

ASEAN Automotive Market

Overview

Ten countries currently form the membership of the Association of Southeast Asian Nations (ASEAN). These countries include Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Burma, the Philippines, Singapore, Thailand and Vietnam. Combined automotive sales in the ASEAN's six main markets, Thailand, Indonesia, Vietnam, Philippines, Singapore, and Malaysia, declined by 10.2 percent in 2009 to approximately 1.9 million units, down from 2.1 million in 2008. However, Vietnam and the Philippines actually increased (6.7 percent for Vietnam and 6.4 percent for the Philippines) from 2008 to 2009.¹ Nevertheless, forecasts suggest combined vehicle sales in ASEAN's top six markets are expected to exceed 2 million units in 2010, a slight increase over 2009, and slightly below 2008 figures. Some economies, however, will continue to fare much better than others. Government policies, such as scrappage schemes and fiscal stimulus policies, are positively stimulating the market and affording some markets an advantage over others.² The Thai auto market, for example, has responded favorably to tax incentives provided by the government for producers of "eco-cars." In fact, the top three auto markets in ASEAN: Thailand, Malaysia, and Indonesia, have all taken advantage of various government schemes to promote a thriving auto industry. These markets will be the focus of this paper.

ASEAN Economy

Despite the global economic downturn, Asia's emerging economies are recovering more quickly than other parts of the world. According to *The Economist*, GDP and industrial production figures for emerging Asian economies have shown an impressive bounce in the second quarter. Singapore's GDP soared 21 percent, Indonesia managed a respectable five percent increase, and other countries in the region are expecting a similar rebound.³ ASEAN has a combined GDP of over \$150 billion and a population of close to 600 million people. In 2009, total ASEAN merchandise trade was \$1.5 trillion, a slight decrease from \$1.71 trillion in 2008, and U.S.-ASEAN trade was nearly \$146 billion (an 18 percent decrease from 2008).⁴ This makes ASEAN our fifth largest export market, behind Canada, Mexico, China and Japan. Over the last six years, the United States has worked to deepen its relationship with the ten ASEAN countries through both bilateral and regional strategies. One of the initiatives, the ASEAN-U.S. Enhanced Partnership, was launched in November 2005, and establishes a five-year plan for cooperation in a broad range of areas, including security, economic development, and education. The U.S.

¹ Tony Pugliese, "ASEAN automotive market review – Management briefing," *Just-Auto*, March/April 2010, p.1

² Mark Bursa, "ASEAN automotive market review – Management briefing," *Just-Auto*, September 2009, p.1

³ "On the rebound," *The Economist*, August 15, 2009, Vol. 392, Issue 8644, pp. 69-72

⁴ ASEAN Secretariat, *ASEAN Statistics, Selected Basic Economic Indicators*, March 15, 2010

Commerce Department has been actively working on standards cooperation projects with ASEAN, including a number of successful workshops highlighting automotive biofuel standards and a discussion of the United Nations' 1998 versus 1958 Agreements on automotive technical regulations. Other automotive-related workshops for 2009-2010 are under discussion.

The economic integration of ASEAN benefits the United States since it makes ASEAN more competitive, encouraging economies of scale, lower costs, increased efficiency, and economic reforms. This is especially true in the automotive sector. In fact, according to Business Monitor "the ASEAN region and the ASEAN Free Trade Agreement (AFTA) have been instrumental in providing a basis for trade and cooperation between not only the member states, but between divisions of the same company in different countries."⁵ For example, Toyota's innovative multipurpose vehicle (IMV) project relies on the input of several different units throughout emerging markets to produce vehicles by the most efficient and cost-effective means. Initiated at the 4th ASEAN Summit in Singapore in January 1992, AFTA provides for regional tariff reductions, elimination of non-tariff barriers, harmonized customs nomenclature, intra-regional liberalization of trade in services, and regional IPR cooperation. ASEAN is seeking to build a European Union (EU)-like community by 2015 for all of its members. Under the AFTA, all internal tariffs on manufactured products have been lowered to 0-5 percent, as applied by the common effective preferential tariff (CEPT). Thailand has been particularly successful in taking advantage of low tariff rates throughout the region. All of the top selling commercial vehicles, including the Toyota HiLux, Mitsubishi Triton, most Nissan Navaras, the Holden Colorado, Isuzu D-Max, Ford Ranger and Mazda BT-50, come from Thailand.⁶ In fact, Thailand has become the world's second largest market for the one-ton pickup truck behind the United States, making Thailand a regional production and export hub.

