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Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 6

Total number of printed pages : 7

**NOTE** : Answer **ALL** Questions.

1. There is no telling how different our streets and highways would look had Japanese car companies not been able to sell their cars in the U.S. market when they first came to the United States in the 1960s and 1970s. Since the days of the ultra-compact Honda Civics which could barely make it up the hilly roads in California, U.S. consumers have had the opportunity to choose from a wide variety of high-quality Japanese cars and parts. In fact, in the last twenty-five years, Japan has sent 40 million cars to the United States.

This competition from Japan has helped to ensure that U.S. auto and auto parts companies remain topnotch, world-class competitors. Not only are the U.S. auto and auto parts companies facing fierce competitors in the United States, they also compete aggressively all over the world.

In Japan the U.S. companies have taken specific steps to tailor their products specifically to Japanese consumers. Today, American auto manufacturers sell 101 products in the Japanese market, sixty of which are right-hand drive vehicles. These include the Jeep Cherokee, Ford Probe and Mondeo and GM Opel. More are on the way. But in the last twenty-five years, the United States has only shipped 4,00,000 cars to Japan.

In the recently concluded automobile negotiations with Japan, all the United States asked was that Japan provide the same free access to its market that we provide to their companies here. Denial of this access has cost substantial loss of jobs and business opportunities in the United States and other countries.

Ford, GM, Chrysler and U.S. parts manufacturers have had great success in markets all over the world from Europe to other Asian markets. But, when they have tried to sell their products in Japan, they confronted a web of unnecessary and burdensome regulations, informal and artificial barriers, and business practices that made it extremely difficult to sell their products in Japan.

After a significant investment of time and resources trying to crack the Japanese market, these companies turned to the U.S. Government for help in trying to weed through some of the burdensome regulations, break-up some of the exclusive business relationships, and create an environment which would allow them to sell their autos and auto parts in Japan.

The Clinton Administration was eager to take on the challenge. After all, autos and auto parts represent nearly 60 percent of our trade deficit with Japan. These industries support about 2.5 million U.S. jobs in sectors from semiconductors to rubber and glass.

### **The Agreement**

After twenty-two months of intensive negotiations with Japan, a negotiating team led by Under Secretary of Commerce for International Trade Jeffrey E. Garten and Ambassador Ira Shapiro from United States Trade Representatives (USTR), reached a historic, market-opening agreement on autos and auto parts on 28<sup>th</sup> June, 1995.

This agreement will increase access to Japanese dealerships for U.S. auto manufacturers, help deregulate Japan's repair parts market and lead to increased Japanese purchases of U.S. parts both here and in Japan. Accomplishments in these three areas should go a long way in helping U.S. auto and auto parts companies substantially increase their sales to Japanese companies.

### **Dealerships**

One key problem for U.S. auto companies trying to sell their products in Japan is that they were effectively blocked from getting their cars to Japanese showrooms. This was because Japanese dealers were afraid that their primary Japanese suppliers would retaliate against them if they entered into independent franchise agreements with foreign vehicle manufacturers. As a result of the agreement, the Japanese Government has promised to vigorously enforce its antitrust laws, and to take actions to assure Japanese dealers that they are free to carry foreign cars, without risking business relationships with their primary suppliers.

As a result of this agreement, we expect U.S. auto companies to open an additional 200 outlets in Japan by 1996 and 1,000 new outlets by the year 2000.

### **Deregulation of After Market for Parts**

U.S. parts suppliers also faced great difficulties trying to sell their replacement parts in the Japanese after market. To deal with this problem, the United States sought to substantially

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reduce the number of Japanese regulations that greatly constrain consumer choice and the ability of foreign suppliers to have their products reach the end-user. The multi-billion-dollar Japanese market for replacement auto parts is restricted by a complex system of regulations that go well beyond what is needed for safety or environmental protection. These regulations involve a complex car inspection system that forces Japanese consumers to have their cars repaired in 'certified garages' that tend to only carry Japanese parts. The regulations also stipulate that any repair to 'critical' parts must be done at special garages, and that any modifications made to cars must be reinspected.

