



Toyota is Leaving Australia

KEYWORDS

Automotive industry, Toyota, Toyota exiting Australia

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ABSTRACT *This paper throws light on Toyota's decision to exit Australian automotive manufacturing Industry by the end of 2017. The study identifies that the low economies of scale, higher Australian dollar, low economies of scale, reduced demand in automotive industry, higher competition in domestic markets, lower tariff policy rates and lack of Australian financial assistance are the main economic reasons that triggered Toyota's decision to leave Australia. This decision is likely to put an end to Australia's car manufacturing industry forever, hurt the employment generating potential of the economy and negatively impact the stakeholders. Therefore, to prevent the economy sliding into a situation of prolonged recession, government must strive to rehabilitate the retrenched workers, promote alternative ventures for affected businesses and reform its tax structure to restore confidence in the economy.*

INTRODUCTION

Australia's automotive industry has been facing economic restructuring for the past few years and it is expected to continue for quite some time in future too. The downfall of the manufacturing sector can be attributed to the low demand for locally manufactured cars due to stiff competition from imported cars. It all commenced from 2006 when Mitsubishi announced its exit from the Australia's manufacturing industry. According to Productivity Commission (2014) Mitsubishi's exit was followed by Ford and Holden's declaration to exit from automotive operations from 2016 and 2017 respectively. Of the three largest firms in the market, namely Ford, Holden and Toyota which accounted for 75% of manufacturing revenue, the two had already announced to shut down operations. Therefore, the latest heart-breaking declaration by Toyota to cease manufacturing cars by the end of 2017 has created panic in the entire country since its exit would end Australia's car manufacturing sector forever. The company's president has cited that due to many factors beyond their control it has now become unviable for them to continue manufacturing cars in Australia. As a result this declaration will surely engender impacts on Australia and its social welfare.

Therefore, this paper is an attempt to assess the case study on Toyota leaving Australian manufacturing industry by the end of 2017 and become distribution and Sales Company at the national level. The paper discusses the causes which led to the end of Toyota's car manufacturing in Australian economy. It also analyzes the impact of Toyota's decision on various stakeholders. Finally, it summarizes the case study and suggests some recommendations to the Australian government for future course of action.

CAUSES

The reason why Australia's car maker, Toyota, has decided to shut down business operations by the end of 2017 cannot just be associated with a single factor or an issue. If only there was a single reason the entire industry could have been saved. Rather the anatomy of this decision can be traced back to the interplay of various economic and market factors. However, some significant reasons of why Toyota is leaving Australia have been explained below:

1. Strengthening of Australian dollar

Unfavorable Australian dollar was a main reason triggering

Toyota's departure from Australia. A rising Australian dollar made its exports unsustainable and unviable. According to Krugman and Obstfeld (2009) rising dollar makes exports expensive for foreigners to buy. This adversely affects the total effective demand and translates into losses for exporters selling goods abroad.

2. High manufacturing costs

According to Case & Fair (2006) any profit maximizing firm opts to produce the maximum output at least cost technology. If the firm is unable to cover even its average variable cost it shuts down and exits the industry. Toyota Australian President cited high manufacturing cost and labor cost as another reason which made it inevitable to shut down. Though the company has garnered immense profit in the past years, their manufacturing wing has continued to be in loss despite their enormous efforts. According to Spinks (2014) although Toyota made a profit of \$149 million in 2012 still it suffered a loss of \$150 million during the past three years.

3. Low economies of scale

According to Taggart and et al (2013) when a rise in a firm's scale of operation leads to lower average costs we say there are economies of scale. But increase in Toyota's scale of production led to a higher average cost and reduced the demand. It faced diseconomies of scale for their cars production and local supply chain. In other words, the company seemed to be operating on the rising part BC of the long run average cost as shown in figure 1. This was a major factor in Toyota's cost equation which led to its downfall.

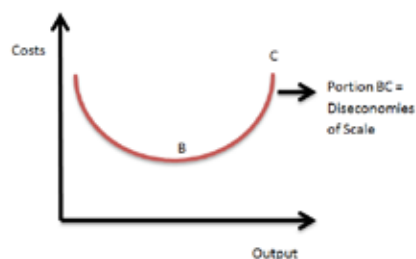


Figure 1

4. Free Trade Agreements

In words of Salavatore (2009) a free trade agreement is a type of an economic integration where all barriers to trade are eliminated among the member countries. According to Dornbusch (1992) a free trade agreement liberalizes the trade and increases domestic competition. The work of Athukorala & Kohpaiboon (2011) stated that Australia-Thailand Free Trade Agreement with the fall in tariff rates allowed easy entry of Thailand's vehicle parts into Australia but hit hard on tariffs and other constraints on exports of Australian cars into Thailand. Also US-Australia free trade agreement prevented unregulated access of Australian motor industry in the US. Such current and future free trade agreements enhanced competitiveness adversely affecting Australian vehicle industry. This again made it non-viable for Toyota to continue manufacturing cars.

5. Dumping

Another reason which led to the end of Australian-made cars is that very soon Australia became the dumping ground for cars from around the world. According to Gottlieb (2014) around 60 cars of various brands were dumped in Australia. The number indicates twice of those found in the United States. As propounded by Krugman & Obstfeld (2009) dumping is a form of price discrimination in international trade or a pricing practice in which a firm charges a lower price for exported goods in foreign land and a higher price for the same goods sold domestically. This drifted the domestic consumers of Australia towards more affordable imported cars. Also Toyota found impossible to export cars to its neighboring Asia-Pacific countries because they could profitably manufacture their own cars due to comparative advantage.

