

CHAPTER I

INTRODUCTION

A. The Reason of Title Selection

In the early year 2010, the world had been shocked by “Global Recall” of Toyota’s automobile product as the result of massive recall which happened in United States of America. This case became the biggest recall that ever happened on automobile manufacturing in all over the world. In USA, the recall now led into 8 million vehicles.¹

In some stage, especially in the automobile manufacture, the recall product has been looked as a common phenomenon that always happened to manufacturers when their product seems to look as a failed product. However, gas pedal and brakes malfunction within Toyota’s recall still became the main assumption at the first beginning the issue was occurred.

It is quite ridiculous if considering that the No.1 automobile manufacturer such as Toyota could do such a huge negligent that led into the most massive recall in automobile manufacturing history. Moreover, this issue became more controversial when another assessment slightly appears that it is not only about

¹ ““Recall” Toyota di Amerika Serikat karena Konflik Kepentingan?” *Kompas*. February 23, 2010. <http://otomotif.kompas.com/news/quot.Recall.quot..Toyota.di.Amerika.Serikat.karena.Konflik.Ke.pentingan.htm> (accessed May 20, 2010).

Toyota's purely mistakes but also it related to "conflict of interest" that brought by United States government in aimed to save its domestic automobile manufacturers.

Thus, the writer thinks that the issue of Toyota massive recalls in U.S then result to the global recall in all over the world is appropriate to be considering as a thesis.

B. Background of the Problem

United States of America is a superpower country by the most powerful military forces, political, and economy sustainability in the world. They became the main actor and central example of the spreading of liberalism and democracy system. In the last decade, the U.S and its alliance had been proven as a leading country by its system. The system of liberalization which adopted by U.S government to rule their economy now becomes trendsetter in the world.

On the new perspective of International Relations studies, State is no longer as the main actor in international relations but also we acknowledge the role of International Non-Governmental Organization (INGO), International Governmental Organization (IGO), and individual. In economical unit, we also recognize the Multinational Corporations (MNCs) as the new actor in International Relations that makes the condition among the units more complex.

U.S by its liberalism in economy was very supporting the existence of the MNCs. It is because most of developed countries are the host of MNCs, especially United States. Economically, United States not only very capable on produces the MNCs but also they are also became the main target orientation from foreign investors such as European and Asian. That was based on the character of United States' people who is very consumptive. In short, they have huge amount of people population, jobs and educations that attract many people to come to U.S, and the last one is mainly about their economic system that very suitable for the foreign investors to do business there, especially on the automotive business.

On the automotive industry in the world, United States included as the biggest MNCs of Automobile Manufacturer (Automaker) despite European and Asian Automakers. European is famous with BMW, Mercedes Benz, Ferrari, and Audi. Japanese has Honda, Suzuki, Mitsubishi, and Toyota as their trademark of automotive product. U.S also acknowledges General Motors (GM), Ford, and Chrysler as their brands.

Moreover, the automotive market is very dynamic in U.S which means the competitions among the producers are very competitive. The European automotive market has always boasted smaller cars than the United States. With the high fuel prices and the world petroleum crisis, the United States may see its

automotive market become more like the European market with fewer large vehicles on the road and more small cars.²

For luxurious cars, with the current volatility in oil a price, going for smaller cars is not only smart, but also trendy. And because fashion is of high importance with the upper classes, the little green cars with luxury trimmings become quite plausible.³ Following this trend, General Motors Corporation announced on June 3, 2008, its plans to cease production at four GM truck assembly plants in North America while adding additional shifts at two assembly plants for cars.⁴

According GM, U.S. consumer preferences are shifting permanently away from trucks and sport utility vehicles (SUVs) in favor of smaller cars and crossover vehicles. As a result, GM saw significant increases in the retail sales of its Chevrolet Malibu, Chevrolet Aveo, and Pontiac Vibe in 2008 May, while its May sales of trucks to its dealerships are down by 36.7% from last year. Regarding cars and crossovers, higher gasoline prices are changing consumer

² "Automotive market." *Wikipedia*. http://en.wikipedia.org/wiki/Automotive_market (accessed February 15, 2011).

