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## JAPANESE EXPORTS

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# An auto-defense tradeoff for the U.S.?

by Richard Katz

Growing protectionism against Japanese exports, including two bills in the U.S. Congress that would sharply reduce shipments here, are forcing Japan to look to new export strategies as well as to some non-trade stimuli to growth. The promotion of a domestic defense industry or a role in supplying a U.S. defense buildup is one of the alternatives under discussion. Another is expanded export of plant and machinery to developing countries through concessionary credits.

A 26 percent growth in exports during 1980 enabled Japan to survive the consequences of the post-Khomeini oil shock. While most other industrial countries slipped into recession, Japan's industrial production grew by more than 7 percent. This was led by an 18 percent growth in production for the export market while domestic goods grew only a dismal 2.5 percent.

Protectionism both here and in Europe means this process cannot continue in 1981. On March 9, Senate hearings begin on a bill cosponsored by John Danforth (R-Mo.) and Lloyd Bentsen (D-Tex.) to limit Japanese passenger car shipments for the next three years to 1.6 million units per year, a drastic drop from the 1.9 million units shipped here in 1980. A House bill sponsored by William Brodhead (D-Mich.) is even more radical, mandating reduction to 1.2 million units for the next three years with a 5 percent rise in the following two years.

The administration is putting hard pressure on Japan to limit car shipments rather than let the legislation pass. Since the bills single out Japan in an unprecedented way, they would dampen U.S.-Japan relations. However, as one Democratic House staffer told *EIR*, "[Special Trade Representative] William Brock and others like [Transportation Secretary] Drew Lewis indicated that it might be useful in their negotiations to have a bill like this around. Brock is pouring gasoline on the fire of protectionism in Congress. He may not be able to put it out when he wants to."

It is questionable how much the import restrictions would aid U.S. auto sales, which have been hard hit by the gas prices, interest rates, and high sticker prices. Neither the administration nor Congress is putting together a package that would directly aid U.S. sales

during the period of Japanese restraint. At most they want to limit antipollution regulations to ease cost pressures and lower sticker prices. The exception is a separate Brodhead bill to grant a \$500 tax credit for purchase of new cars, designed in such a way as to apply mostly to U.S.-made cars. But this bill is separated from the import bill and is viewed as unlikely to pass, even by its sponsor.

In any case, the Japanese are likely to accept some "voluntary restraint." Trade Minister Rokusuke Tanaka has de facto agreed to a 1.8 million shipment level for 1981, and sources report possible willingness to go as low as 1.6 million under certain conditions.

### Two alternatives

With similar pressure in Europe on autos, TVs, and machine tools, Japan knows it cannot repeat its 1980 boom of consumer durable exports. It will try to expand auto shipments to the Middle East and other new markets, plus non-auto consumer goods to traditional markets. But the added problem of a 4 percent drop in steel exports means Japan must evolve a new strategy.

One alternative is expanding exports of plant and equipment to developing countries. Japan lost a couple of billion dollars in plant sales during 1980 because it adhered to Carter's dictum of high interest loans for such exports while France and Germany used a "mixed-loan" system combining commercial bank loans, Export-Import Bank loans and official development assistance to produce loan packages at the 6 to 8 percent range. According to the Japanese business daily *Nihon Keizai Shimbun* on Feb. 17, Tokyo is leaning toward establishing a similar system. The volume of such a program, if approved, had yet to be announced.

Japanese business sources are also speculating that a deal involving Japan's growing defense budget may be in the works. In a Feb. 24 *Nihon Keizai Shimbun* column commenting that "the car trade issue may well be linked to the expenditure problem," it is suggested that defense spending may have to make up partially for the stimulus lost through slower growth of exports. In fact, some U.S. sources believe the Reagan administration may be using the trade issue to pressure Japan to spend more on defense.

In addition, a big U.S. defense procurement buildup would quickly run into bottlenecks in U.S. capacity in machine tools and electronics. Staff at the Defense Intelligence Agency, Stanford Research Institute, and Georgetown University are reportedly studying ways of getting around the "Buy America Act" to allow purchase of some of these materials for the U.S. buildup from Japan. This would help offset lower car sales here. Defense Secretary Caspar Weinberger's March 4 testimony before the Senate Armed Services Committee on the inability of the U.S. industrial base to support a defense buildup suggests a deal may be in the works.