The ASEAN Industrial Cooperation Scheme (AICO) has also had a major impact on automotive trade within the region. Under the AICO program, approved companies are eligible to benefit immediately from the AFTA 0-5 percent preferential tariff rate, for trade in approved items. In the automotive sector this applies to completed vehicles, parts, half finished goods and materials. In order to qualify, products must have 40 percent ASEAN content and demonstrate resource sharing between participating companies. In addition, ASEAN members are required to abolish the localization arrangements in each country as well as the import tariff exemptions and local capital requirements.

Overview of the Top Three Auto Markets in the Region

Thailand

The automotive sector in Thailand is one of the key sectors in the Thai economy, continuing to grow at around 8.1 percent of GDP, despite political unrest.⁷ Thailand has been trying to move up the value chain to differentiate itself from China. New sectors of the economy, including petrochemicals, the auto sector, and food processing, are all now achieving robust growth. In 2009, Thailand produced 999,378 vehicles, and over half of these (536,000) were exported.⁸

⁵ Business Monitor International "Commercial Segment Key Driver of Asian Growth," March 26, 2008, p. 5

⁶ "Thai the knot," GoAuto News Market Insight Report, August 5, 2009, No. 494, pg. 18

⁷ Business Monitor International, "Thailand Industry Trend Analysis", Q2 2010, May 17, 2010, p. 1

⁸ Business Monitor International, "Thailand Industry Forecast", Q2 2010, March 12, 2010, p. 1

Over the past few years, Thailand has joined China and India as primary production bases for exports to the rest of the world. The government of Thailand made a decision in the 1980s to promote truck production rather than following Malaysia's lead with a national car program such as the Proton. In fact, excise taxes for vehicles range from 30 – 50 percent, and pick-up trucks are taxed at a rate of three percent. As a result, pick-up trucks account for nearly 70 percent of all vehicles produced and over 50 percent of domestic sales.⁹ Moreover, high import duties keep imports low (especially from regions outside of ASEAN), while approximately 40 percent of locally produced vehicles and trucks are exported. Thailand also exports vehicle parts, primarily to the rest of Southeast Asia, and with the consolidation of the AICO scheme, this is only expected to grow.

Owing to strong local demand, total domestic sales by volume expanded rapidly from approximately 297,000 units in 2001 to almost 549,000 units in 2009. However, 2009 sales decreased 10.8 percent over 2008 sales of 615,000¹⁰ The Thai Automotive Industry Association forecasts that domestic sales will grow slightly to 590,000 in 2010, an increase of seven percent year-on-year.¹¹ This is mostly reflected by higher agricultural prices, higher tourism receipts, and fiscal stimulus policies, which have contributed to an increase in higher consumer demand for big-ticket purchased.¹² Production fell by 28.3 percent in 2009 to 999,378 units, but was still higher than most predictions. Because of the increase in higher local demand and improved external demand, production improved dramatically in the fourth quarter of 2009. If production volume was replicated in the other quarters, the results would have looked very similar to 2008. Given this uptick in production volumes, it is predicted that vehicle production will rise 6.5 percent year-on-year to 1.065 million units in 2010.¹³

