

# Special report: The ASEAN auto industry



# Copyright

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# Executive summary

- The ASEAN bloc slowly but surely continues to strengthen ties between its economies. The elimination of tariffs on imported completely built-up (CBU) vehicles enables OEMs to treat the region as a single market.
- This makes Vietnam, a previous favourite, an even greater opportunity. Vehicle ownership is low, at 16 per 1,000 people, and the abolition of tariffs could make affordable cars available to its emerging middle class.
- However, OEMs remain concerned about non-tariff barriers in the region, and Vietnam presents a case in point; Decree 116, which went into effect at the start of 2018, places stringent testing requirements on all vehicle shipments.
- Thailand, the region's biggest manufacturer, wants to raise annual production to 3.5 million units by 2025. It hopes a comprehensive set of incentives will attract further investment. Thailand faces competition from Indonesia, which has its own goal of becoming the leading production hub.
- Singapore has emerged as a hotbed for autonomous testing. Companies like Aptiv-owned nuTonomy continue their trials, as the country moves towards a 'car-lite' society. The government plans to cap new vehicle growth at 0%.
- Countries in the bloc are laying favourable conditions for electrification. Thailand is planning tax exemptions for companies who want to manufacture EVs and EV components, and the Philippines will introduce excise duty exemptions for EVs and hybrids.
- Japanese OEMs continue to dominate the market. Others, such as Ford, can still find success in the region by playing to their strengths. Pick-ups are an important and popular offering, particularly in markets such as Thailand.
- Despite international condemnation, Philippines President Rodrigo Duterte's divisive politics have failed to spook OEMs, and the country remains an important location for the auto sector. Sales in 2017 were up 17%, and the country has ambitions of becoming a manufacturing hub capable of producing 1 million units a year by 2027.
- Chinese OEMs lack the ASEAN production base which Japanese OEMs have established through the decades. Their presence is muted, but there are signs of emergence: Geely acquired 49.9% of Proton in 2017, and Wuling has invested US\$700m in a factory in Indonesia to manufacture MPVs.
- Huge infrastructure projects across multiple countries in the region are good for truck OEMs. Indonesia, for example, is expected to pour US\$500bn into infrastructure projects over the next five years.

# ASEAN's mixed national policies – just another challenge for the auto industry

*The ASEAN region will once again outperform the global average for vehicle sales growth. A mixture of internal policies has created particular hotspots in the region, writes **Anna-Marie Baisden** of BMI Research*

Asia will remain one of the key regions for global vehicle sales growth – BMI Research (BMI) forecasts a 4.0% increase in sales in 2018, ahead of its forecast for global sales to grow 3.2%. Within that regional outlook, the ASEAN region will be an even stronger market, with projected growth of 6.9%, up from 5.4% growth registered in 2017.

The ASEAN region has some standout growth opportunities in terms of smaller sales markets, but the return to growth of some of the region's traditional leaders make the region even more attractive. Government policy in certain markets is also driving sales and attracting manufacturing investment.