³ "Rendered Speculation: Audi EV." <http://www.worldcarfans.com/9080923.006/rendered-speculation-audi-ev> (accessed February 15, 2011).

⁴ "GM Cancels All Future Full-Size SUVs." <http://www.worldcarfans.com/9081028.003/gm-cancels-all-future-full-size-suvs> (accessed February 15, 2011).

behavior, and rapidly, significantly affecting the U.S. auto industry sales mix. GM thinks this is not a spike or temporary shift, but is largely permanent.⁵

GM is also “undertaking a strategic review” of the Hummer brand and could either revamp the product line or sell the brand. General Motors have cancelled a \$2 billion investment program to update their range of full-size SUVs.⁶

Of course, GM’s sales trends are not unique to the company; all the large Automakers are seeing similar trends. For instance, the biggest loser on the American Customer Satisfaction Index list is the struggling Ford’s Lincoln-Mercury brand, with a 3.5% drop to 83 from 86 in 2007.⁷

Ford Motor Company, in general, saw a 20% increase in retail sales of its cars in 2008 May (compared to last year) and a 4% increase in car sales to its dealerships. Meanwhile, its SUV sales to dealerships were down 44% and its truck and van sales to dealerships were down 29% (note that both Ford and GM did not release retail sales information on their trucks and SUVs). Ford is top-heavy, with several big, gas-guzzling models that have put a damper on owner satisfaction. Ford announced in late 2008 July that it will bring its more fuel-efficient European models to the U.S, but the cars may not arrive in time to stem

⁵ "GM Cancels All Future Full-Size SUVs." <http://www.worldcarfans.com/9081028.003/gm-cancels-all-future-full-size-suvs> (accessed February 15, 2011).

⁶ *Ibid.*

⁷ *Car Brands Americans Love.* http://www.forbes.com/vehicles/2008/08/18/cars-americans-love-forbeslife-cx_jm_0819cars.html?partner=autos_newsletter (accessed February 15, 2011).

the company's slide in customer satisfaction.⁸ Ford says its two hybrids; a version of the Escape SUV and Mercury Mariner were selling well, and inventory levels were tight.⁹

Chrysler is facing continuous pressure from its rapidly decline sales of trucks, pickups and minivans as consumers tend to buy more fuel-efficient vehicles given the soaring oil prices.¹⁰ Chrysler Chief Executive Bob Nardelli said the government loans would help speed the electric technology to market. But if they aren't approved, Chrysler will have to spend limited resources on developing new technology and would have to make cuts elsewhere, possibly in employment and development of conventional products.¹¹

Toyota Motor also saw big sales gains for its Yaris, Corolla, and Scion xB, although Toyota's car sales overall were down by 21.3% in May, compared to last year. Toyota's light truck sales are down by 15.9%, while Toyota's Lexus division suffered sales drops nearly across the board. "We are looking at the current shift towards fuel-efficient cars (in the United States) as a structural change in demand," Toyota President Katsuaki Watanabe told a news conference.

⁸ *Car Brands Americans Love*. http://www.forbes.com/vehicles/2008/08/18/cars-americans-love-forbeslife-cx_jm_0819cars.html?partner=autos_newsletter (accessed February 15, 2011).

⁹ "Small cars sell, but GM, Ford suffer as gas prices rise." http://www.usatoday.com/money/autos/2008-05-01-april-auto-sales_N.htm (accessed February 15, 2011).

¹⁰ *Can Chrysler Woo Fiat?* . http://www.forbes.com/markets/2008/08/14/chrysler-fiat-tieup-markets-equity-cx_je_0814markets23.html?partner=autos_newsletter (accessed February 15, 2011).

¹¹ *Chrysler "Jolts" PHEV Race; PHEV Ads; V2Green Acquired*. <http://www.calcars.org/calcars-news/1005.html> (accessed February 15, 2011).

