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Analysts Debate Whether Japan's Bottleneck Could Benefit Chinese Suppliers

By Christie Schweinsberg

As the global automotive industry copes with the effect of the supply-chain disruption caused by Japan's devastating March 11 earthquake, analysts debate whether Chinese suppliers could fill the gap.

"It's no doubt a disaster for Japan, but a great opportunity for the Chinese," says Benjamin Wey, president of the New York Global Group advisory firm, which also has headquarters in Beijing.

Ford Kentucky Truck plant closed this week due to parts shortage.

The Chinese National Development and Reform Commission, the official economic-development arm of the Chinese government, has taken notice, he says.

Wey contends the downtime at many Japanese suppliers, crippled by damaged facilities or the lack of electricity, could present an opportunity for Chinese suppliers.

Global auto makers and component suppliers are scrambling to keep their assembly lines running, and some key parts sourced mainly from Japan are in short supply.

Current hard-to-come-by Japanese auto parts also are made in China, Wey says. "The Chinese are exporting chips and other electronic components worldwide."

He cites electronic sensors, necessary for today's complex, highly computerized vehicles, as one area where Chinese suppliers could step in, at least in the interim.

An emissions-controlling airflow sensor made by Hitachi Automotive at a now-damaged plant in Sawa, Ibaraki prefecture is a key component that is in short supply for many global OEMs.

European auto makers may be more likely to source from China, as they long have had difficulty procuring sufficient supplies of Japanese-made electronic components, Wey says.

Japanese Auto Makers Stalled by Supply-Chain Bottle Necks Doing Business in China No Cakewalk, Supplier Exec Says China Vehicle-Sales Success Clouded by Labor Strikes, Overcapacity Issues

However, Alix Partners consultant John Hoffecker argues much of the high-value computing components sourced from Japan are proprietary technology and time-intensive when it comes to establishing a new production site.

"When you get into very high-tech (components), in the short-term there's very little that can be done because it would take so long to (get production) up and running," he says, noting fasteners are made worldwide.

Hoffecker cites electronics for hybrid systems or battery technology as one area where Japanese suppliers may have more capability than competitors elsewhere.

"If the product started there – and it is a high-cost, high-intellectual-capability base part – that will take longer (to re-source) and be more impactful on the supply chain," he says.

Industry advisory-firm KPMG Director James Ricci has a different take, insisting Korean suppliers, not the Chinese, are more likely to see a boon in re-sourced automotive business from Japan.

"I think in China you're looking more at (the production of) circuit boards and mass-fabrication, less so of the chip and wafer activity," he says, adding microchip and silicon wafer manufacturing is both a delicate and complex process and typically a domain of developed nations such as South Korea, Japan and the U.S.

While Wey is hopeful China can serve as a temporary source of parts for the global auto industry, even he admits the buying of complex parts by major auto makers from China likely would be short-lived.

"I don't think the Chinese will be able to replace Japanese suppliers in a very significant fashion," he says. Established relationships between Japanese suppliers and their customers are "very, very important."

Hoffecker says about $12 billion worth of Japanese auto parts are imported by the U.S. industry annually.