

**PRACTICAL 8. IMPACTS OF GLOBAL CHANGE:
A CASE STUDY OF THE CAR INDUSTRY**

A. THE GLOBAL SITUATION

Table 8.1 shows the global production of automobiles according to number of units and country of manufacture.

1. Use the data to outline the broad changes that have occurred in the car industry.
2. What particular changes have been especially significant for Australia?

TABLE 8.1 Growth of automobile production by major countries, 1960-1995.

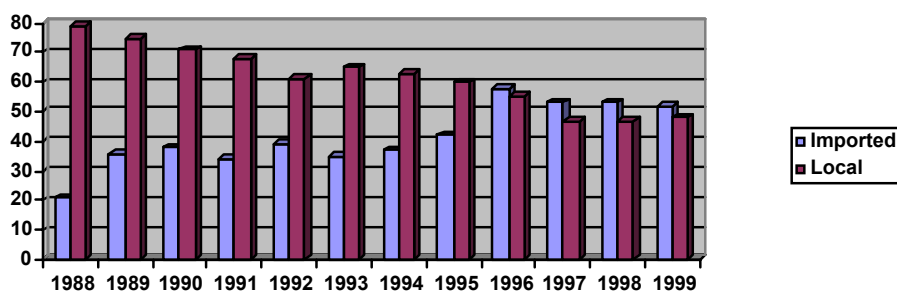
Country	1960		1989		1995	
	Production (000 units)	World Share (%)	Production (000 units)	World Share (%)	Production (000 units)	World Share (%)
France	1,175	9.0	3,409	9.6	3,050	8.2
Germany	1,817	14.0	4,564	12.9	4,360	11.8
Italy	596	4.6	1,972	5.6	1,423	3.8
Spain	43	0.3	1,639	4.6	1,959	5.3
Sweden	108	0.8	384	1.1	388	1.1
UK	1,353	10.4	1,299	3.7	1,532	4.1
Canada	323	2.5	984	2.8	1,339	3.6
USA	6,675	51.4	6,823	19.2	6,350	17.1
Japan	165	1.3	9,052	25.5	7,611	20.6
Korea	-	-	872	2.5	2,003	5.4
Malaysia	-	-	94	0.3	195	0.5
Taiwan	-	-	-	-	282	0.8
Argentina	30	0.2	112	0.3	227	0.6
Brazil	38	0.3	731	2.1	1,303	3.5
Mexico	28	0.2	439	1.2	699	1.9
Australia	-	-	357	1.0	292	0.8
Czech Rep.	-	-	184	0.5	228	0.6
Poland	-	-	289	0.8	392	1.1
World	12,999	100.0	35,455	100.0	37,045	100.0

Source: OCED (1983, Long-Term Outlook for the World Automobile Industry);
AAMA (1996, World Motor Vehicle Data);
SMMT (1996, World Automotive Statistics, 1996).

B. THE SITUATION IN AUSTRALIA

The car industry has been protected by tariffs against imports for considerable time. Recent policy changes have reduced the level of the tariff. Figure 8.1 shows the level of tariff and the amount of imported and locally made cars.

FIGURE 8.1 Imported and locally produced passenger vehicles: share of sales, Australia 1988 to 1999.



VFACTS unpublished data.

1. Examine the figure and outline the changes that have occurred in the local industry.
2. What are some likely consequences of the changes you can see in Figure 8.1?
3. What are some possible links between the changes in the level of imports into Australia and the changes in the industry at a global level as shown in Table 8.1.
4. Table 8.2 shows the number of jobs in the car industry within each of the Australian States. What changes have occurred in employment by state in the industry?

TABLE 8.2 Employment in the Car Industry by State.

	Years					
	1953-54	1961-62	1971-72	1984-85	1991-92	1997-98
NSW	28,152	39,996	19,716	10,873	6,656	5,557
Vic	30,409	42,553	42,340	38,535	30,286	28,139
Qld	9,170	10,228	4,088	4,406	4,018	3,772
SA	14,119	18,179	Na	14,125	14,264	13,247
WA	Na	Na	Na	1,476	1,373	1,845
Tas	Na	Na	Na	Na	574	609
ACT	Na	Na	Na	Na	Na	Na
NT	Na	Na	Na	Na	47	Na
Australia	89,913	120,805	85,889	68,876	56,430	55,515

Sources:

- 1997/98 - ABS 8221.0 – 8221.6
- 1991/92 - ABS 8221.0 – 8221.7
- 1984/85 - ABS 8203.5, 8202.6, 8203.3, 8203.0, 8202.2, 8201.1
- 1971/72 - ABS 8201.1, Victorian Economic Census, 8201.5, 8203.0 (1969/70), 8202.3
- 1961/62 - ABS 8200.0
- 1953/54 - ABS 8200.1

C. EMPLOYMENT IN THE CAR INDUSTRY: LOCAL IMPACTS

Table 8.3 shows the home location of employees in the car industry who work in the City of Hume (surrounding Broadmeadows).

