

# Age of the Automobile

By Takao Suzuki



Japan's auto industry has progressed rapidly during the country's dramatic postwar economic growth, increasing its exports to the United States and Europe and overcoming various difficulties such as the liberalization of imports, the de-control of direct foreign investment in new Japanese enterprises, tightened emission regulations and the world oil crises of the 1970s.

The industry now accounts for 30% of the world's car, truck and bus production. The combined value of finished cars, trucks and buses, and automotive parts totals ¥32 trillion (\$220 billion at the rate of ¥145/\$), or more than 10% of that of the manufacturing sector and close to 30% of that of the nation's machinery industry.

With the start of the 1980s, the auto industry faced trade frictions with the U.S. and European countries. These were new difficulties, different from those it had previously faced. To meet the new difficulties and promote international cooperation, the industry started production overseas before other Japanese industries had begun to do so. Production at the overseas plants of Japanese automakers has given rise to a variety of new problems, however. For the Japanese auto industry, the 1980s was a period of transition to a new era starting in 1990.

## Opening markets

Amid a continuing large trade deficit with Japan, the United States is bringing increased pressure to bear on Japan to open its market much wider to foreign products. As part of such moves, the U.S. held MOSS (market-oriented sector-selective) consultations with Japan, and called for increased purchases of U.S. auto parts. In addition, the U.S. pressed Japan to increase the local content of cars manufactured at Japanese plants in the U.S. As can be seen in the local content discussions in connection with the U.S.-Canada free trade agreement, such U.S.



demands are growing much more persistent. When Japanese automakers started production in the U.S., they were welcomed wholeheartedly. They are now being pressed, however, to make their U.S. plants into genuinely U.S. facilities.

In the European Community (EC), Japanese automakers will step up their efforts to localize their production bases ahead of the EC's market integration scheduled for 1992. The problem here is how Japanese firms can push for the localization of their production points without causing friction with indigenous enterprises and the countries involved.

Because of its tremendous trade surplus, Japan has faced strong demands to open its market much wider to foreign products and to switch to a domestic demand-led economy. Against such a background, the Japanese government began around 1987 to build up its investments in public works projects on a massive scale, encouraging the economic boom that is still continuing. As a result, consumer spending has been very vigorous and has helped to keep the auto market very successful. On a medium- to long-term basis, however, the Japanese auto market is basically a mature one, and Japanese automakers must adapt to this.

On the supply side, the auto industry is making further headway in its process of globalization in the form of integration of world markets, and cooperative and interdependent relations among automakers are growing more complicated. On the demand side, the auto industry is facing a fluid situation it has never seen before amid a worldwide trend toward higher grade and more personalized cars.

As there is a heavy trade imbalance between Japan and the U.S., and between Japan and Western Europe, the Japanese auto industry, which accounts for a considerable proportion of Japan's total exports in terms of value, is facing a major problem.

Japanese automobile makers used to be export-oriented. To avoid the foreign exchange risks involved in the yen's appreciation against the dollar, and to end trade friction, Japanese automakers have stepped up overseas production. In the past several years, the overseas produc-

tion ratio of Japanese makers has increased considerably. With Japanese makers having started production in the U.S. in rapid succession, however, American automakers have expressed strong concerns that this may lead to keener competition with Japanese auto firms.

## New friction

An automaker's production base in a foreign country is known to contribute to the rectification of the host country's trade imbalance and the development of the local economy. But if, as expected, Japanese automakers expand their production in North America and take steps to secure production footholds in the EC in the coming years, the resultant further increase in supplies of Japanese-brand cars could cause new trade and investment frictions with the countries concerned.

If such frictions are to be avoided, the overseas subsidiaries of Japanese automakers should make every effort to be recognized as completely local enterprises. To that end, such subsidiaries should do everything in their power to use as many locally made components as possible and to maximize the localization of their work force, research and development teams, and operations. Such efforts should contribute to the development of the local community and serve to maintain harmonious relations with it.

Japanese automakers, in their attempts to localize their overseas operations, should work to harmonize their exports with their local production. They should not focus merely on balancing their production volume with demand but should work to make their overseas enterprises take deep root so that the cars produced at the plants will be recognized as local products.

