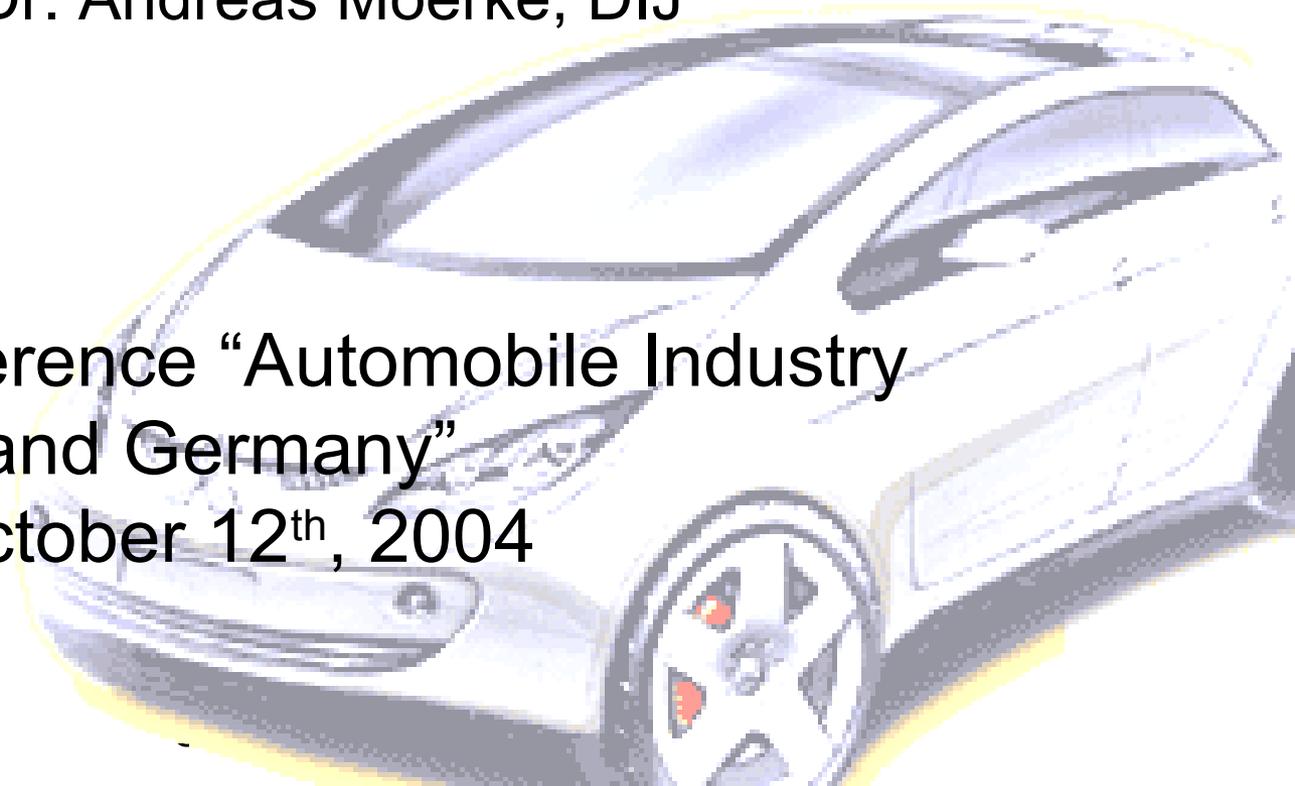




# Japan's Automotive Supplying Industry: Restructuring in Japan, Growth in Eastern Europe & China

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<sup>nd</sup> 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

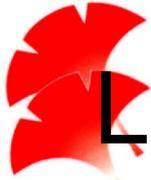


# Industrial Organisation:

Special inter-firm relations (*keiretsu*)