One American expert on this system recently said in a *Japan Digest* article, "It's a no-brainer to say that \$1 U.S. made spark plugs should have long since captured 100 percent of a market in which Japanese plugs sell for \$8 a piece. They haven't because inspection laws compel drivers to use 'authorised' parts. Toyotas can only use pure Toyota parts, Nissans pure Nissan parts, *etc.*"

Spark plugs are just one example. Because of Japan's closed market and the lack of competition, prices for auto parts far exceed prices in the United States. An alternator which sells for \$120 in the United States sells for \$600 in Japan. Shock absorbers that sell in the United States for \$228 sell for \$605 in Japan. As a result of the automotive agreement, Japanese consumers should now be able to save over \$300 when they need new shocker for their cars by purchasing high quality U.S. products.

The agreement cuts through some of the burdensome after market regulations, and allows market forces a greater chance to work properly in ensuring that the best quality and lowest-priced products reach the Japanese consumer. The agreement specifically reduces the number of parts on the 'critical parts' list, reduces the number of modifications subject to inspection, and makes it easier to establish garages that can sell foreign auto parts.

### **Original Equipment Parts Purchases**

In the area of original equipment parts sales to Japanese manufacturers in Japan as well as the United States, the U.S. addressed a very real problem: the closed 'keiretsu' purchasing relationships between Japanese manufacturers and their key suppliers. Despite the world-class competitiveness and strong price advantages of U.S. parts suppliers, Japanese manufacturers have simply not been responding to market forces.

To help address this situation, the five major Japanese auto manufacturers have released business plans which will lead to increased parts purchases by Japanese transplants in the United States, increased auto production in the United States, and increased imports of foreign auto parts into Japan. We expect that the transplants will purchase \$6.75 billion more in parts from U.S. suppliers by 1998, Japanese car makers will increase auto production in the U.S. to 2.65 million in 1998, and Japan will import \$6 billion worth of foreign parts by 1997.

Many agencies in the U.S. Government contributed to bringing about an agreement in this sector so critical to our nation's economy. The Commerce Department, which played a key role throughout the nearly two years of talks, succeeded in working with other governmental agencies and industry groups to avoid a serious trade conflict with Japan, and in reaching a meaningful agreement. International Economic Policy's Office of Japan led the negotiations within the Department, along with Trade Development's Office of Automotive Affairs. Ambassador Mickey Kantor, USTR, acknowledged this fact when he stressed in a recent letter to Senator Bob Dole, " ... the Commerce Department provides essential analytic support and in-depth knowledge of foreign trade practices that have been invaluable to USTR and other agencies involved in negotiation and implementing trade agreements ... the Commerce Department's detailed knowledge of the Japanese automotive sector has been essential to our efforts to open the Japanese auto and auto parts markets to foreign competition."

Of course, an international trade agreement is only as good as its implementation. The Commerce Department will be responsible for carefully monitoring and implementing this agreement. Martina Bradford, Vice President for government affairs at AT&T Corporation, recently said in a Washington Post article, "trade agreements only yield results through vigorous monitoring, enforcement and measurement of results." The Department of Commerce will implement this agreement with the vigor and energy it demonstrated in helping to negotiate it.

As former Secretary of Commerce Ron Brown noted, "The Commerce Department is proud to have played such a critical role in negotiating an agreement which deals with many of the very real and specific problems U.S. businesses face in trying to penetrate the Japanese market." The level of cooperation demonstrated by the Department of Commerce, USTR and the U.S. auto and auto parts industries in developing an agreement which deals with such complex and technical barriers and regulations in Japan should set a new standard for future negotiations in other areas.

### **US-Japan Auto and Auto Parts Agreement Fact Sheet**

The United States and Japan on June 28 reached a historic agreement which will result in significantly increased market access for autos and auto parts, and structural change in the Japanese automotive sector. This is the sixteenth trade agreement the Clinton Administration has completed with Japan in the past twenty-eight months – an unprecedented rate of success. These agreements have opened major trade sectors.

