

# Asian Auto Market Recovering

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The Asian automobile market imploded following the 1997 monetary and economic crises. Car sales in 1998 plunged from the previous year in Thailand, Malaysia, Indonesia, the Philippines and South Korea. On the back of the region's economic recovery, however, the automobile market turned a corner in 1999, partly due to lower interest rates which stimulated applications for car loans.

Japanese auto makers still find themselves in dire straits and are being forced to cut down on manpower, with operating rates coming down. Yet, already boasting a major presence in the Association of Southeast Asian Nations (ASEAN), they have surmounted the crises with assistance from their parent companies or through their own export expansion efforts.

They withstood the rapid contraction of the ASEAN automobile market for two reasons. Firstly, they had production bases there as a result of investing heavily in ASEAN countries at the request of their governments which hankered for domestic car production. Accordingly, the Japanese auto makers found it difficult to exit the ASEAN market because they had to stay there to recoup their investments. Secondly,

they believed in the potential growth of the ASEAN auto market. Such a stance was shared by European and American auto makers.

Meanwhile, the World Trade Organization (WTO) is accelerating deregulation measures. In January 2000, the local content requirements were abolished by the WTO's trade-related investment measures. It is expected to impose the Common Effective Preferential Tariff (CEPT) in January 2002 following the inauguration of the ASEAN Free Trade Area (AFTA). Malaysia is exceptionally allowed to lower tariffs on Completely-Build-Up (CBU) and Completely-Knock-Down (CKD) in 2005, although Thailand is demanding indemnity in return. The strong current toward liberalization is an important point the Japanese automobile industry must take into account.

In response to the liberalization move, U.S. auto makers, which previously had no large-scale production base in the ASEAN region, have been taking active initiatives since the 1997 crisis to beef up their presence in the region. Their aim is to expand their shares through the marketing of strategic models and build up their brand-

names.

Most auto makers of the world believe that it will still be some time before the Asian auto market will recover to its pre-crisis level. Yet, with income levels expected to rise in years to come in the ASEAN countries, the auto makers find it essential to market new models in the region in response to changes in market needs and to make investments accordingly.

It is said that any auto maker must have production facilities capable of turning out 4 million cars annually in order to survive in the global market. Such a trend will continue into the 21st century amid the worldwide shakeup of the automobile industry.

## Japanese auto makers' Asian strategy

Toyota Motor Corp.'s main models in Asia are the Toyota Utility Vehicle (TUV), which is produced in a mother factory in Indonesia, as well as the Soluna, Corolla and Yaris (passenger cars). Toyota integrates the production of auto parts in several bases – TUV parts and gasoline engines for commercial vehicles in Indonesia; parts for the Soluna and Corolla as well as diesel engines in Thailand; radiators and

Table 1

Volume of Automobile Sales

	1996	1997	1998	1999	2000
Thailand	589,126	363,156	144,065	218,330	165,098 (Jan.-Aug.)
Malaysia	363,671	404,837	163,851	288,547	225,293 (Jan.-Aug.)
Indonesia	332,035	392,185	58,303	93,814	155,385 (Jan.-July)
The Philippines	162,115	144,415	80,421	74,414	57,015 (Jan.-Aug.)
South Korea	1,644,132	1,512,935	779,905	1,237,029	2,043,403 (Jan.-Aug.)
China	1,458,666	1,565,904	1,604,480	1,832,470	* 400,700 (Jan.-Aug.)

Note: \* Denotes volume of production

Source: Statistics of auto sales in countries concerned

(Number of cars)

