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# Insiders and outsiders: defining “who is us” in the North American automobile industry

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Transnational corporations are oligopolistic firms engaged in strategic games designed to enhance their market share at the expense of their rivals. They benefit from having Governments see them as insiders within a regional market, and their rivals as outsiders. This article hypothesizes that insiders consciously engage in two strategies: attempts to accentuate the insider-outsider distinction in the eyes of the Government and the general public; and lobbying for policies that benefit themselves at the expense of outsiders. Outsiders engage in offsetting strategies: the article develops a model of insiders and outsiders in a regional market and applies it to a case study of the North American automobile industry over the period 1980-1993. It is argued that the insiders are the Big Three automobile manufacturers; the outsiders are exporters to, and transplant operations in, North America. The article finds that, since 1980, both insiders and outsiders have substantially increased the level of their strategic activities as they attempt to influence “who is us”.

## Introduction

As competition among transnational corporations (TNCs) for market share at the global, regional and nation levels intensifies, firms become more attentive to how they are perceived within a specific market. In order to maintain and increase their market share, they can adopt strategies that increase the likelihood that they are *seen and treated as insiders* by consumers, other producers and national Governments. Who are the insiders?

“Who is us” was easy to answer in the 1970s when “us” was defined as firms headquartered within a specific country, whether local firms or TNCs. While home country Governments may have had some concerns about the impact of home-based TNCs on the balance of payments, jobs and technology

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States producers, Ford, General Motors and Chrysler) and the outsiders (foreign, primarily Japanese, transplants and exporters) attempted to influence perceptions of the insider-outsider distinction and adopted lobbying positions that accorded with the predictions of the model. The article concludes not only that insider-outsider status concerns have been part of the North American economic environment since the early 1980s, but also that these concerns have intensified over the period as the outsiders shifted from exporting to transplant production.

### **“Who is us”: defining the insiders and outsiders**

This section first reviews the literature on TNCs and trade policy preferences and, then, building on earlier work in this area, develops an insider-outsider model.

The general presumption in the literature is that TNCs are free traders and that they will support the creation of regional markets and free trade agreements as a way to reduce trade barriers that hamper international production and intrafirm trade flows. However, this view is too simplistic and has to be modified in terms of firms’ real and perceived strengths within specific national markets.

### ***Transnational corporations and trade policy preferences***

Are TNCs pro free trade? This question is part of a wider question on the political economy of firms’ trade policy preferences. Economists have traditionally viewed demands for protection as arising out of the rent-seeking behaviour of firms as they compete for market shares. Firms seek protection from foreign competition through tariffs and non-tariff barriers (such as voluntary export restrictions). These demands are more likely the greater the degree of import penetration, the more oligopolistic the domestic industry, the higher its labour intensity and so on. Governments apply protectionist policies depending on whether the gain in votes anticipated from satisfying industry demands exceeds or is less than those lost as consumers react to higher prices.

Helen Milner and David Yoffie (1989) examined the impact of import penetration on corporate demands for protection, where the demands may involve both pressures for higher trade barriers at home (the traditional form of protectionism) and/or for lowering trade barriers abroad (which they call “strategic trade policy”). They suggested that the more rapid the import penetration at home and the more diverse the membership in an industry, the greater the likelihood of traditional protectionist demands by the industry. Where the firms see themselves as a “strategic group” and import penetration is gradual, Milner and

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Yoffie hypothesized that the industry is more likely to press for an opening of foreign markets in preference to higher barriers at home.

In practice, however, not all firms favour protectionist policies. Internationally oriented firms, such as exporters and TNCs, may favour free trade (Destler *et al*, 1987). Exporters may be free traders because they want access to foreign markets and realize that reciprocity in terms of their home market may be needed to ensure access abroad; exporters may also see trade barriers at home as raising the cost of their inputs. As a result, export firms have incentives to lobby for freer trade at home and abroad.

Transnational corporations may have more incentives to engage in political activities favouring freer trade at the regional and international levels than do exporting firms, although TNCs which are already insiders may oppose unilateral trade liberalization. They face crosscutting pressures since they have sales and production locations in several countries and can therefore be expected to prefer policies that reduce international barriers to trade and investment flows. With production facilities in different countries and the trans-shipment of products among their divisions, TNCs have a vested interest in lower trade barriers. Since the advent of world-wide sourcing in the 1970s and early 1980s, vertically integrated firms have pressed for lower barriers to trade and have participated more actively in the formulation of national positions in the General Agreement on Tariff and Trade negotiations (Ostry, 1990, ch. 2). Transnational corporations can use political means to: "increase the relative efficiency of firms *vis-à-vis* their competitors by reducing their own production and transactions costs (e.g., through government subsidies) and/or by raising those of others. Besides, political behavior may help MNEs get rents." (Boddewyn, 1988, p. 358).

There has been less attention paid in the literature to the strategic interaction of TNCs and national Governments in the context of lobbying for or against regional integration schemes. Transnational corporations are generally viewed as supporting free trade areas because Government barriers are reduced within a free trade agreement, thus allowing a more "level playing field" where economic efficiency considerations determine plant location and trade flows (Rugman and Verbeke, 1990).

John H. Dunning (1988, ch. 12; 1993, ch. 17; 1994) has written extensively on TNCs and regional integration in the context of European integration (the formation of the European Community and the European Community 1992 process) and the recent negotiations for the North American Free Trade Agreement (NAFTA). He distinguishes between firms that are already inside the market at the time a free trade area is formed, and firms that are outside. The

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distinctions between the two groups in terms of their national responsiveness and contributions to the local economy. Outsiders will attempt to minimize these distinctions.

In order to influence the insider-outsider distinction, firms can use both economic and political strategies. *Economic strategies* that may be used by the outsiders include shifting from exporting to market-seeking FDI, onshore sourcing of parts and creating strategic alliances with insiders. Shifting from exporting to moving onshore directly engages the “who is us” issue. *Transplants* are outsider firms that establish a production base inside the regional market to secure sales. Where the domestic market is large and/or strategic and where establishing an onshore production base is seen as important, outsiders firms have an economic motivation to switch from exporting to setting up transplants to supply the regional market. These transplants act both as importers and distributors of parts, subassemblies and final products manufactured by affiliated firms located outside the region, and as local production sites. Transplants therefore compete with insider firms for market share in two ways, through sales of intrafirm imports and sales of onshore production.<sup>1</sup>

Firms that are perceived as outsiders are also likely to adopt political strategies that minimize the insider-outsider distinction, such as joining national industry associations, using advertising to document their contributions to the national economy, donating to local charities and appointing prominent nationals to their boards. This is more likely once firms have shifted from exporting to onshore production and their stake in the political process has increased.