“We intend to respond quickly and flexibly to this environment”. As part of those efforts, Toyota said it would move forward the launch of a “plug-in” version of its Prius.¹²

Likewise, American Honda Motor Company experienced a 30.7% increase in car sales in May, compared to last year, while truck sales were down 11.4% and sales in its Acura division were down by 9.9%.¹³

With gasoline at record prices, demand for some gas-electric hybrid vehicles is booming. The average Toyota Prius is getting sold just 13 days after hitting the showroom floor, according to Power Information Network data sampled from dealerships. A year ago, it took 24 days to sell a Prius. Prius sales dropped 38% in May compared to a year ago, but that was because Toyota dealers were running out of cars to sell. Dealers had just 3,832 unsold at the end of a month during which they sold more than 15,000 cars. (Those same Toyota dealers had more than 19,000 Sequoia sport utility vehicles gathering dust at the end of May, according to Autodata Corp., after selling just 3,575 of the U.S.-made big rigs).¹⁴

In some stage, the car makers compete to demonstrate their pro-hybrid bona fides. The stampede toward hybrid technology reflects the much broader

¹² "Toyota Advances PHEVs to Fleets to 2009; Ford Stays on Sidelines."
<http://www.calcars.org/calcars-news/990.html> (accessed February 15, 2011).

¹³ *Ibid.*

¹⁴ "Still Waiting for Hybrids to Be the Smartest Buy." *Yahoo*.
<http://finance.yahoo.com/loans/article/105257/Still-Waiting-for-Hybrids-to-Be-the-Smartest-Buy>
(accessed February 15, 2011).

rush toward smaller, more fuel-efficient vehicles that has roiled the auto market as gasoline prices started in 2008 topping \$4 a gallon.¹⁵ Furthermore, in the range year of 2008 until 2010, the Automakers competed to produce the hybrid product in aimed to deal with the rising price of gasoline.

The automotive industry crisis of 2008–2010 was a part of a global financial downturn. The crisis affected European and Asian automobile manufacturers, but it was primarily felt in the American automobile manufacturing industry.¹⁶ It is mainly because the global crisis had been centered in U.S, as the impact of financial crisis in the country.

Those suffered domestic economic condition worsen when in the first quarter of 2007, Toyota outsold GM for the first time in its history. The company sold 109,000 more vehicles than GM, making it the leading seller of cars and light trucks in the world.¹⁷ Then, after they took over the U.S market domination on automotive, the U.S domestic manufacturers slowly were going to crisis.

Meanwhile the crisis on U.S domestic automotive industry still flared up, the world had shocked by massive “Recall” that happened to Japanese automotive products in U.S. This massive Recall now led into global Recall in almost all over

¹⁵ "Still Waiting for Hybrids to Be the Smartest Buy." *Yahoo*.
<http://finance.yahoo.com/loans/article/105257/Still-Waiting-for-Hybrids-to-Be-the-Smartest-Buy>
(accessed February 15, 2011).

¹⁶ "General Motors Corporation - Quarterly Balance Sheet GM (NYSE)."
<http://www.marketwatch.com/tools/quotes/financials.asp?symb=GM&sid=2160&report=2&freq=2>
(accessed February 15, 2011).

¹⁷ Microsoft Corporation. *Toyota Motor Corporation*. Microsoft Encarta, 2009.

the world. The issue arose in the early 2010 when some of the product had parts malfunction such as the broken of gas pedal and brake.