Table 2

## Asian Strategies of Major Auto makers

	Target / Period	Target markets	Production bases. Production system	Main affiliated auto makers	Main destinations of exports	Planned strategic cars
<b>Toyota</b>	Maintenance of market shares	ASEAN, China, India	<ul style="list-style-type: none"> <li>•Establishment of complementary system through full use of production bases</li> <li>•Indonesia to become mother factory for TUV</li> </ul>	Daihatsu	Mainly ASEAN region	TUV, Yaris, Soluna, Corolla
<b>Honda</b>		Japan, North America, Asia	Japan, North America, the U.K., Thailand		From Thailand to Australia & New Zealand	City, Accord, Civic, CR-V
<b>Nissan</b>		ASEAN 4, Taiwan	Establishment of complementary systems in ASEAN 4 and Taiwan	Renault		Datsun truck, C22 Vanette, Cefiro, Sunny
<b>Mitsubishi</b>	Boost ordinary profits to ¥100 billion yen in 2003	Japan, North America, Asia, ASEAN	Thailand to become production base for 1-ton pickup truck	DaimlerChrysler	<ul style="list-style-type: none"> <li>•L200 to be exported to more than 80 countries</li> <li>•DFW intended for Asia</li> </ul>	L200, L300, DFW, Gallant, Lancer
<b>GM</b>	Boost Asian-Pacific market share to 10% in 2010	Thailand, Indonesia, China	Production in and export from Thailand, China, Indonesia, India	Opel, Isuzu, Suzuki	Asia, North America, Europe	Zafira, YGM-1, SUV
<b>Ford</b>	Boost Asian market share to 10% in 2007		Thailand	Mazda		Laser, Focus and others
<b>Daimler Chrysler</b>	Boost profit rates in Asia to 25%	Consignment CKD production in Australia, China, Japan and Thailand	<ul style="list-style-type: none"> <li>•Small strategic cars to be produced in Thailand</li> <li>•China likely to become base for production of multi-purpose cars</li> </ul>	Mitsubishi	Worldwide	Smart, A-class cars and 4-seat cars are considered as small strategic cars

Source: Overseas JETRO Reports

shock absorbers in Malaysia; and transmissions in the Philippines. All the products are distributed to and marketed in the ASEAN region.

Incidentally, Toyota's Indonesian unit, P.T. Toyota Astra Motor, started manufacturing and marketing Solunas in April 2000.

Toyota has set a regional framework for car production in Asia, focusing on the linkage between markets and bases in ASEAN, China and India. It regards the ASEAN region as one market or production base, and maintains a balance between the ASEAN and fringe areas such as China and India.

Toyota positions Japan, the United States, Europe and Asia as its four major markets in the world, with its global production and marketing efforts coordinated with such a strategic framework. Toyota's Asian market consists of the huge markets and bases

of ASEAN, China and India. In ASEAN, Toyota fully utilizes its existing bases, mainly Thailand, Indonesia, Malaysia and the Philippines. They complement each other and are closely linked.

Major models marketed in ASEAN by Daihatsu Motor Co., which has capital participation from Toyota, are based on Daihatsu's Hijet and Terios. In other words, the Daihatsu cars are the Southeast Asian versions of existing models; Daihatsu's Taruna sold in Indonesia and Kembara sold in Malaysia are both based on the Terios.

Daihatsu positions Indonesia and Malaysia as its main Asian markets. Currently, its auto parts cannot complement each other in the ASEAN. The auto maker finds it essential to beef up its production setup to expand its Asian markets.

Honda Motor Co.'s main models in

Asia are the City, Accord, Civic and CR-V. This shows that Honda's lineup in Asia differs strikingly from those of other Japanese auto makers focusing on commercial vehicles.

Honda kicked off production of its CR-V in Thailand in 1997, and also shifted the production of the Accord from North America to Thailand in 1999 for export to Australia and New Zealand. The shift of the Accord's production from North America to Thailand represented the first case of the export of finished cars from a developing country to advanced countries. Honda turned Thailand into an export base because the country was home to its second leading production base following Japan and because the Thai auto industry was advanced enough to clear the environmental and technological standards of advanced countries, a fact the auto maker highly