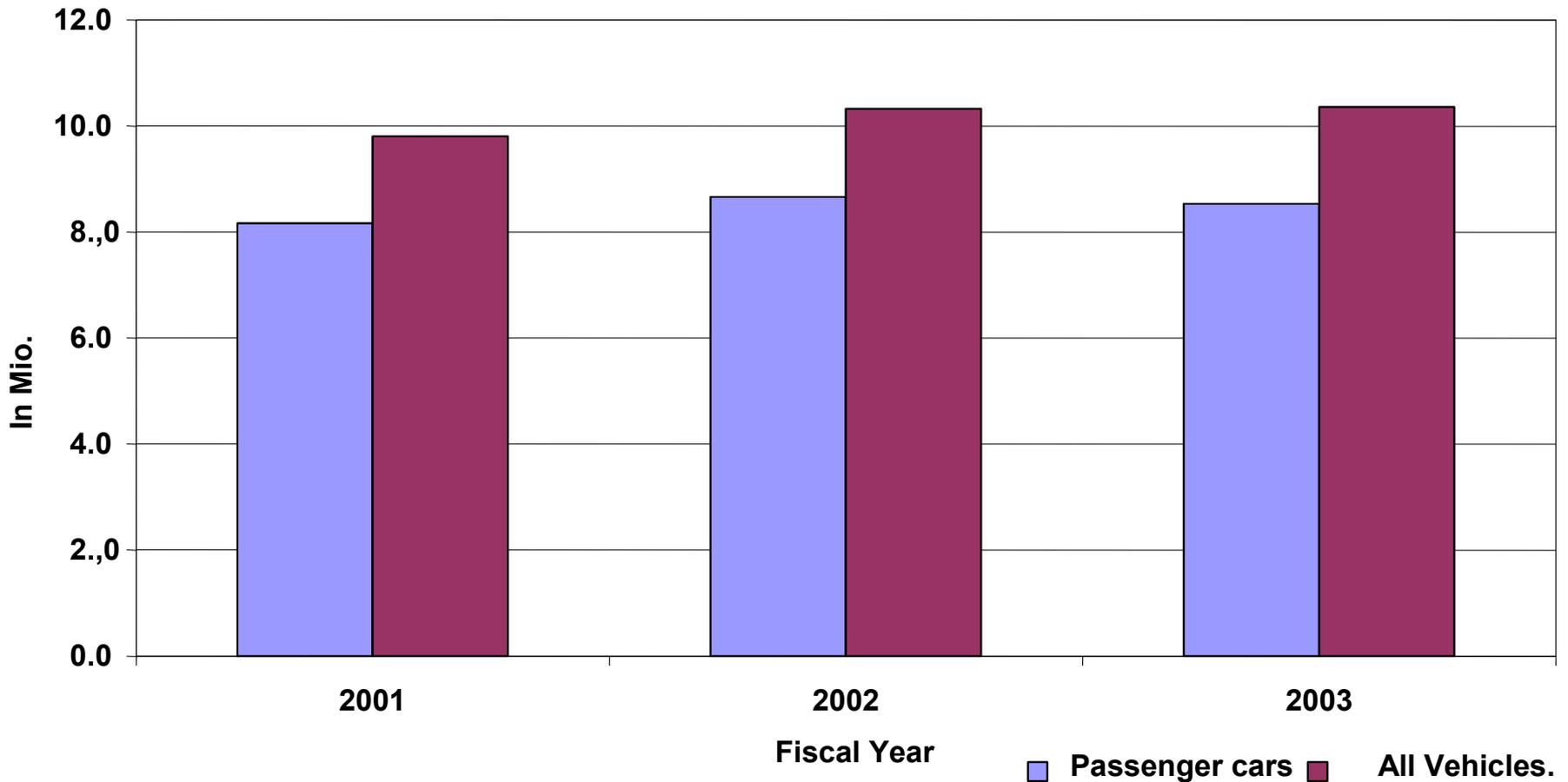
Compared with “Western” Suppliers,  
OEM-Supplier Relations in Japan were  
seen as

- More long-term oriented
- More focused (fewer customers)
- Linked by technology and capital transfer and dispatch of personnel



# Latest Development: Japanese Production increases

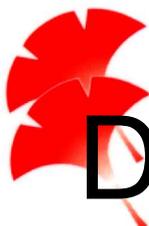
Production Volume (pieces)