CONSEQUENCES

After considering the causes that led to Toyota's decision of abandoning car production in Australia by the end of 2017, it is also important to evaluate this decision and analyze its impact on stakeholders. According to Freeman (2010) a stakeholder is a group or an individual within an organization who is affected by the accomplishments of an organization's aims. According to Philips (1997) whenever a stakeholder makes profit, risk or any contribution to the company, the organization is liable to provide a fair share to each stakeholder such as protection or profit. In due recognition of this reality, the impact of Toyota leaving Australia on major stakeholder groups has been discussed below:

1. Impact on suppliers

Due to low demand from Australia's automotive industry and low economies of scale the suppliers of Toyota would be compelled to shut down their business operations and exit the industry. This would result in huge losses for this group. As a result, exiting of Toyota would have a negative and devastating impact on the suppliers group.

2. Impact on employees

As per the estimates of Productivity Commission (2014) 2500 employees are directly employed in Toyota's manufacturing sector. However, Toyota's decision to cease producing cars locally would encounter not just the job losses of those 2500 workers but thousands of other job losses in the entire supply chain which are indirectly related to automotive industry due to employment multiplier effects. According to Dunckley and et al (2014) more than 25,000 job losses would occur throughout the country. Retrenchment of workers would reduce their standard of living and result in alcoholism, criminal activities leading to enhanced ex-

penditure on welfare cost. According to Productivity Commission (2014) the employees who would lose their jobs have a tough time finding alternative ones. This would result in financial hardship and social tension (Broman, et al., 1990).

3. Impact on local communities

Over the years the local community allowed the Toyota car manufacturing unit to establish infrastructural facilities and other local amenities in the Altona region. Therefore, the firm bestows the responsibility of informing the community of that area about any changes in its management plan or of any impending danger. Otherwise, the local community would be affected by the void Toyota would leave behind. Considering this Toyota has given a three year advance notice to the local community of that region about its plan of exiting the market. However, the degree of impact inflicted on the local communities is yet to be seen in coming years.

4. Impact on society

As the impact of Toyota exiting the automotive industry would affect all the sectors of the economy it is estimated that the decision would wipe out \$21 billion from the country. This decision would alter the face of Australian industry forever because from 2017 Australia would not possess a domestic vehicle manufacturing industry. However, the impact would also depend on how responsive is Australian government to Toyota's decision. In the short run the economy might come to a standstill due to the reduction in market supply of the industry (see figure 2). Due to this there would come a phase of reduced aggregate demand followed by reduced aggregate spending. All this would pull the employment rate downwards. But if the government determines to use the taxes in productive investments the entire economy can overcome the trauma and be better off.

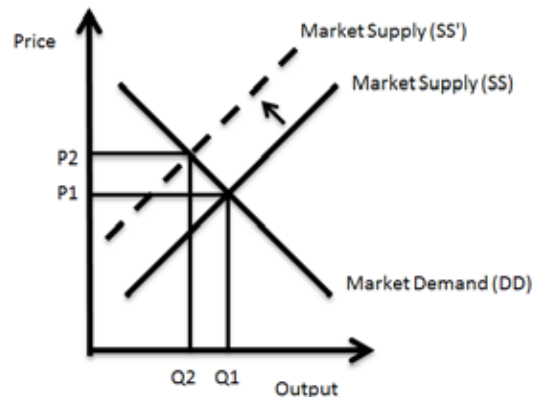


Figure 2

RECOMMENDATIONS AND CONCLUSION

In conclusion, after examining the case study it can be seen that Toyota has decided to leave Australian automotive industry due to higher Australian dollar, low economies of scale, reduced demand in automotive industry, higher competition in domestic markets, lower tariff policy rates and lack of Australian financial assistance. After Toyota has announced its plan to cease manufacturing cars locally by the end of 2017 and become distribution and sales company at the national level, around 50,000 jobs in Australia's car industry are under the veneer of risk. This provides a big challenge for the country's Prime Minister

to reestablish confidence and buoyancy in the economy. Australia's unemployment rate is already at its summit. This decision is likely to result in unmitigated disaster by laying off thousands of workers who are directly or indirectly related to automotive sector. If proper measures are not taken to insulate the economy from losses in car manufacturing sector there is a danger of entering into a phase of prolonged recession. Therefore it is necessary for the government to take following actions (Tay, 2014):

Firstly, it is vital for the Australian government to provide the retrenched workers retraining and skill to help them find alternative jobs. It is also important for the authorities to rehabilitate them so that none remains adversely affected by a major blow to Australia's manufacturing sector.

Secondly, the government must enable the substitution of affected businesses by alternative ventures or markets either through involving in comprehensive automotive supply chains or in other arenas. The government must ensure that while some businesses close down, other new businesses should start in its place. Similarly while some jobs may be wiped out but new ones should be created to fill their void. Government's effort must convince the people that better days would come in the future.

Thirdly, government must utilize the country's taxes in profitable investments and productive assets to prevent Australian economy slowdown.

The need of the hour is to enter into harmonious relation with the other sectors of the economy and alleviate the shattered sentiments of the market. This is time the governments realize the reality, change economic approach and allocate scarce resources towards the leading sectors which have been left unattended in past years. This is time for course correction.

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