The first Japanese Automaker that recalled its product is Toyota. The issue starts to blow up when some fatal accident happened to some family in U.S while they were using a Lexus (Toyota) revealed. Reported all of the passengers were died on the accident. The U.S transportation Department demanded Toyota to reveal when and how they learnt the problem with sticking accelerators and floor mats trapping gas pedals and Toyota had to responds within 30 to 60 days or they would face fines. Those defects and problems now led into massive Recall of 8.5 million vehicles. Noted at least 6 types of Toyota's product that had been recalled; Corolla, Venza, Matrik, Highlander, Pontiac vibe, and Prius.¹⁸

The other Japanese Automaker, Honda, also faced the same condition. They had to recall their product almost about 950.000 vehicles. The cause of Honda's Recall was different with Toyota. Honda recalled their product because of the model of Airbag Inflator Dual Igniter and power window system problems.¹⁹

In the automotive industry, the Recall action is probably quite familiar with the fabricants. But, on this case, the Recall that related to the Japanese Automakers seems to be "Special". It is because in some similar case before, the

¹⁸ "Belajar dari Kasus Mobil Toyota." *Balizon*. <http://www.balizon.com/belajar-dari-kasU.S.-mobil-toyota.html> (accessed May 20, 2010).

¹⁹ "Di balik Kasus Recall Toyota & Honda." *Kompas*. February 15, 2010. [http://www.kompas.com/kompasiana/ekonomi/DiBalikKasusRecallToyota&Honda\(1\).htm](http://www.kompas.com/kompasiana/ekonomi/DiBalikKasusRecallToyota&Honda(1).htm) (accessed August 12, 2010).

media and U.S government not to take very aggressive treatment toward those Automakers. Many speculations appear that those economy problems slowly enter the political domain.

It was getting controversial when the U.S government tends to invite Toyota's owner to come to the Congress. In February 24th, 2010, the President of Toyota Motor Corporations formally met the U.S Congress to do clarification. After the meeting, the issue seems to growth to political arena. Some analysis shows that the recall action was intentionally emerged by the U.S because of "conflict of Interest".²⁰

Then, the most interesting story from the Recalling case that happened to Japanese Automakers is about the different treatment from U.S government to Toyota and Honda. The issue on Honda was just ended on the 950.000 vehicles recall but Toyota starts to new stage of conflict. In fact, after the President of Toyota had invited to the Congress, the U.S government directly ordered the National Highway Traffic Safety Administration (NHTSA) to do depth investigation toward Toyota negligent.

²⁰ "“Recall” Toyota di Amerika Serikat karena Konflik Kepentingan?" *Kompas*. February 23, 2010.
<http://otomotif.kompas.com/news/quot.Recall.quot..Toyota.di.Amerika.Serikat.karena.Konflik.Ke.pentingan.htm> (accessed May 20, 2010).

NHTSA is a sub-department of Transportation Department that had reported the investigation of gas pedal and break malfunction in many amount of Toyota's product. Then suddenly, it grows to global recall.²¹

Thus, the case that befalls Toyota rise many question followed. Is that possible with high quality and long history of successful were broken because of gas pedal and break malfunction? Some speculation rises regard the conspiracy aimed to dethrone Toyota as No. 1 Automaker in the world. The Asahi Shimbun daily news reported that the U.S government has been tried to benefit Toyota's issue to increase their protectionism. Toyota truly became a kind of huge threat for the United States' domestic automobile industry. Since the founding fathers of Toyota defeat Chrysler in 1933, now Toyota has been succeed to take over the General Motors domination and became the no. 1 Automaker 2 years ago.²²

²¹ "“Recall” Toyota di Amerika Serikat karena Konflik Kepentingan?" *Kompas*. February 23, 2010.
<http://otomotif.kompas.com/news/quot.Recall.quot..Toyota.di.Amerika.Serikat.karena.Konflik.Ke.pentingan.htm> (accessed May 20, 2010).

²² Herdiawan, Junanto. "Adakah Konspirasi Menjatuhkan Toyota." *Kompas*. February 13, 2010.
<http://www.kompas.com/ekonomi/AdakahKonspirasiMenjatuhkanToyota.html> (accessed May 20, 2010).

C. Research Question

By giving the problem background illustration above, a question would be interesting to analyze is:

Why the United States of America Government has special treatment towards Toyota on its Recall?

D. Theoretical Framework

The problem above could be explained using several concepts. Concept is an abstraction that represents as object, character of an object, or a certain phenomenon.²³ One of its function is to organize ideas, perception, and symbols in the form of classification and generalization.²⁴

In order to answer the proposed research question, some concept and theory will be applied. As an addition, the concept and theory that would be applied later have any relation or connection with economy and political units.