## The hot spots

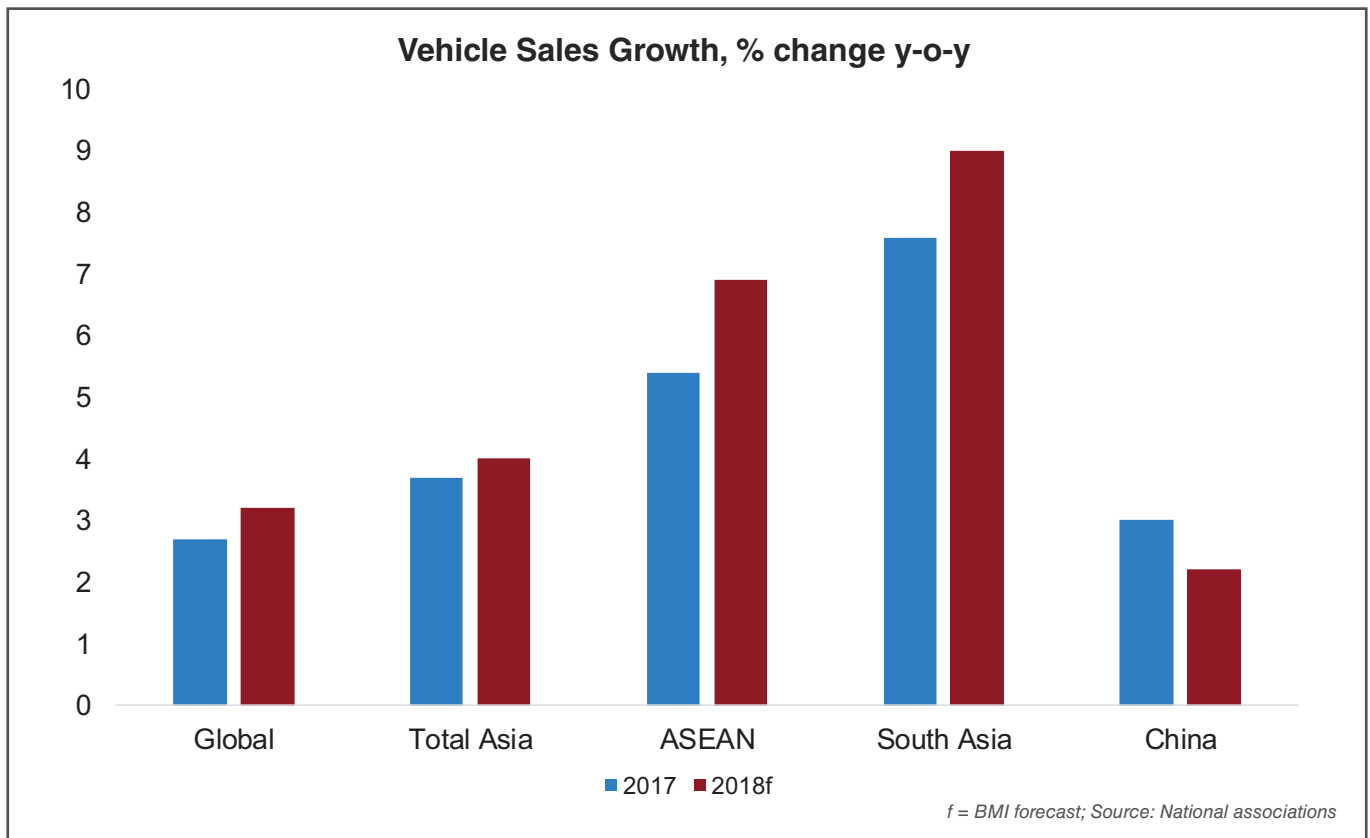
Vietnam has long been one of the region's leading markets for vehicles sales, but BMI expects a favourable change in tax structure to create even more

opportunities in 2018. Following a 7.0% decline in 2017 (when consumers were thought to be waiting for the new policy to take effect), BMI forecast vehicle sales to increase 18.9% in 2018, led by a 22.0% increase in the passenger car segment. This is largely down to the reduction in Special Consumption Tax for cars with engines of 2.0-litres and below. In addition, the elimination of tariffs on completely built up (CBU) vehicles imported from other ASEAN countries is a growth driver, as this will contribute to lowering prices.

In accordance with the ASEAN Trade in Goods Agreement 2016-2018, tariffs on vehicles imported from ASEAN member countries into Vietnam were reduced to 0% from 1 January 2018, from 30% previously. This policy will only apply to vehicles produced in ASEAN member countries with a localisation rate of 40%. Due to low localisation rates and high production costs, the price of Vietnamese-made cars can be nearly 20% higher than in other