Japanese automakers are also planning to export cars manufactured at their overseas plants to Japan under their medium-term import expansion programs. Such efforts will also have to be made as part of their programs to avoid trade friction with such countries.

Japanese auto firms should learn a lesson from the efforts U.S. automakers



Automobile body assembly line at Nissan's British plant. Although overseas production by Japan's automakers was at first welcomed, it has raised a variety of problems yet to be resolved.

once made to win European recognition for their cars. To be more specific, the whole process from product development—covering the creation of a design center and the R&D function—to production should be systematically localized so that market needs are met.

Efforts should be made to establish an international standard for local content. An increase in local content will naturally be welcomed by the locality where an auto plant operates, since it will make a greater contribution to the development of the local economy. To raise local content further, it will be necessary for automakers to nurture local firms making auto parts by giving them technological guidance.

In addition to the localization of production and development phases, corporate organization and personnel should also be localized. In other words, there should be a reasonable transfer of powers to a local subsidiary, and the subsidiary should be empowered to make decisions. Some local personnel should be appointed to top managerial positions and it should be made easier for local personnel to gain promotion.

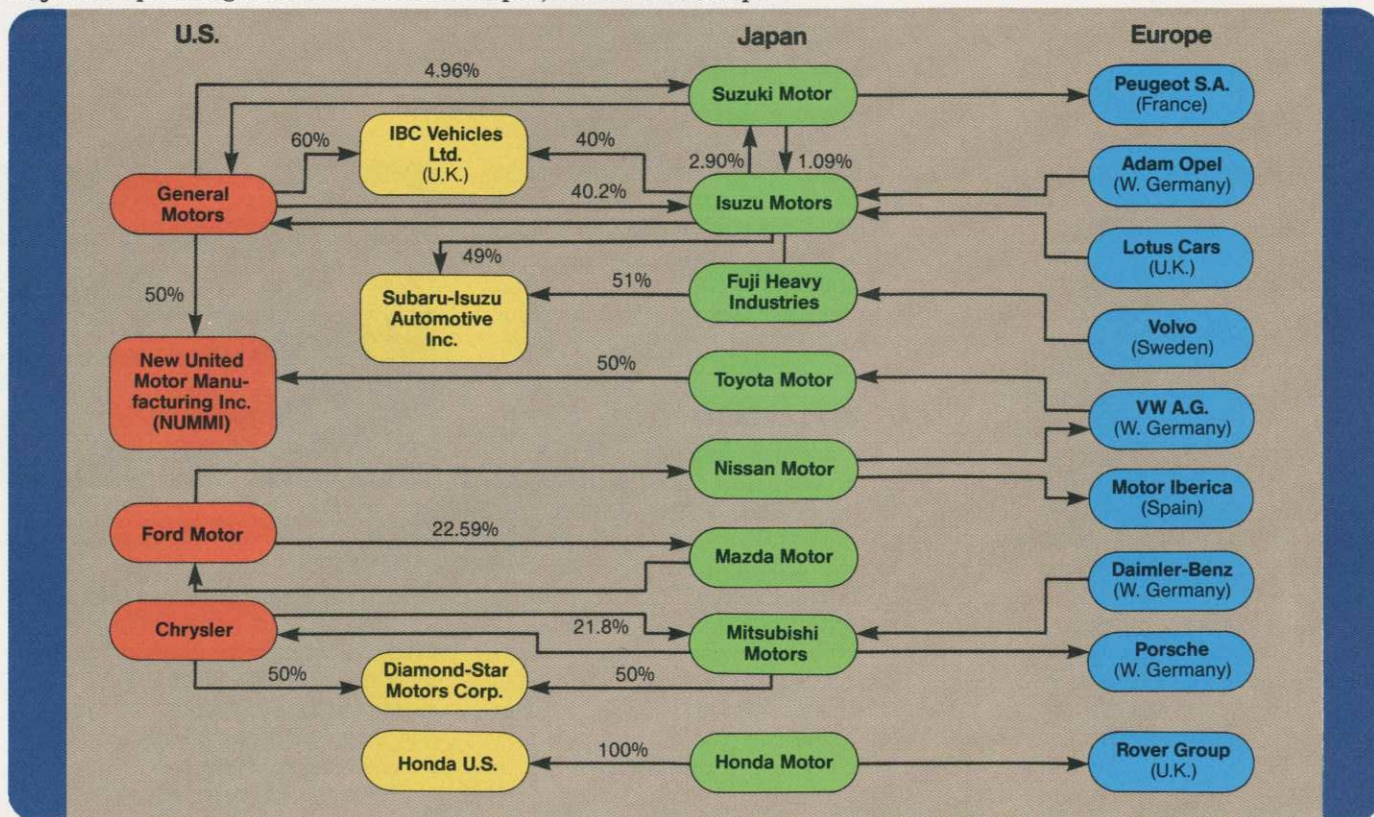
## Overseas tie-ups

Japanese automakers have entered into a variety of tie-ups with overseas auto firms. Major capital and business affiliations among Japanese, U.S. and European automakers are detailed in the chart on the next page. Capital and business tie-ups between the "big three" U.S. automakers and Japanese automakers have

Photo: Nihon Keizai Shimbun



## Major Tie-ups among the Auto Industries of Japan, the U.S. and Europe



Notes: 1. Figures represent percentage of capital participation.

2. Japanese-related information was supplied by each manufacturer, while the remainder was taken from trade journals and other sources.

tended to increase in recent years, with Japanese firms serving as suppliers of small cars. For example:

(1) General Motors Corp. (GM) has a 40.2% interest in Isuzu Motors Ltd. and a 4.96% stake in Suzuki Motor Co., and is supplying medium-sized and small GM cars to them. GM is receiving supplies of small cars and small and standard-sized trucks from the two Japanese firms. A joint company set up in Britain by GM and Isuzu, is manufacturing small trucks, including vans. GM is thus making its ties with Isuzu closer. A joint firm set up in the U.S. by GM and Toyota Motor Corp., is manufacturing cars, most of which are being taken by GM for sale through its own distribution network.

(2) Ford Motor Co., which has a 22.59% equity share in Mazda Motor Corp., is selling Ford cars through Mazda dealers. The company is receiving supplies of small cars and various components from Mazda.

(3) Chrysler Corp., which initially had a 21.8% interest and currently has a 12.1% stake in Mitsubishi Motors Corp., is buying small cars and engines from Mitsubishi. The two firms have set up a

joint small car production firm in the U.S.

Japanese automakers are thus forming closer ties with the U.S. "big three." Japanese auto firms, in intensifying their globalization moves, will find it more important to maintain their ties with overseas makers. They should think seriously about what cooperative ties they are to establish with foreign automakers.

By contrast, Japanese automakers generally have had few close business tie-ups with their European counterparts. Recently, however, Japanese auto firms have entered into arrangements with European automakers to sell their cars in Japan through their own channels.

Such sales tie-ups have been entered into between Citroën and Mazda, between Peugeot and Suzuki Motor, between Volvo and Fuji Heavy Industries, between Daimler-Benz and Mitsubishi Motors, between Adam Opel and Isuzu Motors, and between Volkswagen and Nissan Motor. Honda Motor and the Rover Group are jointly manufacturing cars in Britain, and Toyota Motor and Volkswagen are making small trucks in West Germany.

The tie-ups have served to build up the

product lineup of Japanese automakers, and to boost the sales of cars of West European manufacturers on the Japanese market. Such tie-ups are complementary and beneficial to both partners, and will hopefully turn out to be successful in the future.

Sales tie-ups between Japanese and European automakers on the European market involve difficulties because both makers' products are centered on medium-sized and small cars, and thus compete with each other. From the viewpoint of coexistence and coprosperity, Japanese and European automakers should join forces in various phases, including the development of new technology to prevent environmental pollution.

If Japanese automakers are to secure production bases in Western Europe, they should study the possibility of joint production with European automakers, commissioning production with them or joining forces with them to develop new models.

