

Alarm for Automakers

By Shigehira Yoshioka

Various studies show that the economic integration of the European Community will go a long way toward revitalizing the EC economy. Yet it is also true that the coming unified market could pose a number of problems for the Japanese auto industry.

Currently, EC countries impose severe and discriminatory restrictions on Japanese automobile imports. France, for example, limits the market share of Japanese cars to 3%, while Italy imposes an import quota of only 3,300 cars a year. These restrictions clearly run counter to the objective of the creation of an integrated EC market.

The Community is in the process of removing various obstacles to trade as it works to achieve market integration by 1992. The EC Commission is making especially great efforts to abolish country-by-country restrictions such as those affecting Japanese cars. This is a welcome development.

Yet the Japanese auto industry is concerned over repeated calls by some EC auto industry leaders for new import curbs at the EC level. It is clear from the OECD's 1987 study, the Benz Report issued in July 1988 by Daimler-Benz A.G. and other studies that such restrictions would hurt the EC auto industry's own competitiveness and have highly negative effects on the EC economy and society in general.

In fact, European concerns about a rapid increase in Japanese car exports to their market or a concentrated export drive are unfounded. Japanese automakers have exercised prudent marketing, carefully taking into account both consumer needs and EC market trends. They will continue the same approach to a unified EC auto market.

The automobile industry is in essence a global industry with products that are marketed worldwide. The EC, the United States and Japan are the world's three largest auto-producing regions, and automakers in these regions already actively

cooperate in technology, investment and other fields. Japanese producers are promoting industrial cooperation with American and European car makers through direct investment in the United States and Europe. In light of this ongoing international exchange, the thinking behind current EC discussions on local content is regrettable. The EC's position is extremely discriminatory against Japanese makers, as well as being strongly biased against Japanese investment.

Auto production in a foreign country requires that many parts and components be supplied from the home country during the initial phase of manufacturing. This is essential in order to ensure product safety and quality during the all-important start-up period. If high local content percentages are required from the very beginning, investment becomes virtually impossible. Such proposals are in fact aimed at shutting foreign car makers out of the EC market.

The EC is reportedly considering new standards for country-of-origin certification in an effort to devise a common automotive policy. Such standards should be internationally acceptable. One option would be to use the 60% bilateral local content ratio already in effect for free distribution between the EC and EFTA.

Japanese car manufacturing in the EC region contributes substantially to the EC economy. Not only does it have major spill-over effects through investment, but it creates jobs and generates significant demand for locally manufactured parts and components. As such, it constitutes a form of economic cooperation between Japan and the EC. Moreover, it does not actually take that long to raise local procurement of parts and components to satisfactory levels. Charges of so-called screwdriver assembly—criticism that Japanese makers are merely assembling finished products from parts and components imported from home—are unfounded.

There has also been criticism within



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the EC auto industry that the entry of Japanese car makers would result in overcapacity. Yet these apprehensions, too, appear unrealistic. The fact is that the European car market is enjoying a sales boom that is expected to continue for some time to come. European makers have even announced investment plans to expand capacity. According to the Cecchini Report issued in March 1988 on the economic impact of a unified EC market, the EC auto market should expand at an annual rate of 6%. The automobile research institute of the Massachusetts Institute of Technology predicts that the market will grow some 3% a year.

The term "production capacity" usually includes obsolete facilities and capacity slated to be scrapped under rationalization programs. Nor are factories generally operated to capacity throughout the whole year. In other words, the actual rate of capacity utilization is usually lower than the published figures would suggest. From a long-term perspective, EC concerns about overcapacity are unjustified.

Certainly the Japanese auto industry is concerned about the planned integration of EC markets. Yet Japan-EC relations in the auto field are not necessarily as negative as they might seem. Sales of European cars in Japan are expanding by leaps and bounds. They have already established a firm foothold in this highly competitive market.

Industrial cooperation between Japan and the EC is also making remarkable progress as auto trade expands. It is essential that the Japanese and EC auto industries maintain and further develop their cooperative relations. To that end, both sides should avoid import and investment restrictions.

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