In terms of export volume, vehicle exports were higher than expected in 2009 thanks mainly to a better showing in the second half of the year. Vehicle exports reached 535,565 units in 2009, a decrease of 31 percent, compared to 775,652 units exported in 2008. Exports are expected to rise slightly to 563,000 units in 2010.¹⁴ More than 40 vehicle models compete in the Thai market, but Japan's vehicle manufacturers control nearly 90 percent of the market. Toyota has the largest overall market share, accounting for over 42 percent of market share in the third quarter of 2009, while Isuzu (in partnership with General Motors) held around 20 percent in that year. Honda accounts for around 17 percent, and is followed by Nissan and Mitsubishi, both of which have shares of around 9 percent of the market. GM (Chevrolet) and Ford sales together represented only four percent of market share for the same time period.¹⁵

The Government of Thailand (GOT), in hopes of repeating the success of its pickup truck production focus, has encouraged manufacturers of low-emissions cars to produce in Thailand. This program called "eco-cars," provides incentives to automakers that build small and fuel-efficient cars which meet Euro 4 emissions standards and consume less than 5 liters per 100 km. Thailand's Board of Investment (BOI) offers up to eight years' corporate tax breaks and duty-

⁹ U.S. Trade Representative, "2010 National Trade Estimates Report for Foreign Trade Barriers – Thailand", p. 358

¹⁰ Business Monitor International, "Thailand Industry Forecast," Q2 2010, March 12, 2010, p.1

¹¹ Ibid, p. 1

¹² Ibid, p. 1

¹³ Ibid, p.18

¹⁴ Ibid, p. 18

¹⁵ Business Monitor International, Thailand Autos Report Q2 2010, March 2010, p. 23

free import of related machinery and equipment to companies investing in the manufacturer of small eco-cars. The BOI is also considering giving manufacturers of eco-cars a two-year tariff reduction of as much as 90 percent on imported parts.¹⁶ The BOI has given the go-ahead for seven international auto manufacturers to produce low-emission vehicles under its “eco-car” initiative. Following Honda’s lead as the first manufacturer to propose a green car production project in the country, Suzuki Motor, Siem Nissan Automobile (SNA), Toyota, Mitsubishi, Tata Motors and VW have also been given the green light. The slowdown in the market, however, has made auto companies question whether these projects can now be viable. Recently, Tata Motors has reconsidered its commitment because it doubts it can reach the stipulated minimum annual capacity of 100,000 units for five years. Nissan Motor, on the other hand, is still on track to launch its compact car built under the program in 2010.¹⁷

The Thai Government is working with major automakers in order to prepare a draft of the next five-year strategic plan for the country’s automotive industry.¹⁸ Mitsubishi is lobbying the government to support production of electric vehicles, and some in the Thai Government believe that the eco-car program may be outdated. The eco-car scheme was the result of a decline in demand for one-ton pickup trucks, which was a staple of the Thai automotive industry. It was based on increasing the production of fuel efficient, smaller vehicles. In another reaction to industry views, plans in 2006 to back the E20 mix of ethanol and gasoline as the government’s alternative fuel of choice were scrapped in favor of compressed natural gas (CNG), which was thought to be in more plentiful supply.¹⁹ Toyota has taken advantages of these shifts with its launch of a Corolla sedan CNG later in 2009, in addition to a hybrid of the Camry sedan, launched in July of 2009. Hyundai is also marketing a CNG-powered model to promote savings on fuel bills.

Malaysia

Due to domestic national car programs and a focus on car sales and production, Malaysia has retained the highest level of passenger car sales in ASEAN for 2009 with 486,342 vehicles sold. For example, Malaysia’s closest rival in the region in terms of passenger car vehicles in operation is Indonesia, which only totaled 4.8 million in 2008, compared with 7.2 million for Malaysia.²⁰ By yearend 2009, total sales in Malaysia were down two percent to 536,905 units and production was also down 7.8 percent (489,269 units).²¹ Despite a relatively lackluster performance in the first six months of 2009, the Malaysian Automotive Association (MAA) states that the last quarter was especially strong with a 20 percent increase in sales year-on-year in December 2009. Lower exports were offset by higher domestic demand. MAA has recently forecasted domestic sales to be 544,260 units in 2010, only a 1.3 percent increase year-on-year.²²