Once producing inside the regional market, the stakes are increased for both the insider and outsider firms. Competition for market share rises and insiders can be expected to react by attempting to sharpen the “us-versus-them” distinction. Insiders are likely to engage in economic activities to protect their share of the regional market, such as rationalizing their plants at the regional level and making strategic investments in unexploited market niches and locations (Dunning, 1993a, p. 60). Political strategies used by the insiders could include forming industry associations that exclude outsiders from membership, circulation of position papers documenting relative contributions to the economy, presenting a united front to their Government, and so on.

<sup>1</sup> While we are modelling the competition between insider and outsider firms as based on competition for shares for a regional market, clearly there are other reasons for outsider firms to engage in FDI including searching for natural resources and/or low-cost labour sites (see, Eden 1994; Dunning 1993 b, ch.3). The determinants and effects of each type of FDI differ; thus the TNC activities could also differ from those described here. However, the purpose of these activities, i.e. to alter Government perceptions and policies, would not change.

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The second general strategy focuses more directly on *corporate lobbying during the policy formulation process*. This can be either “self focused”, i.e., the promotion of domestic policies that provide nationally based firms with benefits, or “competitor focused”, i.e., the demand for policies that are deleterious to foreign competition. Although the purpose of both types of policies is to augment the insiders’ share of the regional market, the first set of policies is intended to work for the insiders while the second works against the outsiders. Some policies may do both, so the distinction should perhaps be made more in terms of motivation than impact. Insiders will lobby for policies that benefit themselves at the expense of exporters and transplants. Outsiders will engage in offsetting strategies. Since transplant operations have more to lose, they can be expected to engage in offsetting strategies (“we are us”) and to lobby more heavily than foreign exporters.

Insiders are likely to lobby for protection against the outsiders (which could include demands to close the local market to the outsiders, open the regional market to the insiders, and open the outsiders’ home markets) if import penetration is already high and the insiders are already on the defensive. As Milner and Yoffie (1989) argued, the more rapid the growth of competition in the regional market, the greater the likelihood of protectionist demands by the insiders. The outsiders, on the other hand, are likely to lobby against these policies to protect their share of regional sales. Outsiders will counter-lobby if the market is large or strategic and thus the potential losses from market closure are perceived as high.

In sum, the model of insiders and outsiders in a regional market predicts that firms will engage in a variety of economic and political activities designed to alter Government perceptions of “who is us” and to generate policies that preserve and/or increase market share at the expense of rival firms. The shift from exporting to transplant production raises the stakes for both groups, encouraging such strategic activities.

In the following sections, the model is applied to the case of the North American automobile industry. First, an overview of the industry from 1980 to the present is provided, noting the growing share of the market held by foreign firms. In the next two sections, the model is applied, focusing on the economic and political strategies used to influence the definition of “who is us”, and the trade policy preferences advocated by the insiders and outsiders from 1980 to 1993.

## **The automobile industry in North America: a time of transition**

The most important *insiders* in the North American automobile industry are the Big Three producers (Chrysler, Ford and General Motors), historically so perceived in the United States (the regional economic “hub” or centre) and, to a

**Table 1. Intra-North American automotive trade, 1989**  
(Millions of dollars and percentage)

	Canada to Mexico	Canada to United States	Mexico to Canada	Mexico to United States	United States to Canada	United States to Mexico
Automobiles	0.0	13,516.8	62.6	1,174.8	7,014.1	17.2
Light trucks	0.0	4,943.6	0.1	118.9	1,198.1	7.2
Engines	0.1	1,436.5	185.8	683.2	1,672.1	6.6
Chassis with engines	0.0	52.7	0.8	16.5	70.0	2.2
Auto bodies	0.0	0.5	8.9	0.0	3.2	23.2
Auto parts	62.7	6,151.6	192.4	1,044.7	9,069.9	1,973.3
<b>Total automobile exports</b>	<b>81.8</b>	<b>26,650.4</b>	<b>471.0</b>	<b>3,157.2</b>	<b>20,037.4</b>	<b>2,420.0</b>
Light vehicles as per cent of automobile exports	0.0	69.3	13.3	41.0	41.0	1.0
<b>Total exports</b>	<b>500</b>	<b>85,000</b>	<b>1,400</b>	<b>28,000</b>	<b>78,000</b>	<b>25,000</b>
<b>Automobile exports as per cent of total exports</b>	<b>16.4</b>	<b>31.4</b>	<b>33.6</b>	<b>11.3</b>	<b>25.7</b>	<b>9.7</b>

Source: Calculated from Statistics Canada and United States Bureau of the Census, unpublished data.

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lesser degree, in Canada and Mexico (the northern and southern “spokes”). The Big Three have rationalized production between Canada and the United States as a result of the Canada-United States Auto Pact (signed in 1965). They have plants in Mexico either to produce for that market or linked to their United States parent firms as cost reducing plants in the maquiladoras. Some North American auto-parts TNCs, primarily United States-owned, and domestic or “national” auto-parts suppliers, located mainly in Canada and Mexico, can also be considered as insiders, although only the regionally integrated producers can be seen as true regional insiders.

The *outsiders* are the remaining automobile producers, primarily the Japanese transplant operations in North America (Honda, Mazda, Nissan and Toyota), but also foreign automobile exporters to North America, both Asian and European. The Japanese and other Asian automobile producers began by exporting cars to North America but, since the early 1980s, have actively pursued insider status by setting up transplant operations within North America. The Big Three are now facing loss of market share at home, not only as a result of imports but, more importantly, due to transplant production.

The North American automotive industry is of enormous importance to Canada and the United States in terms of jobs and direct and indirect sourcing. Table 1 provides some statistics on the breakdown of intra-North American automotive trade, which totalled \$52.8 billion in 1989. Light vehicles dominate Canada-United States trade, while auto parts dominate United States-Mexico and Canada-Mexico trade. Automotive trade as a percentage of total merchandise trade ranges from a low of 9.7 per cent (United States-Mexico) to a high of 33.6 per cent (Mexico-Canada).

Since the late 1970s, the Big Three have faced substantial market penetration from Japanese firms, both from imports and transplant production. In 1981, eleven million light vehicles (i.e., cars and light trucks) were sold in North America; 71 per cent of these were produced onshore by the Big Three. (Desrosiers, 1993, p. 8). The foreign share (imports plus transplant production) totalled 27 per cent of the market in 1981. As table 2 shows, the foreign share has risen slowly, reaching a high of 31 per cent in 1991, but its composition changed dramatically as the transplant share rose rapidly after 1988, while the import share fell. The share of transplant production in all foreign sales has therefore risen from 7 per cent in 1981 to 38 per cent in 1992. Foreign penetration of the passenger car market has been even more dramatic than for light vehicles as a whole, rising from 29 per cent in 1985 to 37 per cent in 1992. Figure 1 illustrates the growing penetration of the market by foreign firms and their shift from exports to transplant production.

