

AMERICAN AUTOMOTIVE POLICY COUNCIL



How Japan has Maintained The Most Protected and Closed Auto Market In the Industrialized World

1. Japan, the 3rd largest automobile market in the world, after China and the U.S., is also the industrialized world's most closed and protectionist market.

- It ranks 30th out of 30 of the OECD countries in measuring access for imported autos;
- Total auto imports to Japan from the world measure only 3.9% of the market. In other words, Japanese automakers control 96% of their domestic auto market;
- Although maintaining the most closed automotive market in the industrialized world, Japan has consistently exported over 40% of its car and truck production, exporting nearly 60% (6 of every 10 cars and trucks manufactured) in 2008, with the majority going to North America and Europe.
- Since 2000, US exports to Japan 183,000 versus 16.3 million vehicles exported from Japan to the United States;
- These millions of cars as well as automotive parts exported from Japan represented over 70% (\$52.1 billion of the total (\$72.7 billion) US-Japan automotive trade deficit in 2008. In contrast, US automakers have been limited to exporting only 183,000 cars and trucks to Japan since 2000.
- By anyone's common sense standard – whether an economist, policymaker, marketing specialist, consumer or layman, this is not evidence of an open market, but a rigged market.

2. Japan's Closed Market isn't natural or an accident – it was created deliberately, by government policy.

- Following the closure and banishment of US auto firms from Japan during the WWII, US firms were not allowed to return to establish operations in its aftermath.
- Instead, Japan's designated the creation of a major world class automotive industry its number one National Industrial Policy strategy and provided every benefit, incentive and protection from competition that it could.
- In the 1970s, Japan finally opened its market to limited import participation, lowered its prohibitive tariffs and investment restrictions, but did so after it had created a massive and robust industry and controlled nearly 100% of its market.

- Japanese automakers then set off on a major policy of export expansion, and secured a firm and rapidly growing foothold in the open U.S. market. Imports from Japan now represent over 15% of the US auto market.

3. When Japan officially ‘opened’ its market, it perfected the art of using non-tariff barriers as huge obstacles to all foreign companies trying to do business in Japan to keep imports to a minimum.

- U.S. companies or other foreign ‘transplants’ were not allowed to be built in Japan by under Japan’s strict investment laws;
- Each individual imported car was required to be brought to the Ministry of Transport for two days for inspection before approval for sale;
- Japan’s exclusive ‘keiretsu’ arrangements between government and Japanese automakers prevented US and other foreign auto companies from doing business in Japan;
- Japanese auto distribution system was stacked against importers- existing auto dealers were forbidden to sell foreign autos or to partner with foreign automakers.
- Japan has used automotive technical regulations as a means to protect local markets by creating excessively difficult and costly regulatory and certification requirements, with little or no safety or emissions benefits;
- The tax system in Japan was designed to benefit domestic over imported motor vehicle types;

4. In 1995 the US Threatened Tough Retaliation against Japan and Signed a Market Opening Agreement with the Japanese Government

- All of these pressures came to a head in the mid 1990s, when the USTR, at the direction of President Clinton threatened to impose 100% tariffs on Japan’s luxury autos, if the government did not agree to fully open its market to U.S. auto and auto parts.
- This major agreement, called the 1995 MOU, was seen as a major success at the time in securing Japanese agreement to a free and open market. When the 1995 MOU was signed, total auto import share in Japan was 5%. Today, 15 years later, it is less than 4%.

5. Can US automakers compete in Asia?

- For thirty years, the Japanese government has argued that US automakers would not produce vehicles that meet their consumer’s tastes or quality standards. Yet, next door, in China, now the world’s largest auto market, the number one automaker is a US company, General Motors, which sold 1.3 million cars and trucks in 2009.

6. Currency Manipulation to gain a competitive advantage

- In recent years Japan has regularly and actively intervened in global exchange rate markets, purchasing massive amounts of dollars and “jawboning” in order to “push down” the value of its own currency to give its exports a price advantage.

7. *Why the issue of Japan’s exclusion of US cars in its Cash for Clunkers program is important.* There are two important reasons:

- Principle: Japan has rigged its market to uniquely protect and benefits its own for decades now. When the US government created its “Cash for Clunkers” program last summer, it was very carefully constructed to be open and welcome to all automakers, foreign and domestic. Half of the benefits went to Japanese auto companies. But when Japan opened its own similar program, it deliberately designed it to exclude US and most other imported automakers from participating and benefiting. This is wrong in principle, wrong in the spirit of commitments made to the G7 to not erect new protectionist measures during this economic crisis,, and wrong on any basis of fair play
- Opening Japan’s Market: The fact that the efforts of US auto and auto parts suppliers over decades, and successive Congress and Administrations have failed to succeed in making Japan a genuinely free and open auto market, that does not mean we should simply give up. Japan’s dominance of its home market gives it vast unfair advantages in the US and other markets where we compete. Leaving this situation unchallenged affects our own manufacturing competitiveness here in the US. more strongly than securing additional exports to Japan.