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Industry Report Japanese Automotive Market



Embassy of the Republic of South Africa-Tokyo Economic Section

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Industry Overview

The Japanese **automotive industry** is one of the most prominent and largest industries in the world. Japan has been in the top three of the countries with most cars manufactured since the 1960s, surpassing Germany. The automotive industry in Japan rapidly increased from the 1970s to the 1990s (when it was oriented both for domestic use and worldwide export) and in the 1980s and 1990s, overtook the U.S. as the production leader with up to 13 million cars per year manufactured and significant exports. After massive ramp-up by China in the 2000s and fluctuating U.S. output, Japan is now currently the third largest automotive producer in the world with an annual production of 9.9 million automobiles in 2012. Japanese investments helped grow the auto industry in many countries throughout the last few decades.

Japanese *ZAIBATSU* (business conglomerates) began building their first automobiles in the middle to late 1910s. The companies went about this by either designing their own trucks (the market for passenger vehicles in Japan at the time was small), or partnering with an European brand to produce and sell their cars in Japan under license. Such examples of this are Isuzu partnering with Wolseley Motors (UK), and the Mitsubishi Model A, which was based upon the Fiat Tipo 3. The demand for domestic trucks was greatly increased by the Japanese military buildup before World War II, causing many Japanese manufacturers to break out of their shells and design their own vehicles. In 1970s Japan was the pioneer in robotics manufacturing of vehicles. The country is home to a number of companies that produce cars, construction vehicles, motorcycles, ATVs, and engines. Japanese automotive manufacturers include Toyota, Honda, Daihatsu, Nissan, Suzuki, Mazda, Mitsubishi, Subaru, Isuzu, Kawasaki, Yamaha and Mitsuoka.

With Japanese manufacturers producing very affordable, reliable, and popular cars throughout the 1990s, Japan became the largest car producing nation in the world in 2000. However, its market share has decreased slightly in recent years, particularly due to old and new competition from South Africa, China and India. Nevertheless, Japan's car industry continues to flourish, its market share has risen again, and in the first quarter of 2008 Toyota surpassed American General Motors to become the world's largest car manufacturer. Today, Japan is the third largest automobile market and, until China recently overtook them, was the largest car producer in the world. Still, automobile export remains one of the country's most profitable exports and is a cornerstone of recovery plan for the latest economic crisis.

Regarding vehicle production and vehicle sales, Toyota is number one, following by Nissan and Suzuki in the production and Honda and Daihatsu in the sales.

Vehicle Production by Companies

Company	2011	2012	Market Share (%)
Toyota	2,760,028	3,492,913	35.13
Nissan	1,112,995	1,148,265	11.55
Suzuki	949,799	1,061,863	10.68
Honda	710,621	1,029,313	10.35
Mazda	813,302	845,550	8.5
Daihatsu	609,657	774,406	7.79
Subaru	418,545	570,173	5.73
Mitsubishi	603,594	515,168	5.18
Isuzu	201,701	241,247	2.43
Hino	113,788	152,839	1.54
Mitsubishi Fuso	79,154	87,086	0.88
UD Trucks	23,261	21,855	0.22
Others	2,185	2,115	0.02
Total	8,398,630	9,942,793	100

Source: Japan Automotive Manufacturers Association/BMI

Vehicle Sales by Company

Company	2011	2012	Market Share (%)
Toyota	1,157,383	1,646,409	30.66
Honda	503,532	745,205	13.88
Daihatsu	548,279	677,171	12.61
Suzuki	552,903	673,138	12.54
Nissan	591,370	659,855	12.29
Mazda	189,925	218,361	4.07
Subaru	158,701	177,722	3.31
Mitsubishi	147,624	140,493	2.62
Isuzu	42,096	59,805	1.11
Lexus	42,365	43,657	0.81
Hino	34,238	42,463	0.79
Mitsubishi Fuso	27,032	34,715	0.65
UD Trucks	8,469	9,104	0.17
Others	206,302	241,623	4.5
Total	4,210,219	5,369,721	100

Source: Japan Automotive Manufacturers Association/BMI

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Overseas Production by Japanese Automakers

Country/Region	2012	2011	Change between 2012 and 2011
Asia	8,502,741	7,547,127	112.7
Middle East	0	0	N/A
Europe	1,484,110	1,410,628	105.2
(EU)	1,383,583	1,302,277	106.2
North America	4,253,871	3,068,979	138.6
(U.S.A)	3,324,705	2,422,152	137.3
Latin America	1,234,584	1,029,511	119.9
Africa	248,711	233,709	106.4
Oceania	101,381	93,675	108.2
TOTAL	15,825,398	13,383,629	118.2

Source: Japan Automotive Manufacturers Association (JAMA)

SWOT Analysis

STRENGTH

- Domestic brands are serious global players, with Toyota regaining its position as the top global automaker in terms of sales volumes in 2012.
- Japanese dominance in the field of hybrid and electric vehicles (EVs) has enabled domestic majors to be first movers as emissions standards are tightened globally.
- Weaker yen is benefitting exports of Japanese firms, especially for those which maintain significant manufacturing at home.
- Government support for EVs has allowed fast-charging networks and other necessary infrastructure to be rolled out nationwide on a large scale.

WEAKNESS

- Domestic sales will have to perform without the government subsidies of 2012.
- Annual vehicle sales today are lower than what they were 10 years ago, suggesting a saturated domestic market.

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- Sino-Japanese island dispute fallout continues to linger and hurt Japanese brand sales in China.

OPPORTUNITIES

- Expansion in Thailand, Indonesia and the Philippines means that Japanese firms are likely to entrench their dominance in the Association of South East Asian Nations (ASEAN) bloc.
- Japanese brands are once more playing pivotal roles in the development of new technology whether it is in EVs or fuel-efficiency.