Table 2. North American car and light truck sales, by source, 1986-1992  
(Thousand units and percentage)

Item	1986	1987	1988	1989	1990	1991	1992
<b>Big Three production</b>							
Cars	8,420	7,078	7,430	6,662	5,995	5,160	5,251
Trucks	3,944	3,822	4,491	4,364	4,136	3,735	4,133
Total	12,364	10,901	11,922	11,027	10,131	8,896	9,385
<b>Big Three imports</b>							
Cars	310.2	402.1	447.1	400.2	350.0	314.3	261.3
Trucks	88.8	87.3	99.9	86.8	46.0	35.8	38.5
Total	399.0	489.40	547.00	487.00	396.00	350.10	299.80
<b>Foreign firm transplants</b>							
<b>Japanese transplants</b>							
Cars	295.1	494.8	610.2	814.2	1,108.0	1,187.3	1,223.5
Trucks	96.8	95.6	135.7	148.4	173.9	196.3	279.7
Total	391.90	590.40	745.90	962.60	1,281.90	1,383.60	1,503.20
<b>Hyundai (Rep. of Korea)</b>							
Cars	..	..	..	..	26.3	24.1	21.9
<b>Volvo (Sweden)</b>							
<b>Volkswagen (Germany)</b>							
Cars	91.8	68.6	44.7	9.6	3.3	1.6	1.2
Total	9,114.10	4,806.60	5,648.40	5,665.70	5,640.00	5,272.90	5,657.00
Cars	16,936.80	10,996.60	12,057.80	11,175.50	10,304.90	9,092.40	9,664.80
Trucks	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total	16,936.80	10,996.60	12,057.80	11,175.50	10,304.90	9,092.40	9,664.80

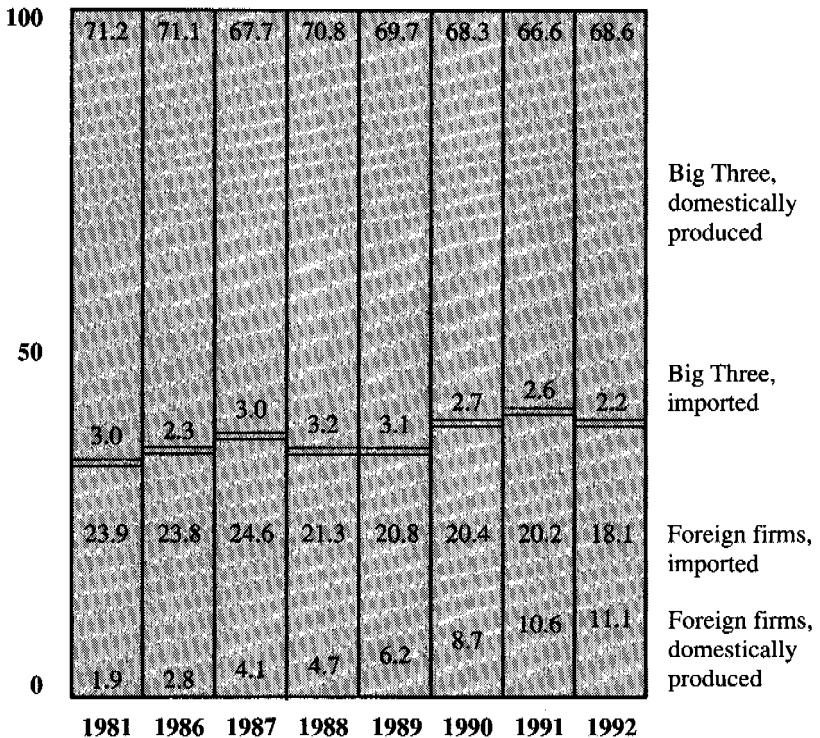


(Table 2, cont'd)

Item	1986	1987	1988	1989	1990	1991	1992
			<b>Foreign firm imports</b>				
Cars	3,205.4	3,070.6	2,890.1	2,627.4	2,369.2	2,043.7	1,974.8
Trucks	938.5	882.3	692.0	651.3	655.5	648.4	503.7
Total	4,143.9	3,952.9	3,582.1	3,278.7	3,024.7	2,692.10	2,478.50
			<b>Transplant sales as share of total sales (percentage)</b>				
Cars	3.1	5.1	5.7	7.8	11.3	13.9	14.3
Trucks	1.9	1.9	2.5	2.8	3.5	4.25	5.6
Total	2.8	4.1	4.7	6.2	8.7	10.6	11.1
			<b>Foreign firm (import and transplant) sales as share of total sales (percentage)</b>				
Cars	29.0	32.7	31.0	32.8	35.4	37.1	36.9
Trucks	20.4	19.6	15.3	15.2	16.5	18.3	15.8
Total	27.6	28.6	26.0	27.0	29.0	30.7	29.25
			<b>Transplant sales as share of foreign firm sales (percentage)</b>				
Cars	10.8	15.5	18.5	23.9	31.9	37.2	38.7
Trucks	9.4	10.4	16.4	18.6	21.0	23.2	35.7
Total	10.5	14.3	18.1	22.9	29.8	34.4	38.1
			<b>Foreign imports as share of all imports (percentage)</b>				
Cars	91.2	88.4	86.6	86.8	87.1	86.7	88.3
Trucks	91.4	91.0	87.4	88.2	93.4	94.8	92.9
Total	91.2	89.0	86.8	87.1	88.4	88.5	89.2

Source: Calculated from data in *Ward's Automotive Yearbook*, 1989, 1991 and 1993.

**Figure 1. Shares of light vehicle sales,  
by source, selected years, 1981-1992  
(Percentage)**



Source: *Ward's Automotive Yearbook*, 1989, 1991 and 1993.

This penetration is also documented in table 3, which provides production data for cars and trucks assembled by the Big Three and the Japanese transplants in North America. Production by the Big Three generally fell over the 1985-1991 period, while transplant production rose from 3 per cent of total production in 1985, peaking at 18 per cent in 1991. In 1992, the Big Three increased their production substantially while the transplant share fell for the first time.