Table 3

## Key Automobile-Related Policies of ASEAN 4 Countries

	Month/Year	Policy changes
Thailand	Dec. 1998	<ul style="list-style-type: none"> <li>•Abolition of restrictions on foreign investment</li> <li>•Exemption of taxation on factories or on capital increase for limited period of 8 years</li> </ul>
	Feb. 1999	<ul style="list-style-type: none"> <li>•Cabinet approves new taxation system in response to TRIM</li> </ul>
	Jan. 2000	<ul style="list-style-type: none"> <li>•New taxation system enacted</li> </ul>
Malaysia	July 1998	<ul style="list-style-type: none"> <li>•Deregulation of automobile loans</li> </ul>
	Aug. 1998	<ul style="list-style-type: none"> <li>•Liberalization of the equity policy in the manufacturing sector (Applied to newly started businesses and to additional investment. Limited until December 2000. Some items, such as wire harnesses, exempted)</li> </ul>
Indonesia	June 1999	New automobile policy (including 10 ordinances, notices, etc.) unveiled
The Philippines	Jan. 1998	Import duties on CKD parts raised to 7% from 3%
	Apr. 1998	Investment Priority Plan (IPP) formulated income tax exemption for investment in IPP-related projects for 6 to 8 years
	Jan. 1999	Import duties on CKD parts raised to 10%
	Dec. 1999	Postponement of application of TRIM requested to WTO
ASEAN	Jan. 2000	WTO TRIM agreement applied
	May 2000	ASEAN economic ministers meeting held in Yangon agrees to lower import duties on CBU and CKD from 2005 as requested by Malaysia

Compiled by JETRO

evaluated. Thailand, from which Honda exports cars and multi-use parts to scores of countries, has become one of Honda's most important export bases along with Japan, North America and the United Kingdom.

Honda divides its Asian operations into motorcycles and four-wheel cars, with the former targeted at low-income earners and the latter at high and mid-level income earners. Accordingly, all the four-wheel vehicles Honda markets in Asia are passenger cars.

Honda signed a deal with DRB-HICOM Bhd. of Malaysia in July 2000 to establish a joint venture company, DRB-Oriental-Honda Sdn.Bhd., in 2001.

Nissan Motor Co., in a capital tie-up with French auto maker Renault since 1999, is in the midst of restructuring under the "Nissan Revival Plan." Nissan is currently dealing with the Asian market through the redesigning of existing models, but is likely to market new models simultaneously with the expected recovery of the Asian auto market in 2004 or 2005. The marketing of new models will be preceded by

the establishment of a mechanism under which Asian bases will complement each other.

Nissan's main models in the ASEAN region are the Sunny (compact class) and the Cefiro (large class). The Cefiro is a luxury car and goes a long way toward enhancing Nissan's brand image in Taiwan. Nissan plans to market the Cefiro in Thailand, Malaysia and the Philippines as well to secure similar effects.

Nissan will accelerate the redesigning of existing models up to 2002, after which it will start marketing new models. The auto maker will also work hard to have Asian bases complement each other through the process of redesigning and marketing new models. As regards the production of parts, Nissan will focus, for the time being, on press parts for passenger cars but will gradually expand parts production to include air-conditioners, seats, meters and engine pistons.

In the commercial vehicle sector, Nissan plans to convert the Thai-assembled 1-ton Datsun pickup truck into a Sport Utility Vehicle (SUV).

Currently, Nissan assembles the C22 Vanette van in Malaysia basically with Japanese-made and locally made parts. Their parts cannot complement each other.

Nissan is expected to consider the integration of commercial vehicle production depending on the progress of AFTA and on the government policies of ASEAN countries. Nissan finds it necessary to modify its production system and car models following AFTA's liberalization of imports of finished cars scheduled for 2004 or 2005.

Mitsubishi Motors Corp. has formulated a new mid-term business plan covering the period through fiscal 2003, called "Heart Beat 21," under which the company expects to boost ordinary profits to 100 billion yen and target Japan, other Asian countries (including ASEAN) and North America as its leading markets.

There will be no change in the lineup of existing Mitsubishi models, with its Dynamic Family Wagon (DFW), L300 van and 1-ton pickup truck L200 Strada marketed as its core vehicles. Mitsubishi positions Thailand as its

global production base for 1-ton pickup trucks, exporting the Thai-made L200 Strada to 83 countries. Accordingly, Mitsubishi finds it unrealistic to shift its production in Asia to passenger cars from 1-ton pickup trucks, even though demand for passenger cars is increasing in the region. In view of the current ASEAN market situation, Mitsubishi will integrate the production of DFW parts and strengthen the parts complementary system in the region.

The Malaysian auto maker Proton, in a capital and technological tie-up with Mitsubishi, unveiled in May 2000 a new model Waja (meaning "strong" in the Malay language) fitted with a Mitsubishi engine.

