the US-dominated industry would act in Canada's national interest. Therefore, as the world industry becomes truly internationalized, the "safeguards" enjoyed by Canada under the terms of the Autopact become increasingly important as a guarantee of a minimum level of employment and production in this country.

North American response

The North American industry is now playing catch-up with the Japanese. But the Japanese automakers are a moving target. They are continuing to make further strides towards cost reduction; and, therefore, the North American rate of improvement must substantially exceed the Japanese over the coming years to narrow the gap. The Japanese cost advantage in auto making vis-à-vis the US and Canada is about 30 percent, largely because of vastly superior labor productivity.

The Japanese lead will be difficult to narrow not only because of UAW intransigence towards permanently lower wage rates but also because the Japanese can plow back retained earnings into new capital investment from their huge profits on export sales as a result of both a significantly lower cost structure and an under-valued yen. North American manufacturers by contrast are saddled with the legacy of four years of dismal profit performance superimposed on already stretched financial resources resulting from the massive retooling required by mandatory government standards of the late seventies and early eighties.

Despite the obstacles, North American manufacturers have struggled to close the gap by increasing automation and laying off (or not recalling) production workers, reducing overheads (Chrysler managerial and technical staff have been reduced from 40,000 to 21,000), renegotiating union contracts, improving inventory controls (e.g., introducing the Japanese "just-in-time" system), streamlining component sourcing (sole sourcing in many auto parts) and joint venturing (General Motors-Toyota-Isuzu; Ford-Toyo Kogyo; AMC-Renault).

As a result of these measures the break-even point for the North American industry has been reduced from about twelve million vehicles annually to about nine million vehicles, and a major cyclical resurgence of the market should significantly boost profitability. The North American industry is concerned, however, that foreign producers will be the main beneficiaries of restored health in the the auto market. The industry has accordingly, both in US and Canada, stressed the importance of continuing Japanese export restraint pending a return to more normal market conditions.

It is not yet clear whether North American auto makers can design, manufacture and market products that will be attractive to a cost and quality conscious consuming public. The problem is that even though the product planning horizon has been shortened from three-to-four years to two-to-three years, swings in consumer taste can occur almost overnight and auto makers find themselves facing huge unsold inventories if they guess wrong. This problem is compounded by the fact that the North American manufacturers have a larger share of the "swing" market than foreign manufacturers. On the two ends of the spectrum one finds the buyers of the large American car and of the smaller, Japanese/European car. The middle ground, largely composed of traditional American car buyers, shifts rapidly in its taste. For example, a few years ago following OPEC II the swing market dictated fuel economy as almost the sole criterion for purchase. As a result, the market shifted dramatically to sub-compact econoboxes where the Japanese offered a very strong product selection. During the recession fuel economy became relatively less important as consumers shifted to more general concerns of cost and quality. Once more, however, the Japanese were in a position to offer best value for dollar. More recently, as world oil prices decline and the recession abates, North American consumers are shifting again to their old desire for comfort, size and performance and econobox inventories are piling up. It is against this fickle market that corporate decision makers must plan.

Importing our own

Assuming that the Big Three will be able to restore their fortunes, at least in the North American market, the question remains to what extent this will be carried out from a North American production base. There is already growing evidence that General Motors will be filling the low end of its product line with imports from Japan (Isuzu and Suzuki) and through joint venture arrangements such as that with Toyota in California which result in no more than 50 percent US content. Ford and Chrysler are more North American oriented in terms of assembled vehicles (Mitsubishi is in fact going to market vehicles under its own marque rather than continuing through Chrysler dealers). But both Ford and Chrysler are and will be major buyers of Japanese, European and Mexican engines, drivetrains, and transmissions. AMC for its part is reliant on Renault for capital, technology and certain parts.

Although it is difficult to predict the extent to which the traditional North American manufacturing base of the Big Three will be eroded over time, it is clear that the economics of survival will dictate that "captive" imports of vehicles and major components continue to rise. One can further conclude that Japanese (or European) investment in North America will not be sufficient to offset the decline in output in the US and Canada since it is motivated by political appeasement rather than economics and will be carried out only to the extent necessary to mollify a hawkish Congress or Parliament. To illustrate, a new Nissan plant in Tennessee will produce light trucks at higher costs than the same imports from Japan, notwithstanding that the plant is more automated than any Nissan plant in Japan and that small truck imports into the US face a 25 percent tariff.

Impact on Canada

Although Canada is part of an integrated North American production and distribution system, the combination of a no-growth market under constant pressure from Japanese imports and the continuing savage cost-cutting by the Big Three to restore competitiveness will likely impact more adversely on Canada than on the US. The bias of the American-owned auto manufacturers to consolidate operations in the US has if anything increased under conditions of retrenchment. Their obligations under the Autopact may be the only real driving force behind maintaining levels of production in Canada, despite the fact that most Canadian plants, particularly assembly, enjoy higher levels of productivity than US plants. Auto executives still base Canada-US cost comparisons on a par dollar, as though