The missing piece has been the autos and auto parts sector. This area represents \$37 billion of our \$66 billion trade deficit with Japan, nearly 60 percent of our Japan deficit and 25 percent of our overall trade deficit.

Since auto negotiations began in October 1993, the Administration has emphasised three overriding goals for opening the auto and auto parts sector. This agreement meets our goals in each of the following area :

*Deregulation of the Replacement Parts Market in Japan:* A thicket of bureaucratic regulations have blocked competitive U.S. auto parts from Japan's multi billion-dollar market for replacement parts. This agreement clears away layers of needless regulations, introducing new competition and opening a market previously reserved for Japanese suppliers.

*Access to Dealerships:* This agreement will give U.S. auto companies increased access to Japanese dealership networks. U.S. auto companies will be able to sell through more dealerships in Japan. Japanese consumers will have the option to buy our reasonably priced, high-quality cars. We expect U.S. auto companies to open an additional 200 outlets by 1996 and 1,000 new outlets by 2000, to support the U.S. industry's objective of exporting 3,00,000 vehicles by the year 2000.

*Increased Purchases of Original Equipment Parts:* In Japanese companies, the original equipment auto parts market is dominated by 'keiretsu', unique interlocking relationships between manufacturers, suppliers, distributors and financial institutions. The keiretsu act unfairly to block foreign access to the market.

Japan's five largest auto companies are announcing plans to increase their parts purchases in North America, including diversification into high-value components such as transmissions and engines; to increase their vehicle production in North America by \$6.7 billion; and to purchase \$6 billion of foreign parts by 1998 for production use in Japan.

Answer the following questions :

- (a) Does Japan's trade success owe more to its manufacturing superiority or its mercantilistic trading philosophy (*i.e.*, import barriers) ?
- (b) Does the Japanese government use non-tariff barriers unreasonably to restrict imports ?
- (c) Some claim that U.S. trade deficits are caused by U.S. adoption of a free-trade philosophy. Do you think that the United States has fewer import barriers than its trading partners ?
- (d) Will protectionist measures adopted by the U.S. government be effective in increasing employment in the United States ? Do you think that the U.S. government's use of open market access against Japanese auto imports benefits the United States ?
- (e) What can U.S. firms (including automakers) do to overcome Japanese trade barriers and improve their performance ?

*(10 marks each)*

- 2.
- (a) An Indian company is running hotel chain in India but now it is planning to internationalise its operations in European countries. Explain why the company should adopt franchising as entry mode on licensing.
  - (b) Analyse the impact of Government of India's decision to increase foreign direct investment in insurance sector from 26% to 49% by using Michael Porter's Force 'threat of new entry'.
  - (c) Explain the MNCs taxation issues and government decision to defer General Anti Avoidance Rule (GAAR) for two years.
  - (d) Explain the purpose of introducing duty exemption & remission schemes and export promotion of capital goods (EPCG).
  - (e) Distinguish between 'economic union' and 'monetary union'.
  - (f) Why was International Monetary Fund (IMF) created in 1945 and what was the purpose of introducing special drawing rights (SDRs) by IMF ? Why SDRs is called paper gold ?

*(5 marks each)*

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3. Anti-dumping duty is imposed by the countries to protect the domestic industries and market. Analyse the recent anti-dumping cases in India and give your argument that why India should impose anti-dumping duty.  
*(5 marks)*
4. Why are India and other developing countries concerned about Doha agenda ? Analyse the Doha Development Round ?  
*(5 marks)*
5. Explain how Paul Krugman trade theory is different from Hecksher-Ohlin Model and also explain the recent trends in global trade.  
*(5 marks)*
6. Justify —  
Logistics = Supply + Material Management + Distribution  
Why a large scale steel manufacturing company should use third party logistics (3PL) ?  
*(5 marks)*

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