

Appeal of Imports

By Shumitsu Miyazawa

Sales of passenger cars in Japan increased 13.2% in 1988 over the year before to 3,564,000 vehicles, a record. The expansionary trend continued during 1989 and is expected to remain unchanged in 1990.

One reason for this trend is that the domestic economy continues to expand, reflecting the robust growth of internal demand. Also, Japanese automakers are gearing up for increased production with the emphasis on the domestic market. The abolition of the excise tax on cars and the reduction of the automobile tax on standard-sized passenger cars have further boosted demand.

In the meantime, demand for imported cars in Japan has increased more rapidly than the country's total car demand. In 1988, sales of imported cars, buses and trucks jumped 36.7% over 1987 to 134,767 vehicles, and in 1989 their sales reached a new record of 182,168, up 35.2% over 1988.

Favorable factors

Two major factors seem to have contributed to the rapid expansion of car imports. The first is the fact that the Japanese government introduced a non-discriminatory trade policy that helped create favorable conditions for the expansion of imports of manufactured goods, including cars.

Various measures have been taken to promote auto imports. Specifically, related standards and regulations have been relaxed, and subsequently car importers have seen their costs reduced. Excise taxes have been abolished, and the automobile tax on standard-sized passenger cars has been reduced. At the same time, a uniform tax is now imposed on cars regardless of their engine displacement. Insurance premiums applied to imported cars used to be higher than for domestic models, but are now the same. Various campaigns have been conducted to promote car imports, such as the designation



Demand for imported cars has grown by over 36% in each of the last two years.

by the government of an "Imports Promotion Month," and the presentation of citations to companies that make an outstanding contribution to the expansion of imports.

Furthermore, the government is about to introduce tax incentives designed to increase imports of manufactured goods. This import-oriented tax system, the first of its kind in the world, is scheduled to go into effect in April. Also, beginning in fiscal 1990, government loans and investments will be expanded for the explicit purpose of promoting such imports.

The other factor contributing to the rapid growth of car imports is two-fold. First, car importers have made positive efforts to expand purchases from abroad—efforts which have been matched by equally positive moves by carmakers overseas. Second, the domestic market for imported cars has undergone significant changes.

More specifically, 1) positive steps have been taken by overseas automakers to expand sales to Japan, 2) prices of imported cars and interest rates on auto loans have been reduced, 3) capital spending has been increased substantially to improve

and expand marketing and maintenance facilities, 4) some Japanese carmakers have entered the imported car market, and 5) the price disparity between domestic and foreign-made cars has narrowed as domestic models have become more expensive, while demand for foreign luxury cars has increased.

Overseas carmakers generally agree that the market share of imported passenger cars in Japan has a good chance of reaching about 10% in the mid-1990s. A number of measures will have to be taken, however, in order to expand the share to this level.

First, dealers in imported cars must improve after-sales services. At the same time, more convenient facilities should be provided for the maintenance of imported cars. Specifically, the government, particularly the Transport and Construction ministries, should revise laws and ordinances related to the maintenance of imported cars and maintenance facilities.

Probably the most important thing that is required of overseas automakers is to make promotional efforts, with priority given to the diversifying needs and tastes of Japanese consumers. Success

in the Japanese market depends critically on a full analysis of Japanese consumer preferences.

Staying bullish

In 1990 the Japanese economy is expected to remain bullish, though there may be some fluctuations, and according to a forecast made in December by the Japan Automobile Importers' Association, Japanese carmakers plan to substantially expand sales of imported cars.

Sales of imported passenger cars in 1990 are expected to reach about 240,000 vehicles, an increase of 33% over the 1989 figure of 180,424 (Table 1).

Several factors are contributing to the continued good economic performance. First, consumption is expected to remain at a high level. Second, corporate earnings are expected to follow a firm trend, at least during the first half of 1990, thanks to the robust expansion of consumer spending and capital investment. Third, real personal income and purchasing power are expected to increase, reflecting price stability at home and abroad. And finally, these factors will likely give further impetus to corporate technology and market development, leading to the emergence of attractive new products. There are also a number of uncertain factors that may put the brakes on domestic demand, however, such as political uncertainty in Japan, unclear economic conditions abroad, particularly in the United States, and rising prices.

Several specific reasons may be cited for the generally favorable outlook for sales of imported cars.



More and more foreign cars can be seen on Japanese roads.

First, consumer spending continues to follow a strong trend. Considering that the current consumption boom is supported largely by brisk demand from young people, potential demand for automobiles will remain strong.

Second, consumer preferences have greatly diversified in recent years. This is especially true of cars. This indicates that the diversification of consumer tastes for cars will further increase consumer interest in imported cars.

Third, American and European carmakers are showing growing interest in the Japanese car market and developing aggressive strategies aimed at the Japanese market—by developing cars tailored to Japanese specifications.

Fourth, the environment surrounding imported car dealerships is gradually im-

proving and a better system of customer services is being developed.

Fifth, there is a growing awareness of the need to expand imports at both public and private levels in Japan. Efforts are being stepped up to improve the balance of automobile trade. Business corporations including carmakers are putting into practice programs of international cooperation. The government has instituted a new tax system aimed at increasing imports of manufactured goods.

There are some causes for concern, however, apart from the future exchange rate and inflation trends, and the possibility of higher interest rates. For example, there is concern about intensifying sales competition and the rising cost of establishing new facilities—namely, the higher price of land, the difficulties involved in opening new service and maintenance shops, and the shortage of skilled labor.

It might be added that if sales of imported cars are to be expanded further, improvements will also be required in after-sales or technical services, and the formulation of measures to facilitate distribution of used cars.

Shumitsu Miyazawa is deputy-director of the Automobile Division of the Machinery and Information Industries Bureau at the Ministry of International Trade and Industry.

Table 1 Domestic Passenger Car Registrations and Market Share of Imported Passenger Cars

	1986	1987	1988	1989	1990 (forecast)
Total registrations (minicars excluded)	3,007,768	3,147,932	3,563,682	4,011,265	4,200,000
Imported cars	68,357	97,750	133,583	180,424	240,000
Growth rate over previous year (%)	36.2	43.0	36.7	35.1	33.0
Market share of imported cars (%)	2.27	3.11	3.75	4.50	5.71