## 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

Year	Cross-Shareholding Ratio %		Diff.
	<i>Keiretsu</i> Firms	Other Firms	
1987	28.0	12.5	15.5
1999	20.0	7.0	13.0
Diff. 99-87	-8.0	-5.5	
2003*	17.33	5.17	12.16

Source: NLI Research Institute, NLI Research, (2000 Nr. 145) 14; \* =own calculations



# 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)

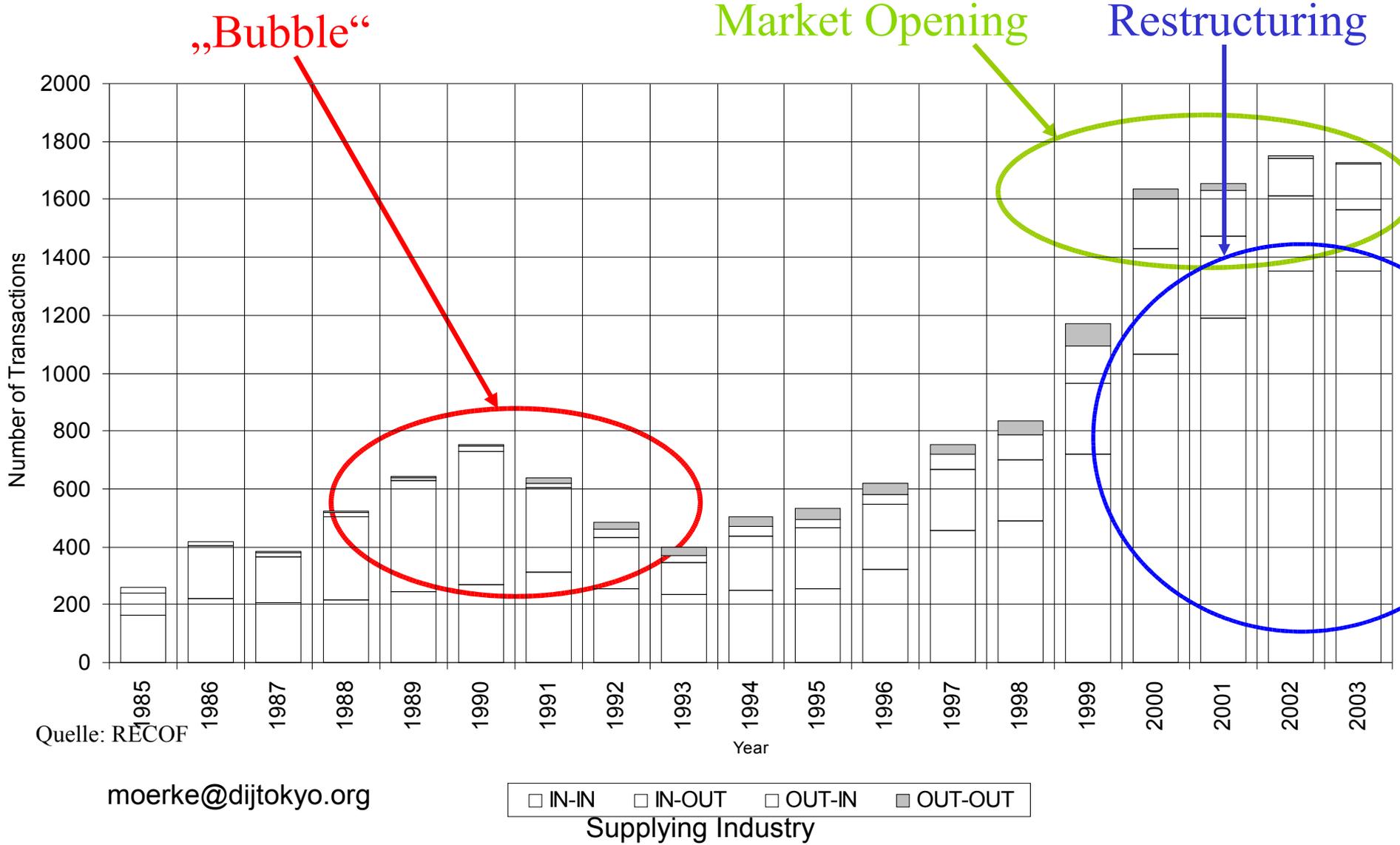


# ...leads to greater independence

- 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

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# 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.

