



ASEAN and the Auto Supporting Industry - Part 1 of 2

JAMA has shared the message of the importance of developing the auto supporting industry for the automobile industry with the various government and industry stakeholders in ASEAN, on the occasions of AMEICC¹ Working Group on the Automobile Industry (WGAI) meetings or other international forums. Here, News from JAMA Asia takes a look again at the importance and development of the auto supporting industry, taking into consideration the change in environment such as trade development in Asia and new issues common to the global automobile industry.

Interdependence of the Automobile Industry and Auto Supporting Industry

The automobile and auto supporting industries are comprehensive industries that comprise of a wide range of related industries from the production and sales of automobiles to the production of raw materials and parts, or maintenance. In countries with an automobile industry, it is positioned as a core industry playing an important role in supporting the economical development of the country.

One vehicle is made up of 20,000 to 30,000 different parts, with the close cooperation of many parts and raw materials suppliers. Now there are 14 automakers and about 800 tier-1 suppliers, 4,000 tier-2 suppliers and 20,000 tier-3 and lower suppliers in Japan.

Looking at the value of Japan's manufacturing shipments² in 2007, automobile shipments accounted for about 23 trillion yen (about USD 230 billion) while automotive parts accounted about 34 trillion yen (about USD 340 billion); thus the scale of shipment value from the parts industry is about 1.5 times that of the automobile industry. Furthermore, the automobile industry employs about 180,000 people while the parts industry employs 700,000. In comparison, close to four times the number of people is employed in the parts industry than the automobile industry, making up 1.3% of the total employed population.

It is said that one automaker works directly with 200 to 300 tier-1 suppliers on average. With the automakers and parts makers partnering one another; the competitiveness of the auto supporting industry strongly impacts the overall competitiveness of the automobile industry.

Characteristics of the Auto Supporting Industry

Economies of scale are essential to the development of the automobile and auto supporting industry. A certain large volume of production units of automobiles is necessary to bring about the effects of mass production to lower production cost. According to research by the

Japanese government and the Japanese automobile industry in 1995, alternators for example, need a production volume for 1.25 million vehicles per year to enjoy benefits of scale. Other parts also require a production volume for 300,000 to one million vehicles per year.

Next we shall examine the basic policies Japanese automakers have regarding vehicle production as well as procurement of parts and raw materials.

Japanese auto makers strive for high-quality, low-cost vehicle production that meets the needs of users all over the world. It is best to produce locally vehicles matching the local needs, and to do that, it is most rational to use locally-supplied parts and raw materials. Through such activities, Japanese automakers have worked hard to contribute towards the local economy and employment.

As long as the parts and raw materials fulfill certain conditions such as Quality, Cost and Delivery, Japanese automakers promote, wherever possible, procurement from local suppliers. Here we will take a closer look at the conditions on Quality, Cost and Delivery.

The first point is 'improvement of quality'. Quality is a condition necessary for users to use their vehicles safely and satisfactorily.

Next, it is the 'reduction of production cost'. By providing attractive products at a reasonable price, users derive their satisfaction from the vehicle purchase. Hence it is necessary to constantly strive towards the reduction of production cost.

The third point is 'strict adherence to and a speedy delivery schedule'. Being comprised of tens of thousands of parts, the assembly line of the vehicle will stop if even the delivery of one part is late. In addition, speedy product commercialization to meet the changing needs of the market in a timely manner is necessary.

The relationship automakers have with their suppliers is more than merely a business one; in fact it is important that they build up a relationship of trust with their partners to provide better products more cheaply and timely, by constantly putting in their efforts.

*Read the second part of this article in the next issue of **News from JAMA Asia!***

¹ AEM-METI Economic and Industrial Cooperation Committee

² Source: 2007 Census of Manufacturers, Ministry of Economy, Trade and Industry