Two aspects of what happened in the North American automobile industry in the 1980s are relevant to the discussion of insiders and outsiders in the industry: the shift from importing to transplant production by Asian automobile TNCs, and the overcapacity that the North American industry faced by the middle of the decade. Both insiders and outsiders reacted to these events in ways that affected

Table 3. North American car and light truck production, 1985-1992  
(Thousand units and percentage)

Item	1985	1986	1987	1988	1989	1990	1991	1992 <sup>a</sup>
				<b>Big Three production</b>				
Cars	8,916.8	8,288.5	7,181.1	7,276.7	6,585.0	5,589.8	4,839.1	4,995.8
Trucks	4,041.5	4,026.4	4,305.6	4,737.3	4,836.6	4,186.6	3,817.6	4,949.8
Total	12,958.3	12,314.9	11,486.7	12,014.0	11,421.6	9,776.4	8,656.7	9,945.6
Percentage change		- 5.0	- 6.7	+ 4.6	- 4.9	- 14.4	- 11.5	+ 14.9
				<b>Japanese transplants production</b>				
Cars	253.7	519.7	648.7	836.5	1,240.3	1,539.0	1,635.2	1,676.7
Trucks	107.4	108.1	102.7	95.9	128.9	191.3	248.9	325.2
Total	361.1	627.8	751.4	932.4	1,369.2	1,730.3	1,884.1	2,001.9
Percentage change		+ 73.9	+ 19.7	+ 24.1	+ 46.9	+ 26.4	+ 8.9	+ 6.3
Total production	13,319.5	12,942.7	12,238.1	12,946.4	12,790.8	11,506.7	10,540.7	11,947.4
				<b>Transplants as a share of total production (percentage)</b>				
Cars	2.8	5.9	8.3	10.3	15.9	21.6	25.25	25.1
Trucks	2.6	2.6	2.3	2.0	2.6	4.4	6.1	6.2
Total	2.7	4.9	6.1	7.2	10.7	15.0	17.9	16.8

Source: Japan Economic Institute, *JEI Report*, 23 April 1992, p. 4.

<sup>a</sup> Estimates.

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the insider-outsider distinction. Some of the current debates over the position and the strategies used by the Big Three to protect their status can be seen as one, possibly unanticipated, consequence of the adaptive strategies pursued by the transplant producers as they sought ways to circumvent voluntary export restrictions in the mid-1980s. When established firms in an oligopolistic industry constitute a strategic group, the entry of new firms is often seen as a threat, tending to polarize the firms into insiders and outsiders. The entrance of the Asian transplants could be seen as crystallizing this distinction for the Big Three.

## **Influencing the perception of “who is us”**

In the mid-1980s, the Asian automobile TNCs began a process of trying to change North American public and Government perceptions of them as outsiders. They established production facilities in North America and began sourcing some parts from North American parts suppliers, thus attempting to lessen the Japan-United States trade deficit. These firms also began advertising and other public relations activities that emphasized their contribution to the local economy. Honda (Japan), for example, undertook the construction of engines for formula one racing cars. These activities were countered by those of the Big Three in whose interest it was to perpetuate, if not sharpen, the insider-outsider distinction.

### ***Influencing “who is us”: economic strategies***

#### ***The move to onshore assembly and parts production***

Transplant investment in assembly in North America was both a defensive strategy adopted by Japanese producers to avoid the voluntary export restrictions and an offensive strategy designed to improve their image within North America. Although the Government of the United States abandoned voluntary export restrictions as a policy tool after 1985, the Japanese automobile producers and the Government of Japan, for their own purposes, continued to restrict Japanese automobile exports to North America. The difference between export capacity and actual exports was more than compensated for by the establishment of transplant assembly facilities in Canada and the United States. The transplants now have the capacity to produce close to two and a quarter million vehicles annually in the United States and Canada (and more than 100,000 in Mexico). The strong yen simply reinforces the incentive for the transplants to assemble in the United States.<sup>2</sup>

<sup>2</sup> For example, Acura, Honda's luxury car division, is contemplating the construction of an assembly plant in the United States (Bennet, 1993, p. D3).

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Transplant production itself is an insider strategy because it offers the possibility of raising national perceptions of contribution to the local economy, while reducing local balance-of-payments concerns. The transplant assemblers have long argued that they create jobs in the United States (more than 40,000) and Canada and therefore should be seen as insiders. Honda has a number of facilities in Ohio and has research and administrative offices in California; yet, to its frustration, it continues to be perceived as an importer. In fact, Honda sells more cars in North America than in Japan and the majority of cars it sells in the United States are United States-made (Levin, 1993a).

An important aspect of the transplants' insider strategy is the increase in the local sourcing of components, from both United States parts producers and Japanese component producers who have located in North America either on their own or in partnership with United States firms. A number of factors are promoting local sourcing: just-in-time production necessitates that parts producers be located proximate to assemblers; the rise in value of the yen predisposes the transplants to source locally in an effort to keep the costs of their vehicles competitive; the North American content requirements of CAFTA<sup>3</sup> were yet another incentive for onshore sourcing; and NAFTA, with its 62.5 per cent content requirement, will accelerate this trend. Honda sources more in the United States than do the other transplants, but all are developing United States supplier networks.<sup>4</sup>

### *Creating strategic alliances with the insiders*

Joint ventures are a strategy which has served the interests of both insider and outsider vehicle producers at the same time as it has blurred some of the status distinctions the Big Three have tried so hard to make. Each of the Big Three has at least one joint venture with a transplant producer: Ford and Mazda, Chrysler and Mitsubishi and GM and Suzuki in the CAMI plant at Ingersoll, Ontario, and GM and Toyota in the NUMMI plant in California (Wolf and Gliberman, 1992). Joint ventures in assembly have allowed the Big Three access to Japanese lean

<sup>3</sup> Under this agreement to move freely within North America, 50 per cent of the value of a vehicle has to be accounted for by costs incurred either in Canada or the United States. Womack (1991, pp. 34 and 64), suggested that the United States Corporate Average Fuel Economy (CAFE) rules are another incentive for the transplants to increase their United States sourcing to 75 per cent.

<sup>4</sup> Bennet (1993, p. D3) suggested that 82 per cent of the parts for the Honda Accord are made in the United States. Cowhey and Aronson (1993, p. 113) note that to augment the percentage of parts purchased in the United States, Nissan decided to buy from a United States producer, even though the company was a joint venture with Nippondenso, the largest parts producer affiliated with Nissan's rival, Toyota.

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production techniques, thereby assisting them to improve their own product attractiveness and competitiveness, as well as providing them with offshore small car production. For the transplant producers these insider links are one means through which they can transform their outsider status and demonstrate a commitment to production within North America.