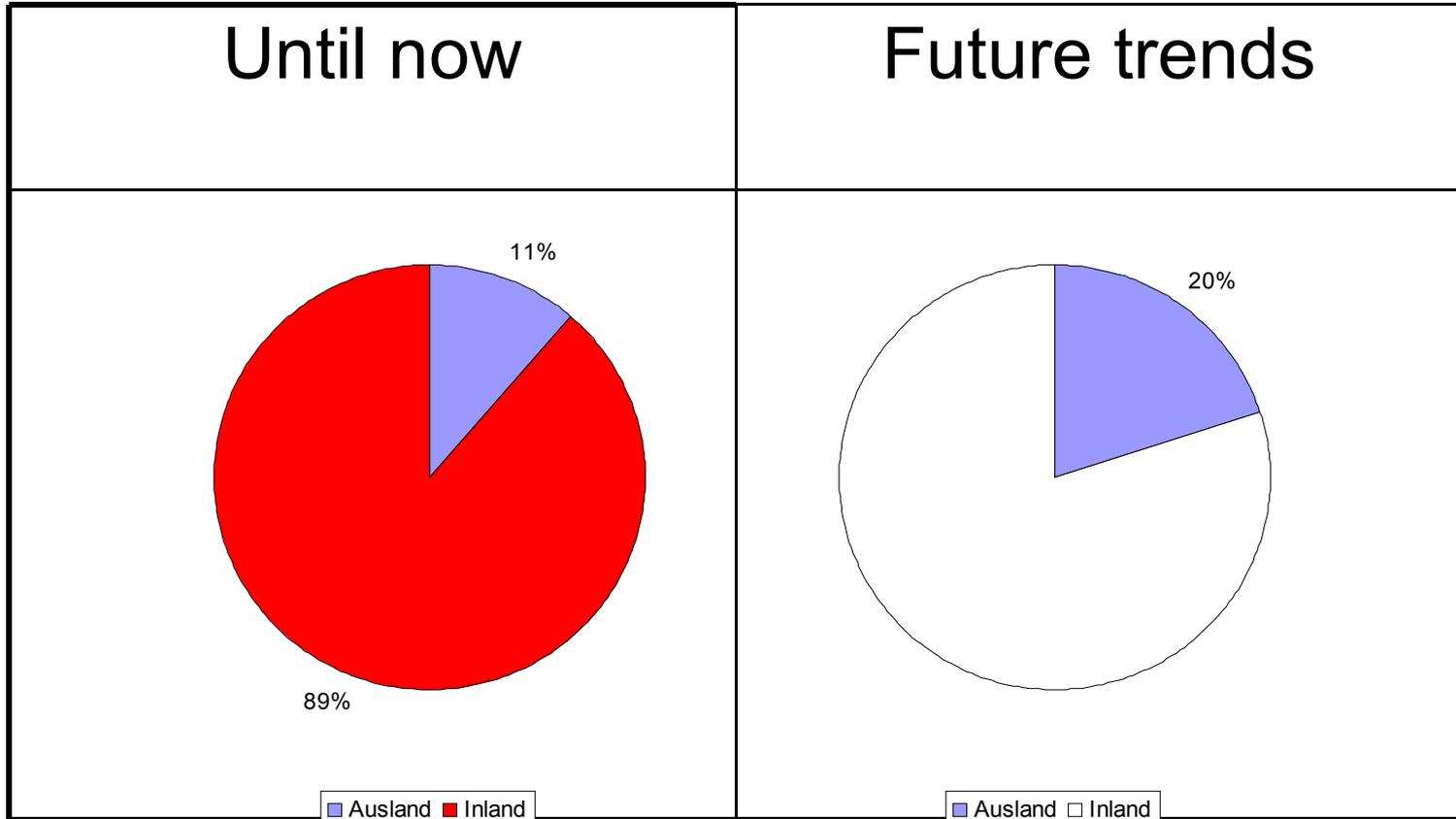


## C. Internationalisation

- Increasing global procurement
- Japanese OEM and supplier act together
- China: join the bandwagon?