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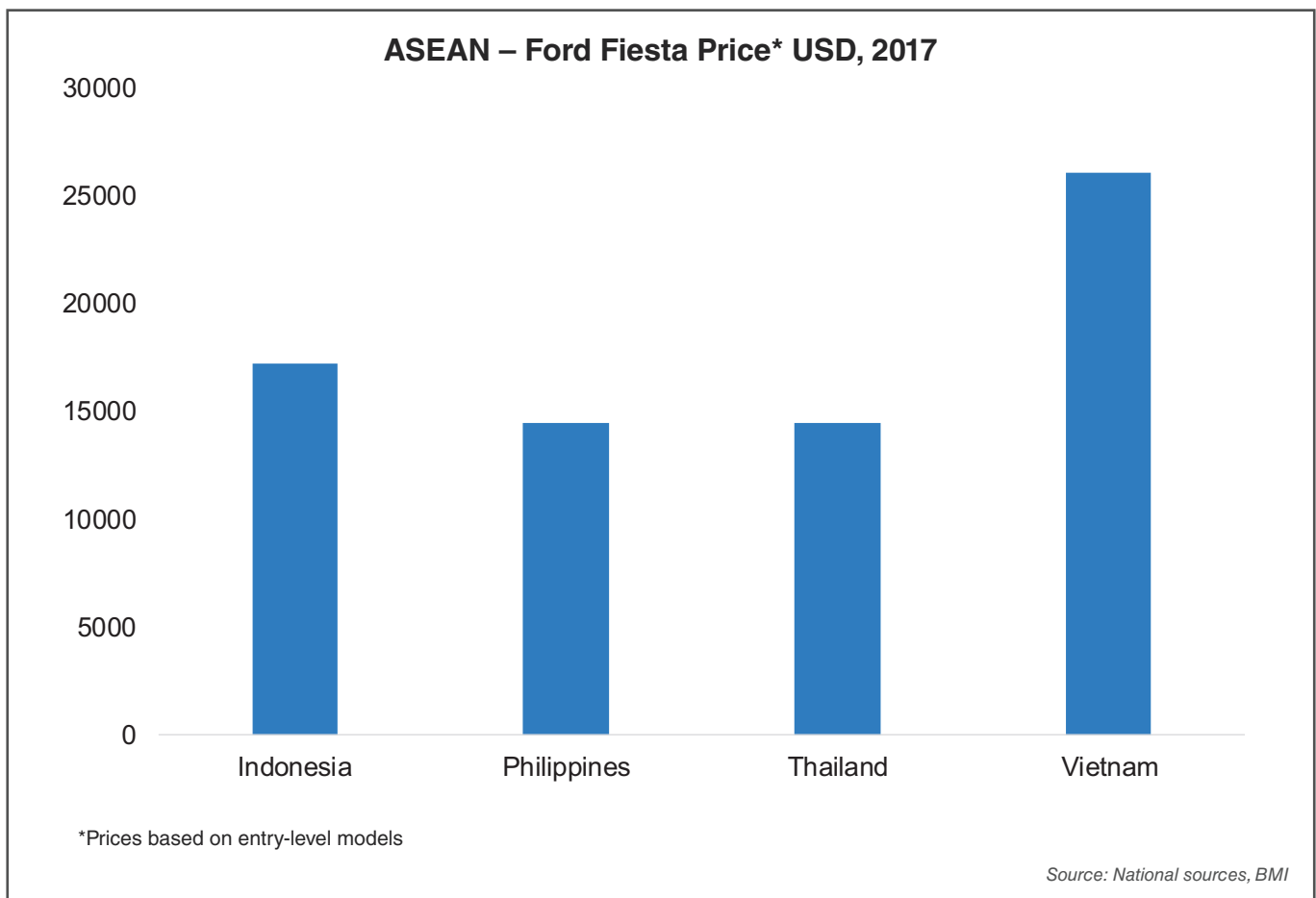
ASEAN member countries, as shown in the average price of a Ford Fiesta across the region in 2017 in the accompanying chart. BMI therefore believes that, as tariffs drop and imported models gain easier access to

the market, consumers in Vietnam will benefit from lower prices and greater model choice.

In addition to sales growth, BMI expects Vietnam’s new vehicle tax structure based on engine size to lead to a shift in consumer demand in 2018. In line with this, small-engine sedans and hatchbacks (vehicles with engine sizes of 2.0 litres and less) will experience stronger sales gains as tax cuts on these vehicles make them more affordable when compared with prices of larger SUVs and crossovers. As part of the Vietnamese government’s new tax regime, the Special Consumption Tax (SCT) on vehicle purchases will be as follows:

“*While Vietnam is one of the higher growth markets in the ASEAN region, the return to growth - however small - of the likes of Thailand, Indonesia and Malaysia is always a positive, given their standing as the larger markets in the region*

- The tax rate on vehicles with nine seats or fewer, and an engine displacement of 1,500cc or less, dropped from 40% to 35% from 1 January 2018;
- The tax rate on vehicles with an engine displacement of 1,500-2,000cc decreased to 40% from 1 January 2018, down from 45% previously;
- The tax rate on vehicles with an engine displacement of 2,000-2,500cc remains at 50%;
- The tax rate on vehicles with an engine displacement of 2,500-3,000cc was raised to 60% from 1 January 2018, up from 55% previously;



Vehicles with an engine displacement of more than 3,000cc saw their tax rates rise to 90-150% from 1 January 2018, up from 60% previously.

BMI believes that these tax cuts will continue to increase the market share for cars with engine sizes of 1.5-litres and less, despite these vehicles already accounting for about half of the local market. These reduced tax rates are expected to result in price reductions of up to 42% for certain vehicles in 2019, according to Vietnam's Ministry of Finance. This will help bolster sales volumes of OEMs including Ford, Kia, Hyundai, Mazda and Toyota, all of whom offer cars with engine sizes less than 1.5-litres. BMI also expects to see more smaller models coming on to the market to capitalise on the new tax structure.

A risk to new vehicle sales in Vietnam will be the government's Decree No. 116/2017/ND-CP. In line with this regulation, which has been in effect since 1 January 2018, car importers in Vietnam are required to obtain a Vehicle Type Approval (VTA) certification, which details the imported vehicles' quality, safety and environmental

protection. This will, therefore, provide technical barriers to vehicle imports into the country and thereby pose the main constraint to our sales forecast.