Joint venture partnerships exist also among United States and Japanese auto-parts producers to manufacture parts and components, as well as materials such as glass, paint and chemicals (Inkpen, 1993). In most cases, these joint ventures are greenfield investments, the vast bulk of which (as well as the solo transplant investment in auto-parts production) are in the United States rather than in Canada. As already noted, these joint ventures help the transplants to come closer to meeting North American content requirements under regional trading arrangements, as well as supporting their arguments about the appropriateness of a change in their categorization from outsiders to insiders.

That Chrysler, Ford and GM were prepared to participate with Asian automobile TNCs in joint ventures and imitate their production techniques blurs the insider-outsider distinction slightly. However, with the exception of a February 1993 decision not to pursue trade action against Japanese automobile exports to North America (Ingrassia and Nomani, 1993), their joint ventures with Asian automobile TNCs do not seem to have restrained the position-related lobbying activities of the Big Three. Moreover, although the Big Three have established strategic alliances to study battery technology and to develop jointly supercomputers and lightweight metals (*International Herald Tribune*, 6 August 1993) and an electric car,<sup>5</sup> none is engaged in a strategic alliance with any of the transplants.

### *The move to export*

In what can be interpreted as yet another effort to enhance insider status in the United States, both in terms of popular image as well as contributing to a reduction in United States-Japan trade frictions, the transplants have begun to export cars to Japan from the United States. Honda is the leader in these reverse exports, selling some 1,400 American-made cars in Japan every month (*New York Times*, 8 September 1992). In early September 1992, Toyota introduced the Scepter station wagon (known as the Camry wagon in the United States and Canada) for export to Japan, hoping to sell 700 units a month. Toyota will also begin to export United States-made autoparts to Japan in late 1993 or early 1994.

<sup>5</sup> Chrysler indicated in September 1993 that it did not intend to collaborate with Ford and GM to develop an electric car (Lavin and Suris, 1993).

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The numbers are very small, and the move to reverse export, while perhaps justifiable on economic grounds, is widely perceived as a strategy to diffuse United States-Japan trade tensions. As the yen-dollar exchange rate appreciates, United States automobile exports to Japan may also increase.

### ***Influencing “who is us”: political strategies***

#### ***Industry associations and lobbying activities***

Lobbying activities of the Big Three have been critical in underlining the insider-outsider distinction. The lobbying ability of the Big Three with members of Congress and administration is well known; there are a host of examples where the firms have pressed for Government policies that will enhance or protect their position at the expense of the transplants. For their part, the transplants, on their own, and with United States allies, spent large amounts of money to counter their perception as outsiders and demonstrate the contribution they make to the United States economy. Because the Big Three and the transplants source and produce vehicles in many locations across the United States the pressures on members of Congress are cross-cutting and intense: members of Congress from districts with Big Three plants have a different perspective on industry needs from those representing areas where the transplants have located. State Governments have been less the target of industry lobbying than they have been in the active pursuit of transplant investment.<sup>6</sup>

Until November 1992, the United States Motor Vehicle Manufacturers Association, which represents automobile assemblers, was not exclusively a Big Three Association. Volkswagen was a member of this association when it assembled vehicles in Pennsylvania and lost its membership when it moved its operations to Mexico in the mid-1980s. Volkswagen's membership made it easier for Honda to join the association in 1985. After 1985, with the proliferation of transplant operations in the United States, the association revised its bylaws to require that all members assemble at least 50 per cent of their North American sales in the United States. Although Honda did not meet this criterion at the time of its application for membership, it was grandfathered. None of the other transplants has applied to join the association. Although the core of its membership is United States owned firms, the major United States autoparts lobby group, the Motor and Equipment Manufacturers Association, has both

<sup>6</sup> For a discussion of the experience of six states (Michigan, Ohio, Indiana, Illinois, Kentucky and Tennessee) in attracting Japanese automobile assembly facilities, see Yanarella and Green, 1990.

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European and Japanese members. The transplants have their own industry association, the Japanese Automobile Manufacturers Association.

In November 1992, in a move that was seen as helping them lobby more effectively, the Big Three ejected Honda from the Motor Vehicle Manufacturers Association.<sup>7</sup> With Honda being a participant in Motor Vehicle Manufacturers Association discussions, it was difficult to reach a consensus on industry positions, for example with respect to NAFTA. In the context of the minivan complaint (discussed below), Honda did not agree with the Big Three's action. Restriction on Motor Vehicle Manufacturers Association membership would allow the Big Three "to focus on common issues and interests that are unique to the domestic manufacturers" (Levin, 1993b, p. D1).

The Big Three were not the only industry stakeholders to be sensitive to the decision difficulties that a transplant member of the Motor Vehicle Manufacturers Association posed; lawmakers, particularly those from Michigan, often criticized the Big Three for not cooperating with one another in their pursuit of legislative goals (Levin, 1993b, p. D1). The Motor Vehicle Manufacturers Association also strengthened its ability to speak for the Big Three in debates over trade, technology and regulation by taking over the activities of the United States Council for Automotive Research. As part of the Motor Vehicle Manufacturers Association's consolidation, Volvo and Paccar Inc., both of which manufacture heavy trucks in the United States, agreed to resign from the association (Lavin, 1992, p. B2).

Japan and Japanese firms spend more money lobbying in the United States than any other country. A prime purpose of this expenditure is to improve official and public perceptions of Japanese business activities in the United States and their impact (DeVos, 1989, p. 251). The transplants do not always lobby on their own, but also enlist United States suppliers to assist them in making their case. In early 1993, for example, Toyota urged 119 of its United States parts suppliers to register their opposition to import quotas and higher tariffs on minivans (Engelberg and Tolchin, 1993, p. B8).

It has been argued thus far that it is to the advantage of firms to be seen as insiders in their major markets, and that TNCs expend considerable efforts on developing such perceptions. Insiders accentuate the "us-versus-them" distinction in an attempt to persuade their Governments to put policies in place that

<sup>7</sup> Honda, and the other transplant producers, responded harshly to Honda's ouster from the Motor Vehicle Manufacturers Association. "Although we are a new entrant, we consider ourselves to be part of the American automobile industry," said Toyoji Yashiki president of Honda's United States subsidiary (Levin, 1993b, p. D1).



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favour insiders over outsiders. Outsiders strive to blur such a distinction. In the months following the announcement of NAFTA automobile package, TNCs in the automobile industry, particularly the assemblers, continued their positioning strategies as they began to prepare for the new production environment of a tri-lateral trading agreement (Eden and Molot, 1993c and Hufbauer and Schott, 1993). Their actions can be grouped in two categories: influencing the insider-outsider distinction and developing policy preferences that favour one group over another. For their part, the transplants stepped up their activities to diminish the "us-versus-them" dichotomy, with a particular emphasis on advertising.