# Int'l Procurement: Increasing Ratio





# OEM and Supplier Together

- More than elsewhere, OEM include 1<sup>st</sup>-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

	<b>Direction</b>	<b>Per Cent of Total</b>
<b>Exports</b>	Germany to Japan	1.88
	Germany to China	2.24
	Japan to Germany	3.39
	Japan to China	15.56
<b>Imports</b>	Germany from Japan	3,65
	Germany from China	4.04
	Japan from Germany	3.68
	Japan from China	18.72

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

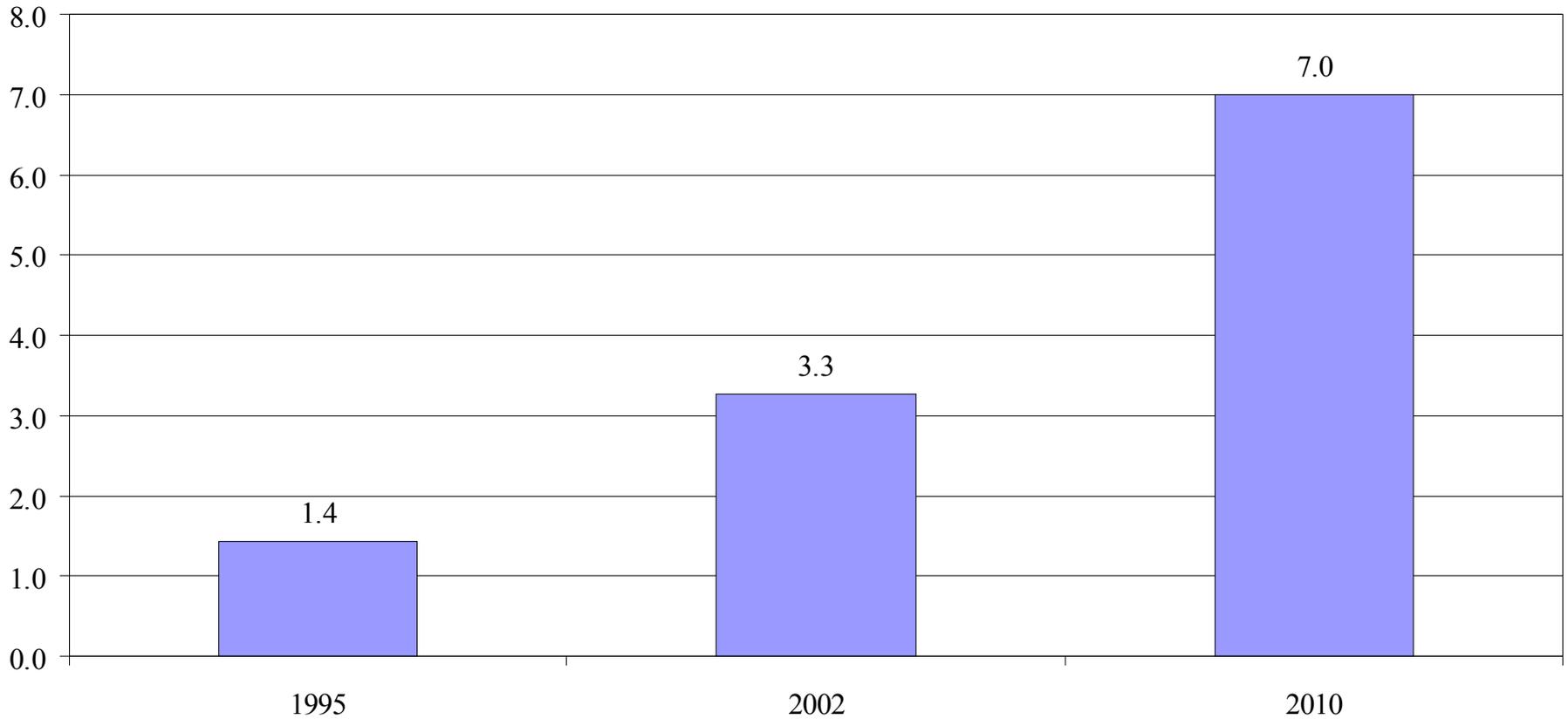
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Moerke: Japan's Automotive  
Supplying Industry