1. Use the map of municipalities in Melbourne ¹-to produce a map that shows the main residential locations for car industry workers in this part of Melbourne.
2. What proportion of the workforce lives in Hume, Whittlesea and Moreland taken as a group?
3. Using this data describe the geographic impact of the car industry production based in Broadmeadows.
4. Using the map, suggest the geographic impact that changes in car industry policy on the part of the Federal Government could have on a local area.

¹ also available in *Interaction* Volume 25 Number 2 June 1997.

TABLE 8.3 Place of residence of workers in the car industry employed in Hume, the municipality surrounding the Ford factory in Broadmeadows.



Place of Residence	Number
Banyule (C)	151
Bayside (C)	6
Boroondara (C)	46
Brimbank (C)	284
Cardinia (S)	3
Casey (C) – Berwick	
Casey (C) – Hallam	9
Darebin (C)	259
Frankston (C)	
Glen Eira (C)	12
Gr. Dandenong (C) – Dandenong	3
Gr. Dandenong (C) – Bal	
Hobsons Bay (C)	25
Hume (C)	919
Kingston (C)	3
Knox (C)	4
Manningham (C)	78
Maribyrnong (C)	44
Maroondah (C)	19
Melbourne (C)	21
Melton (S)	45
Monash (C) – South-West	
Moonee Valley (C)	200
Moreland (C)	502
Mornington Peninsula (S)	
Nilumbik (S)	104
Port Phillip (C)	11
Stonnington (C)	8
Whitehorse (C)	27
Whittlesea (C)	679
Wyndham (C)	38
Yarra (C)	59
Casey (C) Cranbourne & Casey (C) South	
Monash (C) – Waverley West & Waverley East	12
Yarra Ranges (S) – Part A	8
Remainder of the Vic JTW Study Area	232
Total	3811

Source: Australian Bureau of Statistics 1996 Consensus, JTW unpublished data.

D. GLOBAL CHALLENGES AND LOCAL COMMUNITIES

Read the report on the Mazda corporation in Japan.

1. What is the global challenge facing the Mazda Corporation?
2. What is the potential local impact of change in the operation of the Mazda Corporation?
3. What problems could be faced by transnational car producers in Australia?
4. Looking at the location of the car industry employees in Hume (see section C above), what could be the local consequences of major change in the activity of a local car producer?

E. SUMMARY

In 200 words, discuss the following statement:

“The car industry illustrates that the global economy can have some very particular local consequences”.

MAZDA'S DILEMMA – By Chester Dawson/Hiroshima

Its turnaround stalling, Japan's No. 5 car maker is struggling to boost profits and honour its commitment to Hiroshima.

Mark Fields, the dapper new president of Mazda Motor, is behind the wheel of a company with two noisy back-seat drivers: impatient shareholders and nervous unions. While investors in the company, which is one-third owned by Ford Motors, seek action overseas, the car maker's Hiroshima-based rand-and-file want to ride the brakes and plod along for the ride. "It's a real balancing act," says Fields, 39. "That's the toughest part of the job."

Mazda's dilemma is simple: More than 80% of the cars it sells are made in Japan and the strong yen is eroding the value of its profits in key overseas markets. But long-time company hands are resisting pressure to shift production away from domestic plants like the flagship Hiroshima factory, located next to Mazda headquarters.

It's easy to see why. A glance at a map of Hiroshima shows Mazda's overwhelming presence in the community. Stretching across seven kilometres of reclaimed land on the southern border of the city, Mazda's massive complex dominates the shoreline of the Inland Sea. The company employs about 24,000 people in the Hiroshima area and some 200,000 people are said to owe their jobs to Mazda indirectly. For years, the town prospered as a steady stream of shiny new Mazda models rolled off the production line and into showrooms worldwide.

At its peak in 1990, the Hiroshima plant produced 1.2 million vehicles a year. But over the past decade the plant's annual output has been more than halved to just 507,000 vehicles and the founding family from Hiroshima has been replaced by controlling shareholder Ford. Next year, when rivals will introduce a plethora of additions to their product line-ups, Mazda won't debut a single mode. Even more troubling, the company's promising earnings turnaround appears to have stalled.

That's bad news for Hiroshima, the economic anchor of southwestern Japan, nicknamed the country's "rust belt" because of the many factories there that operate below capacity. "Then Mazda sneezes, Hiroshima catches a cold," says Hiroshi Yamamoto, chief plant manager and a second-generation employee. Recently, the company has begun to show some flu-like symptoms.

After posting its first net profit for five years in 1999, Mazda issued a glum profit warning in May. Japan's fifth-largest car maker now expects to report a Y12 billion (\$111 million) net loss for the six months to September 30. It forecasts a 50% drop in net profit to Y12.5 billion for the full year. Investors aren't impressed. Mazda's share price has tumbled 35% so far this year to around Y285, far worse than the 8% slide in Tokyo Stock Exchange's broad Topix index over the same period.