### *The importance of advertising*

Cognizant of the continuing challenge of outsider status, the transplant producers have taken a number of steps to change their image. Perhaps most dramatic has been the advertising campaign mounted at least since the fall of 1992 by Toyota. The company has taken full page advertisements in *The Wall Street Journal* and in a variety of United States magazines to proclaim the contribution it is making to the United States economy. One features a picture of a Toyota Camry, with lines to the various parts of the vehicle and the state of manufacture noted; the advertisement reads "We buy the best parts in the world, no matter which state they're from."<sup>8</sup> A second has the headline "0 to 1,000,000 in under 5.4 years" and highlights the fact that from May 1988 to October 1993 Toyota had built 1 million Camrys at its Georgetown, Kentucky plant (*The Wall Street Journal*, 19 October 1993). In perhaps a less ostentatious vein, Mitsubishi has followed Toyota's example, using magazine advertising to emphasize that its best-selling car in the United States market is built onshore.<sup>9</sup>

The transplants have also recognized the value of public relations activities in demonstrating that they are good United States corporate citizens. According to the publisher of the Seattle, Washington-based newsletter, *Corporate Philanthropy Report*, "the increase in corporate citizenship came about as Japanese companies sorted through the implications of shifting from a trade strategy to becoming fully integrated into the economic life of the country" (Wanner, 1993, p. 3). The transplants have established foundations and encouraged their

<sup>8</sup> The advertisement shows a Toyota Camry and says "EVERY CAMRY manufactured at our \$2 billion Georgetown, Kentucky plant is made with US parts purchased from 174 of our over 300 American suppliers. At Toyota we're committed to investing in the economies where we do business. That's why, since 1988, we've increased our purchasing of U.S. made parts by 357% to over \$4 billion per year" (*The Wall Street Journal*, 29 October 1993).

<sup>9</sup> See, for example the advertisement on the back page of *The New Republic*, 21 June 1993.

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workers to participate in community activities. From the perspective of Honda's management, philanthropy and community outreach "go to the heart of what it means to be an American" (Wanner, 1993, p. 11). In the fall of 1992, Honda celebrated 10 years of car production in the United States heartland with a number of receptions (at Henry Ford Museum in Detroit) and at Honda's Ohio facilities which employ 10,000 people. Finally, in an effort to allow Honda to portray itself "more convincingly" as an American institution Honda is going to begin building engines for cars racing in the Indianapolis 500 and other associated events starting in 1994 (Levin, 1993a, p. D3).

This section has illustrated a number of ways in which the Big Three and the transplants have used economic and political strategies either to strengthen, or to attempt to blur, the insider versus outsider status. Both categories of actors have invested large sums in money in these efforts, precisely because the outcomes have such importance for their long-term economic well-being.

In addition to attempts to influence perceptions of "insiderness", TNCs can lobby for policies that benefit themselves at the expense of their rivals. These activities are being considered next.

## **Influencing policy outcomes**

This section reviews three instances in which the Big Three assemblers and, to a lesser degree, the United States-based parts producers lobbied hard for policies that would protect them against competition from the Japanese transplants. The discussion demonstrates that, over the period from 1980 to 1993, the Big Three have become more aggressive in their demands both for protection of their insider status and for policies that will make it more complicated and costly for the transplants to sell vehicles in an increasingly integrated North American market. The discussion also reveals that at the same time as the Big Three have argued for policies they believe will enhance their capacity to compete against the transplants, their demands (in terms of North American content requirements) are also helping to establish new parameters of status definition. Although the transplants will have to determine whether the economic realities of the North American market make it financially attractive to comply with the new definitions of insider status, should they acknowledge what is necessary and augment their North American investments in components production, the distinction which the Big Three have tried so hard to maintain, may eventually disappear as the Asian transplants become regional insiders.

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## ***Voluntary export restraints: 1980-1985***

In 1980, hurting from Japanese imports, the United States automobile industry sought protection for the first time. Although, in the end, voluntary export restraints were agreed upon by all four producers (American Motors was still in operation at this time), at the outset, there were important differences in the firms' demands. GM publicly denounced any import restrictions as protectionist (Goodman, Spar and Yoffie, 1993, p. 25), while Ford and the United Auto Workers sought domestic content legislation.<sup>10</sup> Congress was not prepared to consider the domestic content issue at that time. Nor were Ford and the United Auto Workers successful in their petitions to the International Trade Commission seeking an increase in tariff rates and a quota rolling back automobile and truck imports. Only when these avenues for status differentiation failed to materialize did Ford and the United Auto Workers join the other automobile producers and appealed to Congress and the President to negotiate an orderly marketing arrangement with Japan (Pearson and Takacs, 1981, p. 49). The voluntary export restraints restricting the numbers of Japanese cars that could be exported to the United States (and Canada) were in effect from 1981 to March 1985, when President Reagan decided not to request their renewal.

## ***The Canada-United States Free Trade Agreement: 1986-1989***

The deteriorating competitive position of the Big Three, together with United States frustration over the way in which the terms of the 1965 Canada-United States Auto Pact<sup>11</sup> promoted the location of Asian transplant assembly plants in Canada, shaped the bargaining over the autos sections of the Canada-United States Free Trade Agreement. Canadian and United States officials differed over

<sup>10</sup> In March 1980, Ford and the United Auto Workers pressed Congress to introduce domestic content legislation that would require a specified percentage of the value of autos sold in the United States to be manufactured inside the United States market. The President of Ford had earlier suggested a short and steep definition of acceptable North American content, namely that within three years 80 per cent of the content of transplant vehicles be manufactured within North America; cars failing to meet this content level would face quotas or tariffs (Pearson and Takacs, 1981, p. 47).

<sup>11</sup> Under the Auto Pact, qualifying producers in Canada could import vehicles and autoparts duty free from anywhere in the world, as long as the producers met certain safeguards that required that one car be assembled in Canada for each car sold in the country. The Big Three qualified immediately for these performance-related duty remissions since they were well above (and have stayed well above) these guidelines. The Government of Canada then extended the duty remissions to firms that might meet these safeguards at some future date. The United States commitment in the Auto Pact, on the other hand, only allowed duty free imports from Canada into the United States with a minimum of 50 per cent Canadian and/or United States content.

