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CHAPTER 4
INVESTMENT OPPORTUNITIES IN THE THAI AUTOMOTIVE INDUSTRY

4.1 INVESTMENT OPPORTUNITIES

Thailand's protectionist policies, requiring local content combined with high duties on imports of both vehicles and components, have been strong disincentives to production efficiency. Local suppliers have been operating in an environment of limited competition. Without these extensive protectionist measures, a large segment of the current auto industry may not have survived. However, 1994 was a watershed year for the automotive industry, as Thai policy makers continued to shift away from their long-standing protection of the local auto industry. Instead of maintaining inefficient or out-dated assembly operations, more attention will now be given to cultivating international quality in a few component and supporting industry sectors, where Thailand may possess a competitive advantage.

The automotive industries in the world are evolving into a rational international order, as the global competitive environment intensifies. Almost all major automobile and autoparts manufacturers have embraced a global perspective in formulating their strategies, and international cooperation has become a growing characteristic of the auto industries around the world.

Manufacturers who are domestically-oriented must regard international collaboration as an advancement to enable them to better compete against their foreign rivals. Before considering the specific investment opportunities offered by the automotive sector in Thailand, it is useful to examine some general competitive advantages possessed by the Thai economy.
a) Cost advantages. The minimum wage in the Bangkok area effective from April 1994 is 145 Baht or US$5.80 per day unloaded. The cost savings are substantial for labor-intensive parts. Overhead costs are moderate.

b) High productivity potential. Thai productivity is generally somewhat low compared to Japanese and European standards. However, in well-organized plants (mostly final assembly) the productivity is at least on the same level as European plants.

c) High machine utilization potential. The utilization of costly machinery can be 3 shifts per day (24 hours a day) and, in many cases, 6-7 days a week.

d) Sourcing of low priced tooling. Local production of molds, jigs and sies and locally-produced sub-components are available at low prices.

e) Low transportation costs. Shipping costs are often less than 5 percent of value and as little as US$3,000 per 40-feet container to Europe or USA. Transportation times are 4-6 weeks by boat or 2-4 days by air.

4.2 Investment Opportunities in the Assembly Sector

New investment opportunities in passenger car assembly for local sale are limited. There are currently twelve assembly plants with capacity of about 400,000 cars per year with another 300,000 + units of capacity coming on-stream in 1997. In the United States, Europe and Japan, two plants operating at efficient volume levels would be sufficient to produce 400,000 units per year. Liberalization of the automotive sector while maintaining local content requirements has made the economics of local assembly of small volumes tentative at best. A minimum scale of 30-40,000 units annually is reported by
industry sources as a break-even volume for mid-range passenger cars and pick-up trucks

Commercial vehicle assembly offers a broader range of opportunities for investment. Nearly 62 percent of current production is accounted for by pick-up trucks, and local industry officials are confident in Thailand's ability to carve out a niche as one of the world's top pick-up truck makers. Because of the larger production base, commercial vehicle component manufacturing is more viable than passenger car components.

Thailand's four largest pick-up truck assemblers—Toyota, Isuzu, Mitsubishi, and Nissan are expanding capacity both to meet expected domestic demand and for export to emerging markets in Indochina and Burma as well as Japan and Europe. Nissan recently launched its NV model which has been developed as an ASEAN platform. Mitsubishi has announced plans to move all of its one ton pick-up truck assembly from Japan to Thailand. The new facility will be located in the Laem Chabang Industrial Estate in Chon Buri province.

The large truck category (six and ten wheelers) is the most cyclical vehicle segment in Thailand. Hino, Isuzu and Mitsubishi control more than 80 percent of the market. Volvo Trucks and Scania now export finished units to Thailand but are considering establishment of large-scale local assembly operations. They are optimistic both about Thailand's projected demand for large trucks, and for opportunities to sell in the Greater Mekong Subregion. Thailand welcomes new investors in this segment although incentives from the BOI will be limited, since Thailand already has sufficient planned capacity to meet demand.