#### European and U.S. Makers' Asian Strategy

General Motors Corp. aims to raise its share in the Asia-Pacific region to 10% by 2010. Currently, GM positions Thailand, Indonesia and China as its key Asian markets, mainly targeting those people with upper middle-class incomes. The three countries plus India will constitute its production bases, from which cars will be exported to Asia, North America and Europe. The Thai factory currently produces Opel Zafira cars, which will be exported to Europe, Japan and Australia in the mid to long term.

The GM group is building marketing networks in Thailand and the Philippines for Opel, which is its leading brand in Asia.

GM has three Asian strategic models – the YGM-1, jointly developed with Suzuki Motor Corp.; the Triax, jointly developed with Isuzu Motors Ltd.; and a new-type SUV jointly developed with Isuzu.

The YGM-1, intended for Asia, was released in October 1999. The Triax differs from the YGM-1 in that it comes in three models featuring different power systems: a fuel efficient type, a hybrid type and a fully battery-powered type. Customers and markets can choose the type according to their needs. GM says it focused on energy efficiency, mass supply power, and low

cost in developing the Triax.

Isuzu has already debuted a multi-purpose car named the "Asia Utility Vehicle (AUV)" in Indonesia and other ASEAN countries. The auto maker is also developing a new model.

The GM group has a host of auto makers under its umbrella in Asia and faces difficulties in coordinating operations among them.

Isuzu intends to operate as a commercial vehicle maker within the GM group in the long run, focusing on the commercial vehicle market. Isuzu's main model in Asia is the AUV. The company produces forged parts for the AUV's diesel engine in Thailand and cast parts for the AUV's diesel engine in Indonesia.

GM's local content ratio is low in Asia, and GM does not produce commercial vehicles which can be fitted with a diesel engine. Accordingly, the group produces few parts which can complement each other.

GM raised its equity stake in Suzuki to 20% from 10% in September 2000 and will start producing YGM-1 cars at Suzuki's Shizuoka factory.

Ford Motor Co. aims to increase its share of the Asian market to 10% by 2007, and in order to achieve this target it has teamed up with Mazda Motor Corp. and the two auto makers will market the same models in the ASEAN region to meet market needs. The U.S. auto giant assumes that its Asian customers belong to the upper half of income earners in the region, with those belonging to the lower half supposed to be users of motorcycles.

Ford's basic strategy in Asia is to market locally designed cars to meet local needs. However, Ford factories in several countries, such as Thailand, are expected to become export bases in the long run and thus are built so as to be expanded in short notice in response to market needs. Their ASEAN factories came online with production attuned to the sales volume.

Ford produces trucks, vans, passenger cars and various other vehicles in Asia, with its Laser, a new model based on the Mazda Familia, and the Focus, a new model developed by Ford Europe,

serving as its main products. As its mid-term target, Ford will seek to expand its market share to 5% by focusing on the marketing of both the Laser and the Focus. Among other Ford cars marketed in the region are its B-Series, Ford Ranger, Proceed, Titan and Bongo.

Ford has its ASEAN production bases in Auto Alliance Thailand and in Ford Motor Philippines (99.9% owned by Ford), both of which came online in 1998. Visteon, a Ford-affiliated auto parts maker, has a factory in Thailand and plans to have one in the Philippines.

Production of the new Tribute, an SUV jointly developed by Ford and Mazda, started at Mazda's Hofu factory in Yamaguchi Prefecture in October 2000.

DaimlerChrysler AG aims to boost its profit margin in Asia to 25% in the future from 7.7% in 1997. Its leading markets in Asia are Australia, China, Japan and Thailand, where it outsources production to local auto makers on a CKD basis. Reflecting the contrasting approaches Daimler-Benz and Chrysler had toward business operations in Asia, the merged DaimlerChrysler attached importance to the independence of each local base in Asia when integrating the businesses formerly owned by the German and U.S. auto giants. Accordingly, DaimlerChrysler's Asian bases are not intended to complement each other. DaimlerChrysler regards Thailand as its most important base in ASEAN but its Thai factory engages only in CKD production. Expansion of production capacity is not planned for the immediate future.

DaimlerChrysler took a 34% stake in Mitsubishi in July 2000 and the two companies agreed to cooperate in the production of passenger cars and small commercial vehicles. In October DaimlerChrysler completed the capital subscription, which would accelerate the joint production of small vehicles with Mitsubishi. The two auto makers will likely focus on slashing costs in the joint development of small vehicles intended for Asian markets. **JTI**