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# Japan’s automakers at risk if Detroit Fails

By Soyoung Kim - Analysis
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DETROIT (Reuters) - If a chain is only as strong as its weakest link, Toyota Motor Corp and Honda Motor Co have a problem in the U.S. market directly tied to Detroit's financial crisis.

General Motors Corp and Chrysler LLC have been pushed to the brink of failure by recent events but the interlocking chain of U.S. parts suppliers means the collateral damage from their collapse will hit Japan's leading automakers hard.

Analysts warn that bankruptcy for either GM or Chrysler could cause a cascade of failures at their suppliers.

That would increase the pressure on better-capitalized Japanese automakers to extend financial aid to keep their production lines running in states from Texas to Ohio, a costly move at a time when auto sales remain down and cash is scarce.

While no automaker would be spared in the shakeout, the deep U.S. presence of Toyota, Honda and Nissan Motor Co make them particularly vulnerable to any supply disruptions, analysts said.

Japanese automakers now represent 40 percent of U.S. auto sales. They also build more than 60 percent of their vehicles sold to U.S. consumers in North America.

In addition, the lean inventory management pioneered by Toyota means that a shortage of a key part could quickly shut an assembly line, analysts have said.

Fifty-eight percent of General Motors Corp's suppliers and 65 percent of Ford Motor Co's suppliers also supply Asian manufacturers. By comparison, 37 percent of GM's suppliers have ties to European automakers.

The Bush administration is considering emergency aid for the U.S. automakers after a proposed $14-billion bailout collapsed in the face of opposition from Senate Republicans.

"Honda and Toyota themselves have started to say if these American automakers start to fail, and fail quickly, it will take out the supply base they all depend on," said David Kudla, chief executive of Mainstay Capital Management.

Shares of Toyota, No. 2 in U.S. sales after GM, tumbled 10 percent in Tokyo after the bailout talks failed. Honda and Nissan dropped 12.5 percent and 11.5 percent, respectively.

"The U.S. auto market is shrinking rapidly," Toyota said in a statement. "A major bankruptcy would exacerbate an already difficult environment for Toyota and the industry. We hope to avoid this situation."

Honda and Nissan had no comment.

THE DETROIT-NAGOYA NEXUS

Japan's automakers account for 13 out of the total 18 vehicle assembly plants in the United States being operated or built by non-U.S. manufacturers.

Hyundai Motor Co and Mercedes Benz both have plants in Alabama. BMW has one in South Carolina.

Kia Motors Corp and Volkswagen would be shielded because they import all the vehicles they sell in the United States. Kia is due to open a plant in Georgia in 2009, while Volkswagen is building one in Tennessee.

Foreign-owned plants currently represent about 45 percent of production in North America, nearly double the level at the start of the decade, according to auto consulting firm CSM Worldwide.

"Many suppliers can't afford another major hit to their production and cash flow," CSM President Craig Cather said.

Major auto parts suppliers in North America include Johnson Controls Inc, Magna International, TRW and Lear Corp, but analysts say the most intense pressure would be on the thousands of second-tier suppliers which supply components to the major companies.

In a reminder of the pressure on the sector, Michigan-based supplier Precision Parts International, which makes metal components, filed for bankruptcy on Friday.

"The current depressed conditions in the domestic auto industry, along with the continued tightening of credit markets created insurmountable hurdles," Precision Chief Executive Joe Lefave said.

Japan's automakers already have been hit by the industry-wide collapse in U.S. sales, a downturn that has gained momentum since October.

Honda on Friday announced cuts of an additional 119,000 units from planned production in North America through March, after its U.S. sales dropped 32 percent in November.