1. Theory of Redistributive Combines

Considering that in the case of “Recall” Toyota in U.S has a tight relation with Toyota as Corporation and U.S as State. Those relations were interconnected

²³ Mas’oed, Mochtar. *Hubungan Internasional: Disiplin dan Metodologi*. Jakarta: LP3ES, 1990. p. 93-94.

²⁴ *Ibid*, p. 95.

between economy and political units. Moreover, in aimed to analyze the issue more specifically, the writer tends to use the branch of International Political Economy (IPE) theory to explain the relations among those units of analysis. Then, the theory of Redistributive Combine by de Soto is chosen to assist the explanation toward the issue.

Theory of Redistributive Combines assumed that State or Government has a fully authority to allocate the policies to certain interest groups (economy) which concerned on those policies. The problem is State or Government is not a neutral agent, but a legal body that has an interest also. As an impact, the policy that resulted from the interaction between interest group (economy) and government is often benefit one of party and loss the others.²⁵

Here, the interest group called the Redistributive Combine (Redistributive Group) as its role on receiving the unearned income distribution from the government through law system. This group is not limited only on political units such as political agenda, political party, mass media, or informal organization but also it extends to Companies and Corporations and even to families.²⁶

The case of production structure on Capitalist system may have sufficient character to represent this preposition, that the structure of the capital ownership inherent on the inside is more powerful rather than the other structure. On the

²⁵ Yustika, Ahmad Erani. *Ekonomi-Politik: Kajian Teroretis dan Analisis Empiris*. Yogyakarta: Pustaka Pelajar, 2009. p. 66.

²⁶ *Ibid* p. 65.

other word, the interest group (economy) which has big capital can be firm to buy the government policy rather than the other group with small capital.²⁷

According to the case of Toyota's Recall, the Redistributive Combine theory would analyze the U.S governmental measurement on treating Toyota. The focus from the theory is mainly the character of the government and where they distribute their power to some group, in this case it relates to the relationship between the U.S government and American Automakers (GM, Ford, and Chrysler).

In some stage, the U.S Federal Government has 80% from total shares invested on the domestic Automakers. Then, when the automobile industrial crisis happened in the U.S on 2008 until early 2010, their Automakers were going to get bankrupt. As an additional threat, Toyota overtakes the U.S market in 2007, outsold GM for the first time in history. It was going much harder to the U.S government when they see that the 20% income from the manufacturer industry was come from their domestic Automakers.

Surprisingly, in the early 2009 Toyota had to Recall their product up to 8.5 million units of car because of accelerator pedal, breaking, and entrapment mats problems. Some speculation arises together with the Toyota's Recall issue that the U.S government was tend to benefit this situation to save their Automakers by tackling down Toyota. The different action from the U.S government could be seen by the huge amount of million dollars Stimulus Package Fund and the

²⁷ Yustika, Ahmad Erani. *Ekonomi-Politik: Kajian Teroretis dan Analisis Empiris*. Yogyakarta: Pustaka Pelajar, 2009. p. 67.

Bailouts up to \$210 billion meanwhile the government keep pressure Toyota by maximum fines during investigation and forbid the operational activity to Toyota.

Furthermore, the theory of Redistributive Combine examines the different treatment from the U.S government between Toyota and American Automakers issue. The vital points from the issue based on the theory are about the consideration from the U.S government to allocate their interest, support, and also power to American Automaker because the very tight relations among them and neglecting Toyota as foreign Automaker.

2. Protectionism

Then, the last concept that necessary to discuss within the issue is *Protectionism*. The case of Toyota's recall has any assumption on market protection of the U.S government in aimed to save their domestic automobile manufacturer. Protectionism is the government actions and policies that restrict or restrain international trade, often done with the intent of protecting local businesses and jobs from foreign competition. Typical methods of protectionism are import tariffs, quotas, subsidies or tax cuts to local businesses and direct state intervention.²⁸

The main reason why the writer tends to use the concept of Protectionism because based on the data that have been collected according the U.S

²⁸ "Protectionism." <http://www.investopedia.com/terms/p/protectionism.asp> (accessed November 11, 2010).

governmental action in handling the case of Toyota, there was found some indication of protection policy.

