Japan’s Automotive Supplying Industry: Restructuring in Japan, Growth in Eastern Europe & China

Dr. Andreas Moerke, DIJ

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Content

• Current Situation of the Industry

• Characteristics of Change in Japan:
  – Restructuring and Concentration
  – Suppliers’ Value-added Ratio increases

• Internationalisation:
  – OEM and Suppliers go jointly
  – Strategies to China
A. Situation of the Industry

• Transportation is Japan’s second-largest industry
• Production is increasing again, but
• Sales in Japan stagnate
• Restructuring of inter-firm relations
Japan’s 2\textsuperscript{nd} largest Industry

- Responsible for 14.1% of Japan’s manufacturing industry
  (= 40.4 Trill. Yen = 350 Bio. EUR)
- 49.7% of that is provided by suppliers
- Car supplying industry is fragmented but dominated by SMEs
Industrial Organisation:

Special inter-firm relations (*keiretsu*)

Compared with “Western” Suppliers, OEM-Supplier Relations in Japan were seen as

• More long-term oriented
• More focused (fewer customers)
• Linked by technology and capital transfer and dispatch of personnel
Latest Development: Japanese Production increases

Production Volume (pieces)

Fiscal Year

2001

2002

2003

In Mio.

Passenger cars

All Vehicles.

moerke@dijtokyo.org

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B. Increasing Importance of Market-Based Transactions

- Decreasing cross-shareholding
- Reduction of suppliers
- Emergence of 0.5-suppliers through mergers and acquisitions
Decreasing Cross-Shareholding

<table>
<thead>
<tr>
<th>Year</th>
<th>Cross-Shareholding Ratio</th>
<th></th>
<th>Diff.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Keiretsu Firms</td>
<td>Other Firms</td>
<td></td>
</tr>
<tr>
<td>1987</td>
<td>28.0</td>
<td>12.5</td>
<td>15.5</td>
</tr>
<tr>
<td>1999</td>
<td>20.0</td>
<td>7.0</td>
<td>13.0</td>
</tr>
<tr>
<td>Diff. 99-87</td>
<td>-8.0</td>
<td>-5.5</td>
<td></td>
</tr>
<tr>
<td>2003*</td>
<td>17.33</td>
<td>5.17</td>
<td>12.16</td>
</tr>
</tbody>
</table>

Source: NLI Research Institute, NLI Research, (2000 Nr. 145) 14; * = own calculations
moerke@dijtokyo.org
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Re-Organisation of OEM-Supplier Relations …

Decreasing number of suppliers:
- Nissan: Reduction by half
- Mitsubishi Motors: Dissolution of the supplier council

vs.
- Stronger integration
  - Value-added ratio by suppliers increases from 65% (2003) to 77% (in 2015)
...leads to greater independence

- 1987, MITI: 40% of Japan’s suppliers have just one customer (OEM), mainly true for automotive and supplier industry

- 2001, JAPIA: number of OEM customers per supplier = 5.8 on the average
Number of M&A Increasing

Quelle: RECOF

moerke@dijtokyo.org
Examples for M&A

• Hitachi (re-)integrates Hitachi Unisia and integrates Tokico
  – To strengthen Hitachi’s automotive electronic competence
  – To reach 1 Trill JPY (7.5 Bill EUR) sales in the car electronic field

• Merger of Toyoda Automatic Loom and Aichi Corp.
C. Internationalisation

- Increasing global procurement
- Japanese OEM and supplier act together
- China: join the bandwagon?
# Int‘l Procurement: Increasing Ratio

<table>
<thead>
<tr>
<th>Until now</th>
<th>Future trends</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ausland</td>
<td>Inland</td>
</tr>
<tr>
<td>89%</td>
<td>20%</td>
</tr>
</tbody>
</table>

Source: JAPIA and own interviews (Mitsubishi Motors, Mitsubishi Heavy, JAPIA)
OEM and Supplier Together

• More than elsewhere, OEM include 1st-tier suppliers in internationalisation strategies:
  – Interview Kasai Kogyo: strong demands by OEM (Nissan)
  – Toyota Group: joint decision-making concerning investment in the Čech Republic
China as a business partner

<table>
<thead>
<tr>
<th>Direction</th>
<th>Per Cent of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Exports</strong></td>
<td></td>
</tr>
<tr>
<td>Germany to Japan</td>
<td>1.88</td>
</tr>
<tr>
<td>Germany to China</td>
<td>2.24</td>
</tr>
<tr>
<td>Japan to Germany</td>
<td>3.39</td>
</tr>
<tr>
<td>Japan to China</td>
<td>15.56</td>
</tr>
<tr>
<td><strong>Imports</strong></td>
<td></td>
</tr>
<tr>
<td>Germany from Japan</td>
<td>3.65</td>
</tr>
<tr>
<td>Germany from China</td>
<td>4.04</td>
</tr>
<tr>
<td>Japan from Germany</td>
<td>3.68</td>
</tr>
<tr>
<td>Japan from China</td>
<td>18.72</td>
</tr>
</tbody>
</table>

Remarks: China including Hong Kong; Source = Quelle: Statistisches Bundesamt (2002) and Ministry of Finance, Customs and Tariff Bureau (2003)
China: Increasing Vehicle Sales

Sales in Mio Units

<table>
<thead>
<tr>
<th>Year</th>
<th>Sales in Mio Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>1.4</td>
</tr>
<tr>
<td>2002</td>
<td>3.3</td>
</tr>
<tr>
<td>2010</td>
<td>7.0</td>
</tr>
</tbody>
</table>

Quelle: KPMG 2003
...secure Suppliers’ Growth

Bill. US-D

Quelle: KPMG 2003
Problems and Politics

- Chinese car supplier industrie is fragmented (2,300 enterprises),
- Most of them are inefficient
- New state guidelines
  - Aim at making China a prime location for car and supplier industry and an export country for those
  - Support local production
  - Actively demand know-how from foreign firms
Jap. Strategies towards China

• First contacts in the 1970ies via licences (Toyota and FAW)

• In the beginning, OEMs were reluctant:
  – Concentration on North-American market
  – Intention to cover the Chinese market through exports
  – Scepticism concerning future economic dev.
  – Risk-averse behaviour

• Changes in the 1990ies
Cooperation Modes

• Japanese Suppliers often choose a Chinese partner from the (OEM’s) partner group

• Example: FAW and Toyota groups:
  – FAW Huali in Joint Venture with Daihatsu
  – Tianjin Fawer Denso Air-Conditioner as JV of Denso and Fawer (FAW group)
China goes Japan

• Strong Chinese supplier start to invest in Japan:
  – For example: Wanxian group is looking for a Japanese Chassis producer in Japan to buy
  – Aim: extend existing OEM-supplier relations (with Toyota, Mitsubishi, and others) from China to Japan
Thank you for listening!