Fields, who last December became the third foreigner to head Mazda in the past four years and is among the youngest leaders of a major company in Japan, is feeling the heat. "I don't take solace in the fact that since I've been named president the stock has fallen significantly," he says. But this New York City native is confident that Mazda is on the right track for long-term growth.

Downplaying concerns about a dearth of new models, Fields says the introduction of the Tribute this summer in the red-hot market for small sports utility vehicles will jump-start the company's sales in the United States and Japan.

Fields says the company will get a further boost from a "new generation" of Mazda vehicles to be introduced in 2002 that will share "platforms" – chassis, engine and other major components – with cars produced by parent company Ford. The idea is to cut production costs through joint parts

procurement and streamlined manufacturing. As benefits are realized from synergies with Ford and streamlining of distribution, says Fields, “you’re going to see a lot of that fall to the bottom line.”

Until then, Fields, who earned his spurs at Ford as a marketing guru, says Mazda will concentrate on improving brand image and customer satisfaction. So even as rivals Honda, Toyota and Nissan roll out dozens of new models in the next 18 months, Mazda’s chief says his company will be circling the wagons around its exciting line-up. “That’s our approach: We’re going to market our way through.”

But critics complain that Mazda hasn’t done nearly enough to resolve its fundamental problem – it exports too many vehicles from its high-cost manufacturing bases in Japan. That’s critical because the Japanese car market is stuck in neutral and unable to absorb Mazda’s domestic production capacity. Fields responds by saying Mazda is considering moving manufacturing of some cars to Ford plants in Europe, most likely models with shared platforms such as the new version of its popular subcompact Demio. (Mazda is also mulling the possibility of producing some Ford cars in Japan.) Japan’s leading business newspaper reported earlier this year that Mazda may slash domestic output by 20% and cut 4,000 jobs at its Hiroshima plant. Fields insist a decision isn’t due before year-end.

Analysts say the obvious answer is to move much more production offshore and increase procurement of imported parts. That would allow Mazda to rationalise manufacturing facilities in Japan, resulting in significant cost savings. “The logical conclusion is that Mazda really needs to take streamlining action such as plant closures and workforce cuts,” says Takaki Nakanishi, an analyst at Merrill Lynch in Tokyo. Mazda has gingerly taken some steps in that direction, following in the footsteps of other major Japanese car makers that moved many facilities offshore in the 1980s. Imported parts now account for roughly 15% of components procured by Mazda, more than double the level a few years ago. The company also opened a pick-up truck production plant in Rayong, Thailand, two years ago and began making a four-door compact sedan there in January. Export volumes at the Thai plant in the first half of this year rose 17% over the same period last year to 20,530 trucks. All new Tribute sports utility vehicles built for sale outside Japan are being made at a Ford plant near Kansas City, Missouri.

But impatient analysts and investors wonder why, more than six months into a job, Field says he still needs time before moving forward more aggressively. The reason for the procrastination has everything to do with building a consensus in Hiroshima, where Mazda’s ‘social responsibility’ looms large over the local community.

For Takeshi Morikawa, president of Mazda’s chief labour union, that means stopping jobs being transferred overseas. “of course, we’re against moving production abroad,” says the gruff labour leader. “That would cause an unacceptable hollowing out of the manufacturing base in Hiroshima.”

The union is unhappy with talk of boosting output outside Japan, especially at a time when Ford, which owns 33.3% of Mazda, has just won preferred bidding rights to buy South Korea’s Daewoo Motor for \$7 billion. “Why can’t they invest a little bit of that money in Mazda?” Morikawa grumbles. Company executives seem keenly aware of the challenge they face in trying to placate both shareholders such as Ford and stakeholders like the unions and home-town loyalists in management.

There are signs not everyone in the boardroom applauds Fields’ juggling act. In May, just five months after he was unexpectedly ushered into the president’s office, senior management suffered another shake-up when hard-driving Chief Financial Officer Gary Hexter resigned. Hexter, 55, played a key role in Mazda’s makeover after Ford took a controlling stake in 1996 and his

unexplained exit stunned many observers. Then in June, just days after that dramatic departure, Sumitomo Bank, Mazda's second-largest shareholder, quietly replaced its representative on the board – a former bank executive director – with a much lower-ranking division chief. Some industry hands say that a downgrading is tantamount to a vote of no-confidence in Mazda's new management team.

Still, Fields sees a brighter road ahead. "We're just at the beginning phases of getting the understanding of where we are as a company," he says. "That kind of process does not take place overnight." A key step in that process starts this month when Mazda will begin a "leadership training" programme. Some 10,000 employees will be run through the programme during the next six months. The purpose of the course, says Fields, is to drill home "why Mazda has to change – and how." Once everyone knows what needs to be done, the real test of actually doing it will begin. Fields can only hope that by the end of the process his back-seat drivers let him take control of the wheel.