¹⁶ The Economist Intelligence Unit, “Economic performance: Vehicle manufacturers continue to face troubles,” Thailand Country Report, August 2, 2009

¹⁷ Business Monitor International, Competitive Landscape, Thailand, Q2 2010, March 12, 2010, p.3

¹⁸ Ibid, p.4

¹⁹ Ibid, p.11

²⁰ Ward’s, pp. 29 and 47

²¹ Business Monitor International, Malaysia Industry Forecast, Q2 2010, February 1, 2010, p. 1

²² Ibid, p.7

The government-backed scrappage program has helped boost the market, similar to those in Europe over the last few years. Under this program, owners can trade in cars, which are ten years or older, in return for a \$1,422 discount when they purchase a new Proton or Perodua vehicle (both “national cars”). Since the scrappage program was announced, Proton has issued almost 17,000 discount vouchers.²³

Malaysia has an indigenous vehicle industry, a sizeable automotive component sector, and some research and development (R&D) capability. The industry began life in the mid-1960s, assembling vehicles for European and Japanese carmakers. A new phase began in 1983, when the government established Proton, the first national car project, with help from a Japanese conglomerate, Mitsubishi. In 1992, a second national car project, Perodua, came into existence, with help from Daihatsu. In total, there are four manufacturers and ten assemblers. These are supported by 590 manufacturers of components and parts.

The development of Malaysia’s automotive industry over the past three decades has been dependent on strong protection provided by the government. Consequently, liberalization in the vehicle industry has been slow. In October 2009, the government released its new National Automotive Policy (NAP), which focuses on sustainability of the domestic industry, with more market opening for foreign brands. It is especially interested in streamlining its domestic industry to two national high volume car producers, Proton and Perodua. The government hopes to encourage cooperation between the two domestic auto producers and international companies in order bring in “best practice management” to the industry and raise standards.²⁴ Malaysia has made progress in other areas as well. For example, under AFTA, Malaysia has reduced import tariffs, admittedly after having secured a two-year deferral from ASEAN. Import tariffs on completely built-up (CBU) units were reduced from a band of 70 – 90 percent to 20 percent at the start of 2005. For completely knocked-down kits, the import tariff has been cut from 25 percent to zero. Import duty on CBUs was cut further in 2006, from 40 percent to 5 percent, but the government then imposed steep excise taxes to make up for lost revenue. In January 2007, the ceiling on excise taxes was reduced from 125 percent to 100 percent.²⁵

Indonesia

Demand for motor vehicles in Indonesia picked up sharply between 2003 and 2005, recovering from a slump caused by the Asian Financial Crisis in 1997-98. However, substantially higher fuel prices, a sharp spike in inflation and higher interest rates all contributed to another collapse in 2006. Demand has since recovered, with an expected sales increase of at least five percent in 2010, as well as a boost in production (which fell by 22 percent in 2009).²⁶ In 2009, vehicle sales dropped by 20 percent to 486,061 units from a record high of 607,805 units in 2008. Indonesia overtook Malaysia in 2008 to become the second-largest car market in ASEAN behind Thailand, but dropped back behind Malaysia again in 2009.²⁷ According to

²³ Bursa, p.7

²⁴ Business Monitor International, Malaysia Auto Report Q2 2010, February 2010, p.26

²⁵ U.S. Trade Representative, “2010 National Trade Estimates Report for Foreign Trade Barriers – Malaysia,” p. 252

²⁶ Business Monitor International, Indonesia Industry Forecast Q2 2010, February 23, 2010, p. 1,

²⁷ Business Monitor International, Indonesia Autos Report Q2 2010, February 2010, p.7, and Malaysia Auto Report Q2 2010, February 2010, p.17

Bloomberg, the combined number of cars, buses, trucks and motorcycles in Indonesia increased 71 percent to 72 million vehicles last year from 2004. Road construction grew seven percent during the same period.²⁸ The Economist Intelligence Unit forecasts an average growth rate of 14 percent in consumer demand during 2008-12.²⁹ The passenger vehicle segment dominates the automotive market in Indonesia, with mini-vans and multi-purpose vehicles (MPVs) in extensive use for both personal and commercial operations.