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the interpretation of these safeguards and duty remissions early in the history of the Auto Pact: United States officials saw them as temporary subsidies, while Canadian officials treated them as permanent. As long as the rebated duty was for imports from United States firms, the Government of the United States had little reason to complain. The situation altered in the mid-1980s, once the Asian transplants had begun to assemble vehicles in Canada for export to the United States. The transplants qualified for duty rebates based on the expectation that they would some day attain Auto Pact status.

The Canada-United States Free Trade Agreement autos chapter reflected these irritants. From the perspective of this article the most important feature of the Canada-United States Free Trade Agreement is that it establishes a two-tier auto industry in Canada and the United States, in other words, insiders and outsiders. The first tier comprises the Big Three, Volvo and General Motor's joint venture with Suzuki, CAMI Automotive Inc. (which qualified for Auto Pact status in 1988). The second tier consists of the Asian transplants (Honda, Hyundai and Toyota). This two-tier industry results from a Canada-United States Free Trade Agreement provision prohibiting Canada from granting Auto Pact status to any new vehicle assemblers.<sup>12</sup> The Canada-United States Free Trade Agreement definition of North American content, which is stricter and more complex than that of the Auto Pact, was also fashioned to make it more difficult for the transplant assemblers to qualify for duty-free movement of vehicles between Canada and the United States without considerable change in their sourcing patterns. The Canada-United States Free Trade Agreement, in short, was a precursor to what the Big Three demanded — and got — from NAFTA automobile provisions in terms of a clear distinction between long-time and new industry participants.

While the Big Three and the parts producers were satisfied with the Canada-United States Free Trade Agreement autos provisions, the transplants were not. The latter supported the principle of free trade, but not when agreements were discriminatory. The transplants anticipated difficulties with the application of the Canada-United States Free Trade Agreement rules of origin requirements, difficulties which were borne out for Honda specifically when United States customs began audits of the North American content of its Civic models made in Alliston, Ontario, for export to the United States (Eden and Molot, 1993c, p. 6).

<sup>12</sup> For a detailed discussion of the Canada-United States Free Trade Agreement autos' chapter and the Canada-United States Free Trade Agreement's impact on the Auto Pact, see Johnson, 1993, and MacDonald, 1989.

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## *The North American Free Trade Agreement: 1990-1993*

The theoretical arguments suggested above about the policy preferences of insider and outsider firms in an oligopolistic industry when a free trade area is under discussion are illustrated even more graphically by the stances of the diverse North American industry stakeholders during NAFTA negotiations in 1991-1992.<sup>13</sup>

By the start of NAFTA automobiles negotiations in 1991, the automobile industry in North America had polarized into insider and outsider firms. The entry of the Asian assembly transplants, and the auto parts firms that followed them, exacerbated the excess capacity of an industry already in trouble because of a prolonged recession and enormous technological change. Attempts by the transplants to become insiders within the Canada-United States regional market through strategies such as joint ventures were partially blocked as a result of the Canada-United States Free Trade Agreement negotiations. More roadblocks were erected in NAFTA.

The Big Three automotive producers stated their position on NAFTA very clearly in September 1991 (*Inside US Trade*, 1991). As expected, the United States Big Three had two kinds of concerns during NAFTA negotiations: to enhance their own position as insiders and to make it as difficult as possible for their competitors to attain insider status. In reality, the two kinds of demands were intimately connected.

The Big Three producers saw a trilateral free trade agreement as providing a larger market and facilitating further continental rationalization of production. United States automobile TNCs sought the following in NAFTA: an immediate reduction in Mexican tariffs and value-added requirements for the Big Three, a reduction in the trade-balancing requirements of the Mexico Automotive Decrees, the termination of restrictions on ownership of autoparts and components producers, and the continuation of the Corporate Average Fuel Economy regulations, as well as of the Mexican embargo on the imports of used cars and trucks. All of these measures would permit the Big Three to entrench their position further as insiders in the North American automobile industry.

On the defensive side, Chrysler, Ford and GM supported a higher regional content provision than the 50 per cent rule under Canada-United States Free Trade Agreement.<sup>14</sup> To compensate for what they saw as the restrictive conditions of the

<sup>13</sup> For a discussion of the positions of the Canadian and Mexican automobile industry stakeholders on NAFTA see Eden and Molot, 1993b, 1993c.

<sup>14</sup> Ford and Chrysler advocated 70 per cent while GM, which is the most vertically integrated of the Big Three producers, sought a 60 per cent North American (including Mexico) content rule.

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Mexican Automotive Decrees under which they had operated for years in Mexico, the Big Three further sought preferential access to the Mexican market for themselves<sup>15</sup> during NAFTA transition period. The Big Three proposed the creation of a two-tier system for auto producers in Mexico under which TNCs producing cars and trucks in Mexico on 1 January 1991 would be eligible for a more rapid decrease in tariffs and other trade-restricting requirements than those TNCs that might later enter into the Mexican market (most notably Honda and Toyota).

In short, the stance of the Big Three on NAFTA was a combination of the anticipated TNC support for enlarging markets with a blatant demand for protection of their insider status in all three markets. To quote the position paper sent to the United States Trade Representative early in NAFTA negotiations: "It is critical that the United States government immediately make clear to Mexico that a NAFTA agreement cannot allow Mexico to establish itself as a platform for major new automotive capacity from third country producers for export to the US market" (*Inside US Trade*, 1991, p. 3).

The stance of the United States autoparts TNCs towards NAFTA was similar to those of the Big Three (their major customers). The autoparts TNCs anticipated the advantages of access to a larger market and the ability to rationalize production and to shift labour-intensive operations to lower cost locations. Like the Big Three, the Motor and Equipment Manufacturers Association advocated a speedy phase-out of existing United States and Mexican duties on autoparts and vehicles, the elimination of duty drawback provisions, and the end to Mexican investment restrictions. The Motor and Equipment Manufacturers Association also adopted the defensive posture of the Big Three with respect both to North American content<sup>16</sup> and special status for the five automobile TNCs with current production facilities in Mexico.

For the transplant producers, NAFTA held the promise of access to a larger

<sup>15</sup> As well as for Nissan and Volkswagen since they, too, had also been assembling cars in Mexico.

<sup>16</sup> Motor and Equipment Manufacturers Association's original North American content position was 75 per cent, higher than any member of the Big Three (Motor and Equipment Manufacturers Association 1991, p. 2). Interestingly in terms of the insider-outsider argument, there do seem to be some limits on how far industry stakeholders feel they can go in terms of their protectionist postures. A Motor and Equipment Manufacturers Association official noted that a decision had been made in late spring of 1992 that a North American content rule of 70 per cent or higher was not politically acceptable (Interview).

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market and the ability to rationalize production across three countries.<sup>17</sup> However, they worried about the concerted efforts of the Big Three to make it more difficult for them to realize the benefits of a new regional trading arrangement.