Peugeot and Ford are the only non-Japanese manufacturers selling pick-up trucks in Thailand. Ford will be building a 150,000
unit greenfields pick-up truck assembly plant in cooperation with Mazda, making Ford the first new manufacturer to enter the market in about 10 years. In addition to Chrysler and GM, the Thai company Siam V.M.C.Co., Ltd. is planning to develop an indigenous Thai pick-up truck using an engine and transmission imported from Italy. Thai Rung Union Cars, which used to convert pick-up trucks into station wagons under contract to Isuzu, is rumored to be engaged in a project to develop an indigenous van for assembly and distribution in Thailand.

The large truck category (composed of vehicles 5 tons and over), is the most cyclical vehicle segment. Demand for heavy trucks is closely tied with construction investment, petroleum demand, and exports. Four Japanese manufacturers, Isuzu, Hino, Mitsubishi, and Nissan control more than 98 percent of the market, and practically 100 percent of the six and 10 wheel segment. All four companies have assembly operations.

European trucks, Volvo, Scania, Mercedes, and to a lesser extent Iveco, Renault, and DAF predominate in the true (250 HP+) truck tractor segment. Volvo, Scania, DAF, and Renault were considering local assembly in the late 80s when heavy truck demand hit an all-time cyclical peak. Now that the Thai economy has plateaued, all of these companies have shelved their plans for the foreseeable future. Current demand is satisfied by imports of CBUs.

4.3 Investment Opportunities in the Components Sector

For the 1990s, the best investments will be in large-volume production of components to feed commercial vehicle assembly operations in Thailand and for export to assembly operations in the region. Strong consideration might be given to establishing greenfield plants with foreign or Thai venture-capital firms that can
provide financing and political clout for local operations. The following parts offer the most attractive opportunities for investment and joint-venture operations.

However, because OEM demand is overwhelmingly from Japanese assemblers, non-Japanese component makers already supplying Japanese companies either in Japan or through transplants in the US, will have great advantage over those without previously developed relationships.

Despite rising wages, Thailand still boasts strong competitive advantages in skilled, labor intensive component manufacturing. In February 1991, a seat manufacturing supplier to General Motors, Lear Seating established a manufacturing presence in Thailand to produce for export to the United States. Their OEM leather covers will reportedly save General Motors millions of dollars, according to a well-placed GM official.

Thailand is without a company able to properly "can" catalytic converter elements. Due to this situation, assemblers are importing converters in their CKD kits. However, although catalytic converters are exempt from duty, assemblers are still being charged duty on the elements, due to confusion over how the exemption should be handled when the exempt part is a component within a taxable kit. Assembling the elements locally would eliminate this problem.

Ford Motor Company and Chrysler now source a high volume of wiring harnesses from a Thai-Japanese joint-venture, Thai Arrow Co., Ltd. Thai Arrow has a virtual monopoly position in the Thailand auto market and also exports 75 percent of its output to the United States and Australia.

Engineering plastics such as Noryl, Nylon 6, and POM must be imported and are subject to 60 percent duties. Components produced
from this material and imported in CKD kits are subject to only 20 percent duty. Currently there are no companies compounding engineering plastics although Toyota reported that one of its plastic suppliers in Japan is investigating the feasibility of a compounding project.

There are only about 10 companies competent and experienced enough to supply the OEM market with plastic parts. Manufacturers obtain good support from local assemblers in engineering and designing. Nevertheless, Thai manufacturers are not yet competent in advanced technological processes such as composites or reinforced plastics. In addition, Thai manufacturers are still unable to produce difficult or complicated molds and dies. As the import tariffs on plastic resins and compounds are lowered over the next five years, Thailand should gain a price advantage over Malaysia in the manufacture of plastic components.

Able Auto Parts Industries Co., Ltd., (AAPICO) is the largest manufacturer of automotive assembly jigs in Southeast Asia. The company specializes in designs which maximize productivity in low volume production. Since 1991, APICO has captured business from Chrysler, Volvo, Honda, and Nissan. AAPICO also has exported to Malaysia, Indonesia and the US.

Eight auto Companies, including DAF, Volvo, Toyota, Mitsubishi and Isuzu have gained approval for brand-to-brand complementation schemes. Subsidiaries in each of the ASEAN countries produce a select number of products at high volumes (to achieve economies of scale) and export the final products to assembly operations in the neighboring countries. Over time, it is expected that Thailand, like other countries in ASEAN, will cultivate competitive advantages in production of certain components. The underlying strategy for new investors will
be to produce at volumes to permit economies of scale, selling a share of the output on the local market while exporting the balance to assembly operations in third countries.

