

The World

Is 'Local Content' The Smartest Way To Judge Imports?

By DAVID E. SANGER

BACK when Detroit first woke up to the dimensions of the Japanese challenge in automobiles in the early 1980's, its leaders said they needed three concessions to compete fairly. First, the Japanese would have to build many of their cars in America, so that they would face the same costs and restrictions that dog American auto makers. Second, they would have to put numerical limits on their exports from Japan. And third, those import limits would have to stay in effect for a number of years, so that the Big Three would have time to get their act together.

They got all three, and a decade later Detroit is in worse shape than ever. Now the Bush Administration is raising a new set of "local content" hurdles and, to hear the Japanese tell it, systematically harassing Japanese business interests in America with regulations and investigations.

These days such complaints are not about to get much sympathy in Congress or a recession-mired America, and perhaps the Japanese are simply getting a small taste of what they have dished out for decades to American companies in Tokyo. But the Administration's recent actions have raised a question that few politicians in America seem likely to debate in any detail in an electoral season: Does cracking down on Japan in America truly help American workers in Detroit and elsewhere, or does it hamper the effort to get Japan and other countries to move their best technologies, their best plants and their best jobs to America?

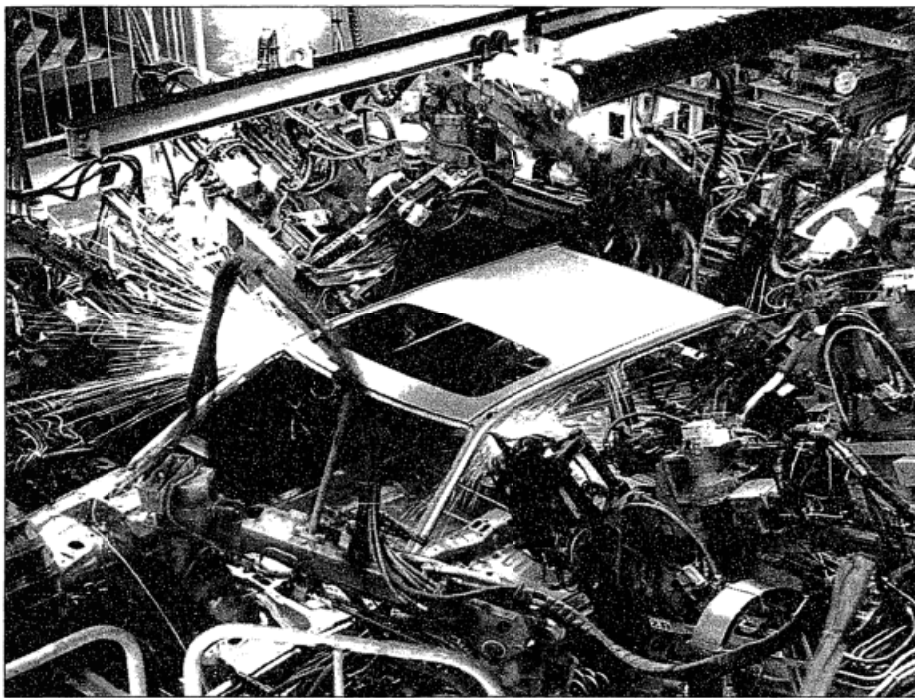
Government ruled that these cars do not meet the requirement that they contain 50 percent or more "North American content," and thus do not qualify for tariff-free import under the free trade pact with Canada. Honda and Canada dispute that.

Two-Sided Argument

There are endless arguments on both sides over how to measure "local content," and a reasonable argument can be made as to whether Honda passed the test or failed it. In its calculations, Honda includes manufacturing processes and factory depreciation costs that Customs says do not really add to domestic content; the Government says many components of major car parts, such as Honda's Ohio-made engines, can be quickly traced back to a web of Japanese suppliers, even though they pass through American hands.

Indeed local content can be defined to fit any agenda. "It is easy to set up a sham 'domestic supplier' who is actually the subsidiary of a Japanese company doing minimal assembly on a Japanese-designed component," J. Michael Farren, the Under Secretary of Commerce for International Affairs, noted recently. The Japanese Government responded last week with a survey of 931 Japanese-owned manufacturing operations in the United States showing that more than 60 percent get more than two-thirds of their materials in America.

