

Regional Value Chains and the Japanese Automotive Production Network in Southeast Asia

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The study focuses on one of the leading Japanese production networks in Southeast Asia, i.e. the automotive sector/industry. It explores the country's trade and industrial relations in this particular sector with its partners in the region, i.e. these five key ASEAN (Association of Southeast Asian Nations) countries: Indonesia, Malaysia, the Philippines, Thailand and Vietnam. Typically characterized by fragmented and vertically integrated production networks led mostly by Japanese firms, the region's automotive industry has developed in parallel with the host ASEAN countries evolving foreign direct investment (FDI) and automotive industrial policy schemes.

The study is an endeavor to comprehend changes of the Japanese automotive production networks in the region as a way to enquire the sector's regional value chains (RVCs). It does so by going into backgrounds and motivations of Japanese automotive firms in light of localizing and upgrading their production/manufacturing activities. It aims to: (1) discover significance of Japan automotive trade relations in the region characterizing the changes; (2) examine the subsequent production shifts to the region, the country's lead firms strategy in upgrading the embedded value chains, and (3) address endeavors by those firms and other relevant stakeholders in envisioning the sector's RVCs and the ensuing policy responses by ASEAN host governments.

The study finds that, during the past three decades, patterns of Japan trade in automotive products with East and Southeast Asian partners and its trends in value added have indicated dynamic changes of the country's automotive production network in the region. The changes are

characterized by shifting trade patterns of Japan-ASEAN in particularly automotive parts and accessories and passenger cars. The ensuing production shifts (which follow similar patterns) and the upgrading strategy performed by firms (as represented by Toyota) have resulted in solid localized production and regional supply chains in Southeast Asia.

Driven by the Toyota ASEAN IMV (Innovative International Multi-purpose Vehicle) Project, firms operated within Toyota value chains in ASEAN carry on measures which suggest accumulated processes of localized production and regional supply chains. The processes are spanned across the value chains and have been developed through combined activities of both green and brownfield FDIs, regional procurement and supply chains, locally grown research and development (R&D) centers and reinforced subsidiaries and local partnerships. Technical formation and skills accumulation resulted from the accumulated production and supply chains activities have also led to value chains upgrading within and along Toyota production network. Key areas of upgrading include manufacturing facilities and processes, product development, R&D and design, and marketing and after-sales services. It is under those key areas that offsetting RVCs for the ASEAN automotive sector is achieved through specific value chains structures.