In short, the U.S federal government with the Congress held “Special” Congressional Hearing by inviting Toyota, represented by Akio Toyoda, at February 24, 2010. The main agenda from the Congressional Hearing is to hear the formal statement from Toyota Motor Company towards the problem on their vehicles that had already caused many accidents in the U.S. Then, during the investigation on Toyota’s negligent by NHTSA (National Highway Traffic Safety Administration), the U.S government was directly involving themselves into the securing plans towards their domestic Automakers that approaching a bankruptcy. For examples, the U.S facilitates the sale of the American Automaker’s assets and also facilitates the restructuring of those companies. As an additional protectionism taste is the direct order from the U.S Federal Government to forbid Toyota’s operational during the problem was fixed. As the results, the U.S government succeeds to save the American Automakers from bankruptcy that indicated by the rising on the level of sale from those American Automakers up to 18% as the average and Toyota declined up to 10% as the effect.

E. Hypothesis

The interest of the United States of America towards the global recall of Toyota’s automobile product due to maintain its national interest: (1) providing a protection towards its domestic automobile manufacturers and (2) securing its

domestic Automakers industry from bankruptcy that could led to financial crisis in U.S worsen.

F. Methodology of Research

1. Purposes of Research

This research aimed to achieve some purposes as followed:

1. To analyze the domestic policy of U.S government within political economy issues.
2. To gain the interest of U.S policy towards the Global Recall issue that linked with Toyota as the No.1 Automobile Manufacturer in the world.
3. To apply theories and concepts in International Relations studies into real issues.

2. Data Collecting Method

Library research is the main method to write this paper. The sources of information will be by collecting references in forms of books, encyclopedia, magazines, newspapers, and journals. Internet source will also be used since some updated information and data related to the topic forwarded are only available through internet.

G. Scope of Research

1. Time Range of Research

In order to focus the research, this will be limited from the year 2007 until 2011. In first quarter in 2007, Toyota successfully over takes the domination in U.S automotive market. In 2008 until 2010, U.S suffers for automotive industry Crisis. Then, the Global Recall issues on Toyota firstly revealed in the early 2010. In February 24th, 2010, Akio Toyoda as the President of Toyota Corporation met the U.S Congress. The year of 2010 became the first massive recall of Toyota in U.S. Furthermore, the updating figures and data will be limited into the recent year of 2011.

2. Region Range of Research

The recalling case of Toyota had already happened in all over the world that it means now it goes to a global recall towards the Toyota's automobile product. Meanwhile, the issue was firstly appeared vigorously in U.S, the massive recall of Toyota's product that led to global recall. Then, in order to simplify and to be more focus on the issue at the first beginning, the writer tends to limit the main region of research on the United States of America.

H. System of Writing

The outline of this thesis is as described as followed:

CHAPTER I discusses about the problem background, research question, theoretical framework, hypothesis, methodology of research, scope of research, data collecting method and system of writing.

CHAPTER II discusses about the track records from the Japanese Automakers in United States. Then, this chapter will describe about the impact and determination of the Japanese Manufacturer in United States

CHAPTER III discusses about the special treatment from the U.S to Toyota. The measurement such as the summoning of Toyota's President, Akio Toyoda, by U.S Congress, investigation from U.S Transportation Department (NHTSA), and Financial Fines that faced by Toyota because of the Recall.

CHAPTER IV discusses about the interest of United States of America on the "Global Recall" case of Toyota's automobile product in the early 2010 which ensued on massive recall in most region in the country. Here, the writer will analyze the critical issues that arose together with the case.

CHAPTER V is the closing part of this thesis that contains conclusion and suggestion.