# China: Increasing Vehicle Sales

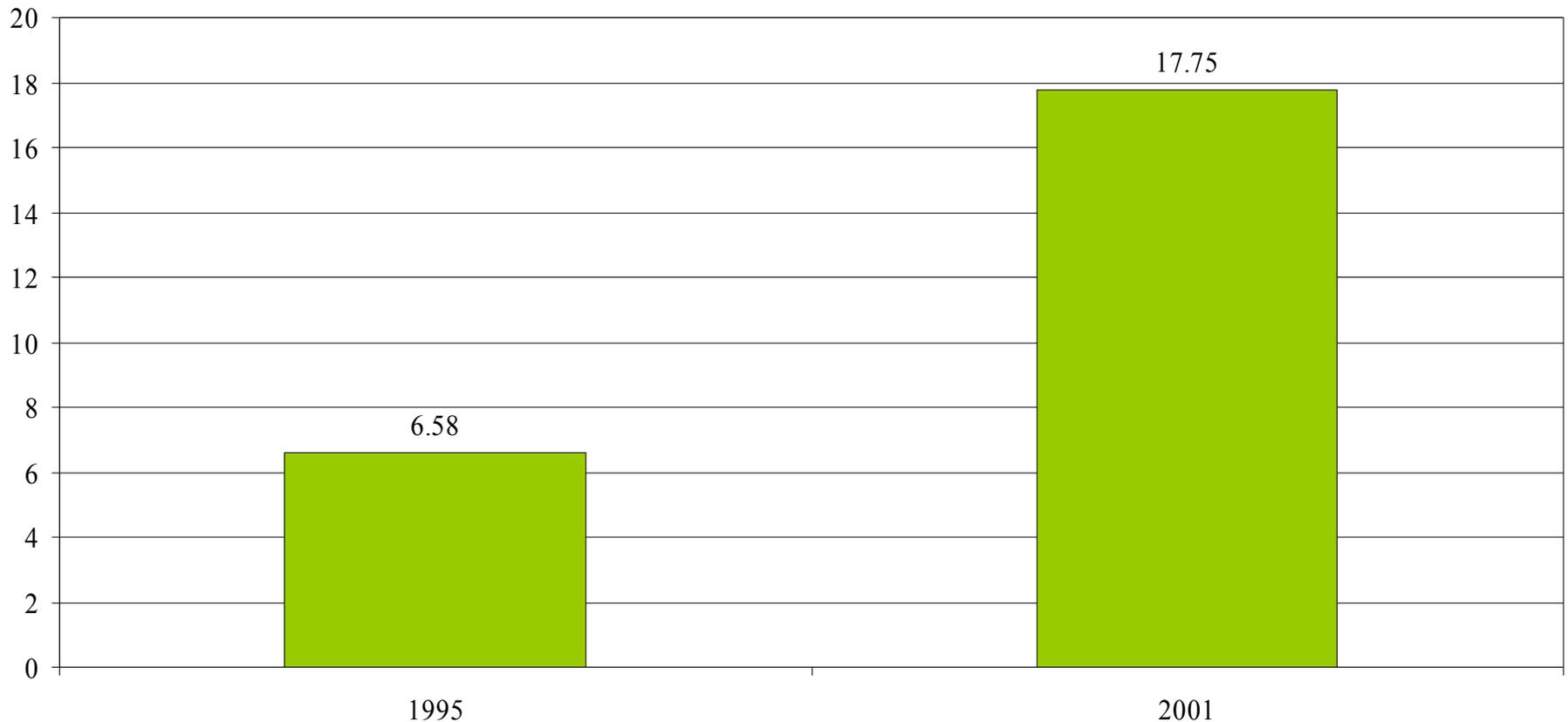
Sales in Mio Units





# ...secure Suppliers' Growth

Bill. US-D





# 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!