

Refuting the Pessimistic View of Japan's Auto Industry

By Hamano Takayoshi

The biennial 30th Tokyo Motor Show held in autumn 1993, was reported to be not as successful when compared to the self-confident celebrations of 1989 and 1991, when the formidable array of new concept cars by Japanese manufacturers had threatened their rivals abroad. It appears that the prolonged recession has restrained Japan's 11 vehicle manufacturers from making an impressive showing.

Though the number of visitors to the motor show was 10% less compared with the previous one, it is worth noting that there were still 1.8 million visitors, a figure which does not say "unsuccessful." But many domestic and international newspaper and magazine feature articles have voiced many pessimistic opinions about Japan's auto industry. The question is, do these views reflect reality?

Domestic and international problems

Negative features included such articles as "Short-lived Prosperity Pursued by the U.S. Auto Industry" (*Weekly Tokyo Keizai*, November 6, 1993), "Japan's Automakers Are on the Brink of Deterioration!" (*Newsweek Japanese edition*, November 3, 1993), and "Juggernaut Veers out of Fast Lane" (*Financial Times*, October 21, 1993). Japan has been a world leader in auto production since 1980. The industry has survived previous world recessions and attained a record number of 13.5 million automobiles produced in 1990. Although production peaked at that time, Japan still had a 26% share of world auto production in 1992.

In the international market, the Japanese car is greatly respected. A U.S. government official I met with early last year explained, "I have a Chrysler but it was made at a Mitsubishi plant in Japan." He was proud that his car was essentially made in Japan.

Now Japan's auto industry is confronted with difficulties. After the col-



The 30th Tokyo Motor Show exhibition hall featured everything from brand new models to ultra high-tech cars.

lapse of the so-called bubble economy in the latter part of the 1980s the auto industry has had to weather not only the storm of prolonged recession and the appreciation of the Japanese yen, but also retaliation from the Big Three—G.M., Ford and Chrysler—with competitive power in terms of both price and quality.

The number of newly registered vehicles in the domestic market has been lower than that of the previous year for the eight months up to November 1993. The total amount registered in 1993 will be about 4.9 million. This means a consecutive decrease over the past three years compared to the previous year, just shy of the 1988 level. Although some new style cars have taken off in popularity because of demand, it is necessary to watch for another one or two months how long these effects can be sustained.

Japan's competitiveness abroad has been battered by the appreciation of the yen—almost 20% against the U.S. dollar through 1993. For example, in the U.S. market the share of Japanese cars

in the first half of this year was 27.5% while it was 30.2% two years ago. Japan's rivalry with the American Big Three has generated action against Japanese automobile manufacturers on the grounds of dumping, when Japanese manufacturers do not raise the price of cars in accordance with the appreciation of the yen. In 1992, the Ford Taurus beat out the Honda Accord for best-seller in the U.S. General Motors is also recovering its selling power with the Saturn project.

Chrysler has developed the Neon and has just begun producing it. The Neon is a 2-liter car with a 132-horsepower engine and its price will pass the \$8,000 mark, which means \$3,000 cheaper than the same class Japanese car. It has been nicknamed "a Japanese car killer" by the Japanese mass media. Furthermore, the Big Three announced that they will introduce to the Japanese market cars with steering wheels on the right-hand side. So Japanese car companies will now be facing stiffer competition in both the international and domestic markets.

Is Japan's prosperity short-lived?

Does the prosperity of Japan's automobile industry seem to exist in the past tense? At the very least, it seems true to say that Japan's auto industry has reached a turning point. It has been reported that it is inevitable that the number of autos produced in Japan in 1993 will be surpassed by that of the North American auto manufacturers. According to a report by the Industrial Bank of Japan, domestic car demand in the 1970s and 1980s grew by about 3% a year, but in the latter half of the 1990s the growth rate will be reduced to 1% due to the decline in the birth rate and limited adjustments to the infrastructure. In other words, Japan's auto industry has matured instead of showing steady growth. It has been pointed out that this means the industry will become vulnerable to the ebb and flow of the business cycle.

Many weak points of the auto industry have been made in the media. For example: "Bureaucracy has become dominant in Japan's auto companies and no one is inclined to take responsibility for the crisis."; "This crisis is not due to the appreciation of the yen, but due to management's failure of judgement."; "The managers of Japan's auto companies can not understand what to do at a time when everything is collapsing."; etc.

During the 1973 oil crisis, Japan's auto companies survived through increasing production of economical small cars to save on fuel. Being forced to adjust to the appreciation of the yen before, they sought lean production and development systems. But these successes might have bred over confidence as they appear to be at the base of many of today's problems.

In the latter part of the 1980s, Japanese manufacturers tried to meet the various needs of customers. As a result, they started developing too many models in too small a volume and enlarged their plant equipment too much. A certain Nissan model was offered with more than 80 different varieties of steering wheels alone, but

only 10 had been needed. This worked against them. The industry is now suffering from over capacity and a surplus of labor. Japan's 11 assembly makers are now reducing costs by using more common components from different model ranges, reducing the number of different model variants, lengthening model life cycles, lay-offs and closing some plants.

Vehicle makers have begun a new type of cooperation through swapping favorite vehicles with each other—Isuzu has abandoned producing unprofitable saloon cars and decided to purchase cars from Honda for sale under the Isuzu brand, while Honda is buying four-wheel drive recreational vehicles from Isuzu for sale under the Honda logo. Nissan and Mazda have had a similar contract.

Revival strategies?

It would be premature to judge that Japan's auto industry has rather dark prospects. I think that sometimes a difficult situation gives us an opportunity to take the next bold step. The first priority for the industry to revive would be cutting back production capacity which is thought to have an excess rate of 3 million, even though it will take a long time and be painful. This is the shortcut to reduce costs and to regain the reputation that Japanese cars represent low price with reliable quality.

Of course the quality of Japanese cars has not slipped from what it was and Japanese plants have a comparatively high productivity rate with their new plants. One big advantage for the Japanese auto industry is that it has been very competitive with 11 vehicle manufacturers. This means that the auto industry, which employs 7.27 million workers or 11.3% of all salaried workers in Japan and accounts for 12.9% of the manufacturing industry, has become one of the powerful locomotives of Japan's economy. But the excessive competition for price reduction and

enlarging plant and equipment between the 11 vehicle manufacturers often tends to take precedence over extending the industry's market share.

To reform such excessive competition, each manufacturer should develop characteristic vehicles by means of narrowing its target consumers. Sales of these vehicles are growing. The government's plans to cut income tax in 1994 could generate domestic auto demand and give an opportunity for the industry to recover in the short run. In the long run it is mandatory for auto manufacturers to develop new techniques to improve safety and to reduce environmental damage.

In California, a new regulation was passed stipulating that 2% of all vehicles sold should be without exhaust fumes in 1998 and 10% in the year 2000. To comply with this regulation will be very difficult and auto manufac-



The Japanese automotive industry is reducing investment in plant and equipment, moving forward toward the standardization of parts beyond the framework of keiretsu and promoting restructuring.

tures have to make desperate efforts because motorization in rapidly growing developing countries like China has made people recognize the importance of environmental problems caused by vehicles. If motorization proceeds in China, with a population of 1.2 billion, the world's automobiles will double. The auto manufacturers that deal successfully with this problem will lead the world auto market in the 21st century. ■

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