the U.S. will be 1.68 million units.

(3) During the second year (from April 1982 through March 1983), MITI will restrain the volume of passenger cars to be exported to the U.S. in the same manner. The total volume to be exported to the U.S. in the second year will be the sum of the export ceiling for the first year and the volume obtained by multiplying the estimated increment of the U.S. car market by 16.5%.

(4) In order to guarantee the implementation of the measures mentioned in (2) and (3) above, MITI will promptly make the export of passenger cars to the U.S. subject to export licencing, under its authority in the Foreign Exchange and Foreign Trade Control Law, should any such necessity arise.

(5) During the third year (from April 1983 through March 1984), MITI will monitor the trend of passenger car exports to the U.S. through the measure mentioned in (1) above. At the end of the second year, MITI will study, considering the trend of the U.S. car market, whether these export restraint measures should be continued in the third year.

(6) The measures mentioned above shall in any event, expire by March 1984. Further, separate measures will also be taken with regard to the export of passenger cars to Puerto Rico and the export of vans (classified under "commercial vehicle" in Japan Automobile Manufacturers Association, Inc. (JAMA) statistics but as "passenger car" in the U.S.) to Puerto Rico and the United States.

4. (omitted.)