The transplants approached NAFTA talks with the knowledge that the Canada-United States Free Trade Agreement already discriminated against them. They supported the market access and production rationalization opportunities that NAFTA would bring, but articulated their very strong opposition to any increase in North American content requirements.<sup>18</sup> They also opposed the two-tier system proposed by the Big Three, suggesting that equal access to the Mexican market should be given to all automobile producers that meet the rules of origin and that no preferences should be given to those TNCs that already have assembly facilities in Mexico (McArthur, 1992). All of the transplants sought the phasing out of Mexico's Auto Decrees.

### ***Summary and recent insider-outsider activities***

These three instances of Big Three demands for protection illustrate the efforts made by the United States automobile TNCs to enhance their own competitive position within the North American market and to make it more difficult and more costly for the transplants to compete. The conclusion of the NAFTA talks did not mean any diminution in the intensity of the attempts of the Big Three to reinforce the insider versus outsider distinction.

If the ejection of Honda from the Motor Vehicle Manufacturers Association in November 1992 was one signal that the Big Three were continuing their efforts to protect their insider status, a second was their renewed interest in using trade actions to limit the ability of Japanese automobile makers to export cars to the United States. There have been two such instances during 1993:

- The first was a decision by the Big Three to press the Administration to

<sup>17</sup> The position of the Japanese transplants was not entirely homogeneous. None has assembly facilities in all three NAFTA countries. Only Nissan has production facilities in Mexico. It ranks second in terms of its share of the Mexican domestic market, though its export performance is weak. Honda currently produces motorcycles and autoparts at its Guadalajara plant and has intimated its interest in entering the Mexican market. Toyota was not prepared to make any public statements about possible investments in Mexico until after the conclusion of NAFTA (Scheinman, 1993). Given its position in the Mexican market, Nissan was less concerned about many of NAFTA issues than the other transplants (McArthur, 1992).

<sup>18</sup> See statement by the Association of International Automobile Manufacturers of Canada that "[t]he 50% North American content requirement represents the maximum level acceptable to AIAMC members in terms of value added or transformation requirements" (Association of International Automobile Manufacturers of Canada, 1992, p. 3).

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reclassify minivans and sport-utility vehicles as trucks instead of cars for customs purposes, which would raise import duties on these vehicles to 25 per cent from 2.5 per cent.<sup>19</sup>

- The second possibility of trade action took the form of a consideration of a request by the Big Three for punitive duties on all imported cars on the grounds that Japanese and European automobile makers were violating United States law by selling cars for less in the United States than they would charge in their home markets. After pressure from the transplants with which they have joint ventures and from the Administration, the Big Three decided against filing an unfair trade complaint. Another concern of the Big Three was the negative signal about the competitiveness of United States vehicles that such a trade action might send the United States public (Bradsher, 1993, p. A1).<sup>20</sup> The Big Three see the current Administration as sympathetic to their insider position; at the same time, their pursuit of an aggressive stance which would have benefited them while weakening their competitors was muted by the realities of their own alliances with these firms.

The transplant producers lobbied hard against the threat of a Big Three dumping action, arguing that such a step would damage joint-venture relationships (Ingrassia and Nomani, 1993, p. A1). Worries about possible trade actions are another reason for the character of the Toyota advertisements described above. Finally, although not directly part of the effort to be seen as an “insider”, Japan’s decision to extend for another year its current ceiling on automobile exports to the United States (at 1.65 million) was an effort to head off expected demands from the Administration for more trade concessions (Pollack, 1993, pp. 41 and 48). In the continuing competition for status perception, these recent steps by the transplants demonstrate their intent both to defend themselves from being depicted as outsiders and to strive to be seen as insiders.

## Conclusions

Transnational corporations in an oligopolistic market want to reduce barriers within the market so that they can more efficiently integrate production regionally.

<sup>19</sup> In 1989, the Treasury overturned a United States Customs Department decision and ruled that Japanese minivans qualified for the auto tariff rate of 2.5 per cent. The United States Treasury has begun an examination of the minivan classification, but no quick decision should be expected (Lavin and Davis, 1993, p. A2).

<sup>20</sup> The decision came after GM backed away from its previous support for the trade cases. United States law effectively requires all major domestic companies in an industry to join a trade complaint if it has any chance of succeeding (Bradsher, 1993, p. D2).



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At the same time they are sensitive to their rivals, and reap economic rents from getting a larger market share and squeezing out the competition. By having States perceive them as insiders and part of the policy-making process in trade policy negotiations, TNCs can influence policy outcomes in ways that are beneficial to them and potentially harmful to others. Insiders have a voice that they can use to force outsiders to lose market share and possibly even exit the market. Firms, therefore, expend considerable time and energy in developing and maintaining the insider perception.

This article examined this insider-outsider distinctions in the context of the North American automobile industry. The Big Three, historically perceived as insiders, have used a number of strategies since 1980 to enhance their position within the North American automobile industry and to weaken that of their transplant competitors.

An obvious question is whether this argument can be generalized to other industries and other cases.<sup>21</sup> Is the insider-outsider distinction a useful one for understanding the strategic interactions of large, oligopolistic TNCs as they compete for regional and global market shares? It is argued that, for three reasons, this is indeed the case.

- First, as long as a TNC views a growing market share as essential to its own long-run economic viability, it will see the need to be located in each of the major regional markets and to be treated as an insider in that market.
- Second, if rents exists in particular regional markets or products (e.g., pharmaceuticals has traditionally been a high-rent industry), insider-outsider lobbying can be a successful rent-shifting exercise.
- Third, even in industries that are contracting over time, industry specific assets exist. Competition to prevent or slow down the erosion of, rather than enhance, market shares can be a profitable, albeit, a short-run strategy.

In fact, the strategic activities of the insider automobile TNCs can be seen as just that: attempts to slow down the (inevitable?) erosion of market share and rent losses to the Asian outsiders. If, over the next ten years, the Asian transplants shift all the stages of production to North America (including the key drive train components) setting up regional core networks, the Asian transplants will, effectively, become insiders in the North American market. The insider-outsider distinction may well then lose its importance to Governments and the

<sup>21</sup> Although the views across Europe are less homogeneous, some of the European automobile firms and their Governments are adopting a stance similar to that of the Big Three against the penetration of the European Community market by Japanese transplants. See, Mason, 1992.

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public in the three countries. As a result, the key benefit to the Big Three of these strategic activities may have been simply to postpone the day of reckoning and to have provided a breathing space before the Asian automobile TNCs become true regional insiders themselves. ■

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