Domestic manufacturers serve as the assemblers for foreign, primarily Japanese, motor vehicle companies. The government's Automobile Policy of 1999, which substantially reduced import duties on vehicles and vehicle parts (though still high by international standards), has had a positive effect on the industry. In particular, the reduction in duties on motor vehicle components has lowered the cost base of the motor vehicle assembly industry, leading to increased production. Indonesia's membership in AFTA has been an additional factor in helping to reduce import costs and facilitating exports since the start of 2003. Investment in production facilities, geared in part towards the export market, has become increasingly common.

Vehicle export volumes, primarily to Malaysia, Thailand and Japan, are relatively low, but are beginning to rise, as Indonesia's importance as a production base within the Southeast Asian region increases. Toyota Astra, a subsidiary of Japan's largest carmaker, Toyota, accounts for about 90 percent of the Indonesian car exports.

The large size of the Indonesian population and the low level of car ownership in the country suggest there is a lot of potential for expansion in the automotive industry. For example, in 2007, only one in every thirty-five people in Indonesia owned a car, compared with one in fourteen in Thailand and one in seven in Malaysia. The sector was deregulated and liberalized in 1999, and is one of the most competitive sectors in the Indonesian economy. When the current government came to power in 2004 infrastructure improvements, especially in roads, was a primary focus. However, the roads are still poor and inadequate. Roads are of poor quality, heavy congestion in urban areas is a major problem, and fuel supplies have been erratic. In August of this year, Indonesia's parliament approved a tax bill that will allow local governments to increase tariffs on car and motorcycle owners who have more than one vehicle. The new law will annually tax owners for their second and successive vehicles at a levy of two to 10 percent of a sum based on the region's road conditions and the value of the car sales. Local governments are asked to allocate at least 10 percent of this tax source for transport infrastructure projects in their regions.³⁰

Relief intentions and efforts appear to be on the way. For example, the Indonesian Government increased its 2008 budget by 41 percent to fund the building of new roads and for improving and maintaining existing ones. However, it has repeatedly failed to spend its allocated resources, mainly due to difficulties with land procurement for toll roads. Politically-connected land speculators have sometimes secured ownership of land needed for toll roads, inflating the cost of projects with their huge price demands. This has also deterred private investors from building

²⁸ Woro Widya Utami and Achmad Sukarsono, "Indonesia will tax multiple vehicles," Bloomberg, August 20, 2009, find article at <http://www.detnews.com/article/20090820/Auto01/908200357/Indonesia-will-tax-multiple-vehicles>

²⁹ The Economist Intelligence Unit, "Economic performance: Leading indicators of growth paint a positive picture," Indonesia Country Report, September 8, 2009

³⁰ Utami and Sukarsono

roads. Last January, a law was passed that caps the cost of land acquisition for infrastructure projects at 110 percent of the original estimate in the planning stage, with the government making up the difference. This should be a welcome step for investors. Until substantial improvements are made to the road network, it will remain a hindrance to the automotive sector.

Indonesia plans to follow in the footsteps of Thailand by offering incentives for the production of fuel-efficient cars. The incentives are not expected to be available before 2012, but automotive manufacturers are pleased that producing “greener” vehicles will become more competitive. Toyota has gone ahead with the launch of its latest Prius hybrid, but has said that it urged the government for years to provide incentives for producing low-cost eco-friendly cars. The eco-car in Thailand has been relatively successful in attracting investment, securing at least 700,000 units of new capacity due to its rule of an additional output of at least 100,000 units per year. Nonetheless, Indonesia is still expected to be one of the better performing economies in the ASEAN region and this should be reflected in vehicle purchases and annual sales data.³¹

³¹ Business Monitor International, Asia Pacific Automotives Insight, “Industry News – Incentives Aim at ‘Green’ Car Production,” July 28, 2009