Japan's complaint — echoing that of American firms that struggled to break into industries here — is that America is making up the rules on the fly to insure that outsiders stay out. Last week officials in Tokyo charged that election-year politics in-



The Bush Administration ruled last week that the Honda Civics assembled in Canada do not qualify for duty-free treatment.

suffering discrimination.

In any case, Honda is an odd choice for a first victim. It is widely viewed as a model of "Americanization," and the United States came to its defense recently when the Europeans tried to classify Ohio-made Hondas as Japanese imports, not American. But emotion increasingly rules the day on Japan issues. The Japanese blathered last week when Senator Ernest F. Hollings of South Carolina, a Democrat, told a group of American factory workers that they "should draw a mushroom cloud and put underneath it: 'Made in America by lazy and illiterate Americans and

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by Attorney General William P. Barr to change Justice Department guidelines so that he can pursue foreign business groups that collude to restrict American exports. Meanwhile Congress is toying with changing the definition of Japanese mimivans to

jobs. Local content rules, in theory, assure that Honda is forced to hire American assembly workers and buy American parts. That worked wonderfully when parts were designed, engineered and made in the same place. Unfortunately, the manufacturing world is no longer so simple.

As the Japanese have proven better than anyone, the trick is not simply keeping jobs in the country but keeping the right kind of jobs — the kind that nurture skills and technologies for more industrial growth. Local content rules, however, are imprecise weapons, treating all car components as essentially the same,

actually manufacturing it; the real value is in the design and the creation of the tools needed to make it. But as a matter of policy, the United States seems unsure what kind of work it wants to assure for American suppliers.

The trick is not simply to force Japan to produce more goods in America, but to get it to perform its most complicated technological feats there, with American workers. That might seem like a variety of industrial policy, something the Bush Administration rejects. But local content rules, commitments for parts purchases and guarantees about how

The issue came to the fore clearly last week when the Customs Service came down on Honda for its import of cars built at its plant in Canada. The

fluenced the Honda decision and Kozo Watanabe, Japan's Trade Minister, ordered an investigation into whether Japanese companies were

tested in Japan." The Japanese view such comments as part of an American temper tantrum. They lump into the same category efforts

"trucks" so that they can be slapped with 25 percent duties. All these moves are ultimately defended as tactics to protect American

whether they are a hunk of engine block or a high-tech cluster of electronic engine controls. Often the least "value added" in a part comes from

many American cars will be sold in Japan are all a form of industrial policy, too. The question is whether it is the right form.

Yugoslavs Peer Into a New Abyss

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month, arrives here on Sunday to prepare for the first United Nations deployments into Serb-held areas of Croatia.

Cyrus R. Vance, the former Secretary of State who is the special envoy of Boutros Ghali, the United Nations Secretary General, completed his latest trip here on Friday anxious about the potential for further warfare, above all in the powderkeg of Bosnia and Herzegovina, the republic that is Croatia's southern neighbor. But Mr. Vance remained convinced that the risks of injecting United Nations troops for the first time on the European mainland outweighed the dangers of holding back both for the Balkans and for a wider peace in the post-Communist era.

The best news for Mr. Vance, who has become a folk hero here for his five months of tireless peacemaking, was that Bosnia did not explode in the wake of the popular vote for independence last weekend, despite tense days of bomb explosions and barricades.

A crucial role was played by the 74-year-old Mr. Vance, who traveled to Sarajevo, the city where the assassination of an Austrian archduke launched World War I, to reason with leaders of the Serb, Muslim and Croat communities. Particular attention was paid to the Serb minority, who had threatened to repeat the pattern of Croatia by using their heavily armed militias, and possibly the 100,000-man Yugoslav Army garrison in Bosnia, to prevent a break with the Serb-led Yugoslav federation. For the time being, the Serbs, as well as the other groups, have agreed to continue negotiations through the European Community for the establishment of a new, sovereign Bosnia composed of semi-autonomous ethnic cantons.

Unresolved Tensions

Amid the shifting complexities, few, including Mr. Vance, were prepared to bet that the worst irrationalities were over. Apart from Bosnia, where an explosion could result in carnage among the intermingled ethnic groups exceeding even the savagery of Croatia, there are unresolved tensions between Serbia and Macedonia.

Macedonia is a southern republic that borders Greece, and, like Croatia, Slovenia and Bosnia, has declared its independence from the Yugoslav federation. Lying west of the principal land route from the Middle East to Europe, and steeped in a bloody history of its own that includes its



Armed Serbs control a road near Sarajevo, the Bosnian capital.



place as the focal point in the Balkan wars preceding World War I, Macedonia has been burning on its own long fuse, and could yet erupt into a many-cornered conflict in which Serbia, Bulgaria, Albania and Greece could find themselves in a replay of old territorial feuds.