4.4 Investment Opportunities in Support Industries

Investments in supporting industries offer the greatest potential and greatest risks. Supporting industries are somewhat less developed than either the assembly of component industries. They require substantial capital investments to start up operations.

But once facilities are in place and operations begin, investors can gain prime mover advantages. Thailand needs assistance in expansion or technological improvements in several support industries, including metal working, electronics and machine tools. Such investments can also benefit from the increasing demand in other sectors, such as electrical and electronics, farm machinery, and other consumer products.

In casting, downstream facilities are now insufficient to meet demand. Aside from in-house manufacturing by Japanese assemblers, only C.M. Industry and Thai Engineering Products can provide quality OEM products. Thailand also lacks proper forging operations, a sector ripe for investment—particularly in powder metallurgy. Thailand now imports most of its forged parts.

Perhaps the best approach to developing an investment strategy for Thailand in a supporting industry is to identify clearly the strength and depth of demand for supporting services and products. BMW, for example, intends to establish an electronics affiliate here in Thailand. A share of the output will go to BMW cars in Thailand, with the balance being channelled to other upstream assembly operations, international.
Many Thai support industry firms are eager to upgrade their technologies and, thanks to the current economic boom, have the financing required to purchase such improvements. The Thai government has expressed an interest in diversifying away from dependence on the Japanese for this type of technology and it welcomes initiatives from North America and Europe.

4.5 Standards and Testing Organizations

Thailand has one government standards testing agency capable of certifying automotive components. The Thailand Institute of Scientific and Technological Research (TISTR) under the Ministry of Science, Technology, and the Environment is reported to have new technologically-advanced equipment for materials testing, but lacks sufficient staff and resources.

In addition to this government lab, many of the more technically sophisticated components manufacturers have international standard in-house capabilities. Chrysler reported that they have certified the following manufacturers in addition to TISTR: Nippondenso, Thai Yazaki, NIK Sprint, Bangkok Foam, Thai Stanley Electric, and Thai Safety Glass.

CONCLUSIONS

There are a handful of sweeping conclusions to be made about the Thai automotive industry. These findings, along with their implications for investment, are highlighted below.

Thailand is home to the most advanced automotive industry in Southeast Asia. With sales of 485,678 vehicles in 1994, Thailand boasts the largest market in the region (Indonesia is second at about 200,000 units) and has recorded extraordinarily-high growth rates in the last
four years. This strong growth is spurring new dynamism in the industry, as more foreign firms are investing in Thai automotive operations and the local industry itself is under increasing pressure to reform. The new capital inflows and a liberalized competitive environment spell opportunity for new businesses.

Naturally, investment opportunities are neither risk-free nor easy to secure. Japanese penetration and consolidation of several key parts of the industry is nearly complete, a factor which makes entry into most auto-related businesses difficult. Even where reforms pave the way for new ventures, vested interests, both Japanese and Thai, will not forfeit their advantageous positions easily. One can expect them to apply maximum pressure to policy-makers in Thailand to slow any process that threatens to erode their favorable operating position.

Nevertheless, the rate at which the domestic market is growing, coupled with the competitive advantages Thailand offers as a manufacturing site, and recent and impending regulatory liberalization, are sufficient incentive to draw serious new investors. So since 1991 the Kingdom has witnessed the return of the American Big Three (GM, Ford, and Chrysler) who are aggressively establishing footholds in the market. The Thai market for pick-ups is already the second largest in the world (after the US) and Japanese manufacturers are determined to transform Thailand into a major assembly and component manufacturing export base for their assembly operations worldwide.

All leading indicators: growth rates, market potential, cost advantages, strategic location point to investment in the Thai auto industry as a sound decision. The Thai auto market presents a textbook case of an emerging industry at the take-off stage of development. The
sector is ready for growth and needs the infusion of new technologies and capital to exploit both Thai and global markets. Current reforms will facilitate entry into the market and new investments will create a host of additional opportunities in the late 1990s.