Business tie-ups between Japanese and U.S. automakers used to be centered on the supply of small cars to U.S. makers by Japanese firms. As a result of the rising



prices of Japanese cars caused by the yen's appreciation against the dollar, U.S. automakers have turned mainly to South Korean companies for supplies of low-priced small cars.

The capability of Japanese automakers to develop small cars, however, is also a great attraction for U.S. counterparts. In the years ahead, too, the Japanese auto industry will supply U.S. auto firms with small sports cars and similar models. Such complementary ties between Japanese and U.S. automakers should also be built up in third-country markets.

The focus of attention in the months ahead will fall on the promotion of sales of U.S. cars in Japan under cooperative arrangements with Japanese automakers. Steps are already being taken in that direction. It is hoped that such attempts will be successful, as in the case of European cars.

## Better parts

Japan's imports of auto parts have increased steadily in recent years, and this trend is likely to continue in the years ahead. Under the circumstances, Japanese auto parts makers must supply automakers with more competitive products by building up their technological development capabilities and improving their production technology, while considering the changing technological trends in the Japanese auto industry and user needs.

As the Japanese government made clear some years ago in the MOSS consultations with the U.S. government on transport equipment, Japan has no tariff or any other institutional barrier to imports of auto parts. Japanese automakers and auto parts makers are ready and willing to buy products that are fully competitive in terms of price, quality, delivery dates and the R&D capabilities of the maker, from any country. There is no discrimination whatever against foreign parts makers, including U.S. firms.

Considering Japan's large trade surplus, the present state of overseas auto parts industries and auto parts exports from Japan, Japanese auto and auto parts makers should work patiently and sincerely to increase their purchases of parts

from foreign makers in order to achieve a balanced expansion of automotive and related trade.

The number of Japanese auto parts makers starting overseas production has shown an appreciable increase since the latter half of the 1960s. In the initial period, their operations were mainly in Asian countries, aiming to supply products to the spare parts markets ahead of the establishment there of production bases by Japanese automakers.

In recent years, Japanese parts makers' overseas production has been keyed to the sustained trend toward a stronger yen and the progress in production by Japanese automakers in the North American market. An increasing number of parts makers have begun production in the U.S. and Canada. But half of the parts makers operating overseas still have their plants in Asian countries, and 38% are in North America.

These overseas plants are operated either as wholly owned subsidiaries or by joint ventures. Their overseas advance also takes the form of granting production licenses to parts makers overseas under technological assistance arrangements. In making such investments, it is important to have complete knowledge of conditions in the country concerned.

Some Japanese auto parts firms operating in North America supply parts made there to Japanese auto plants in the U.S. It is possible that such parts companies will win orders even from the U.S. "big three" auto firms. On the other hand, a number of such Japanese parts firms have not fared very well because of the increased depreciation burden and the difficulty of procuring components locally.

Some Japanese automakers are poised to develop and design new models overseas in addition to overseas production. Japanese parts makers will also be asked to set up development and design departments overseas. Such localization efforts by Japanese auto parts makers will lead to higher local content in Japanese cars made overseas.

Like Japanese automakers, Japanese parts makers should also work toward globalization. In view of the fact that auto parts are international merchandise, and



As a part of efforts to market European cars in Japan, Mazda Motor Corp. has set up a new sales channel called "Eunos."

bearing in mind recent technological innovations and the diversification of consumer needs, Japanese parts makers should work to establish cooperative relations with local parts makers and for coexistence and coprosperity with them.

Toward the 21st century, the automobile is expected to take on increasing importance to society. On the other hand, competition among automakers will become more intense as Japanese automakers' overseas production shifts into high gear, markets in developed countries mature and automotive industries in developing countries grow.

Amid the intensifying competition, cooperative relations between automakers are expected to become complex, closer, limited and multilayered. Moves by automakers to establish cooperative relations for the eventual purpose of coexistence and coprosperity are already becoming apparent.

The 21st century can be seen as a period of "competition and cooperation" in the process of globalization. In such an environment, Japanese automakers should regulate their corporate behavior while fulfilling their international social responsibilities, in the hope that a society supported by sound motorization will be established. In such a society, automobiles can fully play their anticipated role in all aspects of people's lives, the economy and industry.

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