But even if new wars can be avoided, people here who are assessing the damage of the past year believe that the uncontrolled explosion of ethnic nationalisms, above all among Serbs and Croats, may have set the region back by a generation.

Until recently, Yugoslavia prided itself on being the exception among the Communist states of Eastern and Southern Europe, a place where the tolerances that developed after the break with the Soviet Union in 1948 — the millions who went to Western Europe to work, the hordes of European vacation-

ers who traveled here to enjoy the pleasures of the Adriatic coast, the restricted forms of political, economic and cultural pluralism that were synonymous with Marshal Josip Broz Tito — made life better than anywhere else under the Communist red star.

Now, even the lucky ones here, those who have not lost family members in the fighting or had homes or businesses shelled into rubble, have found their horizons sharply reduced.

With normal economic flows disrupted by the war and the Serb-controlled banking authorities printing money to finance it, inflation in Serbia has reached an annual

Croatia, in ruins, is quieter, but old enmities are coming to the fore in Bosnia and Macedonia.

rate of 25,000 per cent. For some savings accumulated from years of work as "guest workers" in the grim towns of the German Ruhr have been rendered worthless, and villages across the hinterland are dotted with the shells of homes half-built for want of furds. In Belgrade, some banks that held foreign currency deposits have halted withdrawals. With the country awash in weapons, rates of murder and robbery are surging and police enforcement has virtually collapsed.

Many Yugoslavs see their future abroad, as long as they can find countries willing to take them. But others are already beginning to plan for a brighter future, one in which authoritarianism and nationalism are set aside in favor of European-style democracy.

Common to virtually all such dreams is the assumption that most of what was Yugoslavia, certainly the heartland republics of Serbia, Bosnia and Croatia, plus the smaller republics of Macedonia and Montenegro, will eventually recognize the geographic and economic realities, and rebuild links that have been discarded so willfully over the last year.

Some envisage a Balkan common market, others a loose confederation in which the republics now pressing for independence would submerge themselves in return for guarantees against Serb domination. But whatever the approach, there will first have to be a lasting peace, and that, given the new enmities sown by the past year's killing, could take years to secure.

Armenians and Azeris



An Azerbaijani woman who clawed her cheeks in despair after Armenian fighters shelled a city near Nagorno-Karabakh.

A Blood Feud Only Worsens

THE latest communal atrocities in the former Soviet Union have again thrown the spotlight on the conflict in Nagorno-Karabakh, a feud as bloody as it seems insoluble. Last week, it was Armenians slaughtering Azeris in Khodzhal, one of the last villages in the enclave in which Azeris still lived. Armenia said the operation was needed to halt the shelling of Stepanakert, the enclave's capital. Azerbaijan was enraged over images of dead infants and mutilated civilians, and in the tumult President Ayaz Mutalibov resigned.

The bloodshed first flared in February 1988, when the Nagorno-Karabakh parliament called on Armenia and Azerbaijan to transfer the autonomous mountain region from Azerbaijan to Armenia. Nagorno-Karabakh's population of 188,000 was then three-quarters Armenian, though the enclave was in Azerbaijan.

Soviet authorities rejected the petition; Armenian activists in Armenia led the flight of terrified Azeris, and rumors of atrocities fired the killings of dozens of Armenians in

Azerbaijan. Complicating the conflict is the fact that Azeris are Muslim and Armenians are Christian.

While the Soviet Government was still in power, it tried to maintain a status quo and then, last spring, joined with Azerbaijani troops in a disastrous campaign to deport Armenians en masse from Armenian villages in Nagorno-Karabakh.

Shortly after the August coup, President Boris Yeltsin of Russia tried to mediate, but failed dismally. With the collapse of the Soviet regime, its 5,000 Interior Ministry troops pulled out and the tide shifted to Armenia, which began driving Azeris from Nagorno-Karabakh.

About 2,000 are estimated to have died in the conflict so far. But the misery has ranged far beyond the killings: the Armenians of Nagorno-Karabakh have been virtually isolated, supplied only by helicopter, and Armenia has suffered through a winter virtually without heat, since Azerbaijan has cut off oil supplies. Meanwhile, peace talks continue, and so does the killing.

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