THREATS

- Increasing urban population is relying more on public transport.
- Sino-Japanese island dispute fallout continues to linger and hurt Japanese brand sales in China.

Industry Trend

During the stagnation of the Japanese economy for over a decade, which severely curtailed car sales, national automakers increasingly looked overseas, not only for sales, but also for production. Given continued expansion overseas and modest prospects for domestic sales, this trend towards a greater focus on overseas markets looks highly unlikely to be reversed in the medium term. While the yen has weakened substantially recently, production decisions are made on a long-term basis and it is not expected that Japanese automakers to reverse their overseas expansion strategy anytime soon. Indeed, Toyota announced plans in April 2013, to base its Lexus car production in Kentucky, USA. That said, carmakers will take advantage of the weaker yen by ramping up their spare domestic production capacity should demand in overseas markets for their exports rise in the coming months. While Japanese automakers have been diversifying production away from their home-base during the past few years due to the ever strengthening, they still maintain substantial production in their home country, with Toyota retaining about 50% of its global production in Japan. Toyota Motor has already announced two upwards revisions in its domestic production targets since the start of the year, on the back of rising North American demand for its car exports.

Japanese automaker Honda Motor has developed an upgrade to its rare-earth recycling method, which collects the minerals from used batteries in hybrid and electric vehicles (EVs). According to the company, a minimum purity of 99% was achieved in the recycling process, almost on a par with the purity levels of mined and refined rare-earth minerals. Japan Metals is involved in raising the purity of the collected rare-earth minerals through acid and heat treatment. Honda also plans to recycle rare-earth minerals used in motors.

Rare earth recycling is an innovative and sustainable process developed by Honda. The firm has said that using recycled rare-earth minerals would not significantly raise battery production costs. Rare earth elements (REE) supplies are expensive and limited in quantity. Should such recycling processes become more widespread, it would

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free up additional supplies of rare-earth minerals, which could then be used to drive down future battery production costs. Furthermore, given the environmental costs of car battery disposal, this practice could help placate environmentalists, as well as convince consumers on the sustainability of owning an EV.

It is believed that one of the biggest reasons for carmakers, such as Honda, to develop these recycling methods is down to Sino-Japanese relations becoming more volatile recently. When the island dispute between the two nations erupted in 2012, Japan's then trade minister, Yukio Edano, announced plans in parliament to reduce its REE imports from China from 90% to less than 50% by the middle of 2013. This was aimed at reducing over-reliance on China, which has, in the past, halted REE shipments to Japan, allegedly over a fishing vessel incident.

Non-Tariff Barriers with EU

Currently, the EU car market imposes a 10% tariff on imported Japanese cars and 22% on trucks. Japan operates a zero percent import tariff for EU cars coming into the country. European manufacturers, however, say that Japanese *kei* cars (small cars designed to comply with Japanese government tax and insurance regulation) benefit from tax breaks, but that most European cars do not meet the size and power criteria to be eligible.

The European Automobile Manufacturers' Association (ACEA), which is lobbying the EU on behalf of car companies, says it wants vehicles that are made and type-approved in the EU to be accepted in Japan without further testing or modification. It is also demanding that European small cars are given the opportunity to compete on equal terms with Japan's *kei* car category, which in effect excludes imports from 35% of the domestic market.

If these demands are met, the FTA with Japan may serve to boost European exports to the country. However, the deal will also serve to increase Japanese exports to Europe, meaning it will be more beneficial to Japanese exports to Europe, rather than the other way round.

A number of Japanese auto manufacturers already operate in Europe, and have a strong presence in the market. Toyota's definition of the European market constitutes 56 countries, including Israel and Russia. By Toyota's own measures, their sales in the region increased 2% in 2012. It is expected that the firm to continue to outpace the market.

EU and Japan FTA talks started in late 2012, despite resistance from a number of European auto manufacturers. However, the EU had to reassure its auto industry stakeholders that it would safeguard EU's auto sector jobs before it could proceed with the talks. The EU hopes the FTA would serve to boost auto exports to Japan, which it believes would offset stagnant demand across Europe. An agreement may well boost global demand for European-produced cars, but it is greatly expected that the deal will take some time to come into effect and is likely to be of more benefit to Japanese brands.

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Major Tradeshows:

- Tokyo Motor Show 2013 (22 November – 01 December 2013)
<http://www.tokyo-motorshow.com/en/>
- Electric Vehicle Development Technology Exhibition 2014 (17 - 19 September 2014)
<http://www.evex.jp/english/index.html>
- International Auto Aftermarket EXPO 2014 (12 - 14 March 2014)
<http://www.auto-mobi-expo.jp/>
- CAR-ELE Japan 2014 (15 - 17 January 2014)
<http://www.car-ele.jp/en/Home/>

Proposal to the Head Office:

We are vividly aware of great thirst for the information on APDP among not only Japanese OEMs such as Toyota, Nissan and Honda etc. but also auto parts manufacturers. They both are greatly interested in analysing how the APDP could be incorporated into their global strategy. It is a fact that the auto parts manufacturers have been invited to be located next to the OEMs factories, i.e. Toyota SA and Nissan SA so that the OEMs could enhance their manufacturing capacity.

To that end, we would like to propose the workshop by South African expert of APDP, targeting at Japanese OEMs and auto parts manufacturers and present the overview and case studies. Also the expert can visit individual companies to clarify their issues and problems in interpreting the APDP and benefits of it.

Reference:

- Japan Automotive Manufacturers Association
- Business Monitor International (BMI)
- Wikipedia

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