### Return of the giants

While Vietnam is one of the higher growth markets in the ASEAN region, the return to growth – however small – of the likes of Thailand, Indonesia and Malaysia is always a positive given their standing as the larger markets in the region.

In Malaysia, the removal of the government's Goods and Services Tax (GST) from 1 June 2018 will provide a window for consumers to buy cheaper vehicles until an alternative is introduced. The GST, which was introduced in 2015, had been criticized for raising living costs in the country and was one of the reasons behind weak growth of just 0.03% in new car sales in Malaysia in 2015. The new Malaysian government is expected to replace the GST with a Sales and Services Tax (SST), although no date has been confirmed as to when this will take place.



*One of the downsides to the region comes from the Philippines, which was a favourite for growth up to now. BMI expects the tax reforms introduced by President Rodrigo Duterte to result in a 5.9% decline in vehicle sales in 2018*

BMI believes that the 'tax holiday' that will be in place until a new tax structure is put in place, will provide a boost to consumer sentiment leading to a temporary spike in new car sales in 2018. Many companies have announced zero-rated GST prices, and the subsequent savings for car buyers. Toyota car buyers, for example, are expected to save around MYR6,500 (US\$1,632) for a 2.4-litre Hilux double cab pick-up truck and close to MYR5,000 for a 1.5-litre Vios G grade. The price of a new Volkswagen Polo is expected to drop from around MYR76,888 currently to MYR72,488 post-GST. This will help both companies increase their market shares, which stood at 9.4% and 1.1% for Toyota and VW respectively in Q1 2018.

In Thailand, a combination of factors will see vehicle sales rise 9.4% in 2018, led by 17.2% growth in passenger car sales. In addition to a positive economic backdrop, there will be two other main growth drivers.

Firstly, the end of a year-long mourning period for King Bhumibol Adulyadej. Since the death of the Thai monarch in October 2016, consumer spending in Thailand was subdued as the country went into a period of mourning to pay respect to the late royal. BMI expects the end of this year-long mourning period (which concluded in October 2017) to help lead to a revival in consumer spending. Secondly, the expiry of the five-year lock-up period for vehicles bought under the first-time car buyer scheme will provide further tailwinds. The scheme was established in 2011 for first-time car buyers purchasing Thai-made vehicles, which had to be retained for at least five years. This scheme expired in September 2017, meaning that beneficiaries of this incentive programme can now sell their vehicles and purchase new ones.

### **Policy driving investment**

BMI's regular round-up of investment projects in the region shows that government policy is also having a positive effect on investment. In Q1 2018, BMW, Mercedes-Benz and Toyota all announced plans to produce batteries for electric vehicles in Thailand. In 2017, Thailand's Board of Investment approved incentives including tax holidays and import tariff exemptions on machinery for OEMs making at least one of their vehicles' core components, including motors and batteries, in Thailand. These investments also show how vehicle manufacturers are positioning themselves to be best placed to benefit from growing market demand for EVs domestically. As evidence of this, 40% of the vehicles Mercedes sold in Thailand in 2017 were plug-in hybrids, and for BMW, the figure was 13% over the same period. In addition, these EV component manufacturing investments also indicate the local market's potential as being a leading EV production hub in the South East Asia region.

### **Downside from a former favourite**

One of the downsides to the region comes from the Philippines, which was a favourite for growth up to now. BMI expects the tax reforms introduced by President Rodrigo Duterte to result in a 5.9% decline in vehicle sales in 2018. As part of the new bill, a new four-tier tax scheme for automobiles was introduced, which in some cases doubles the rate of tax on purchases.

As evidence of the negative impact these higher taxes are having on demand, total vehicle sales in the Philippines fell by 9.3% y-o-y in the first four months of 2018. Added to this, BMI believes that a weakening peso and rising inflationary pressures will act as a drag on consumer spending and in turn on new vehicle purchases in 2018.



# Despite complications, ASEAN auto industry still has plenty of momentum

*The ASEAN project has seen trade barriers fall across the region, with important consequences for the automotive industry, writes the Economist Intelligence Unit's **Ana Nicholls***

At the start of 2016, the ASEAN Economic Community (AEC) came into operation, promising to create a combined market of ten fast-growing countries with a population of 640 million and GDP of US\$3trn. The market potential of Indonesia in particular had already made the ASEAN region an integral part of vehicle manufacturers' global planning. Yet the dropping of tariff barriers under the AEC's Trade in Goods regulations did not result in the big bang that many had expected. Instead, the AEC's promise is only slowly being fulfilled.

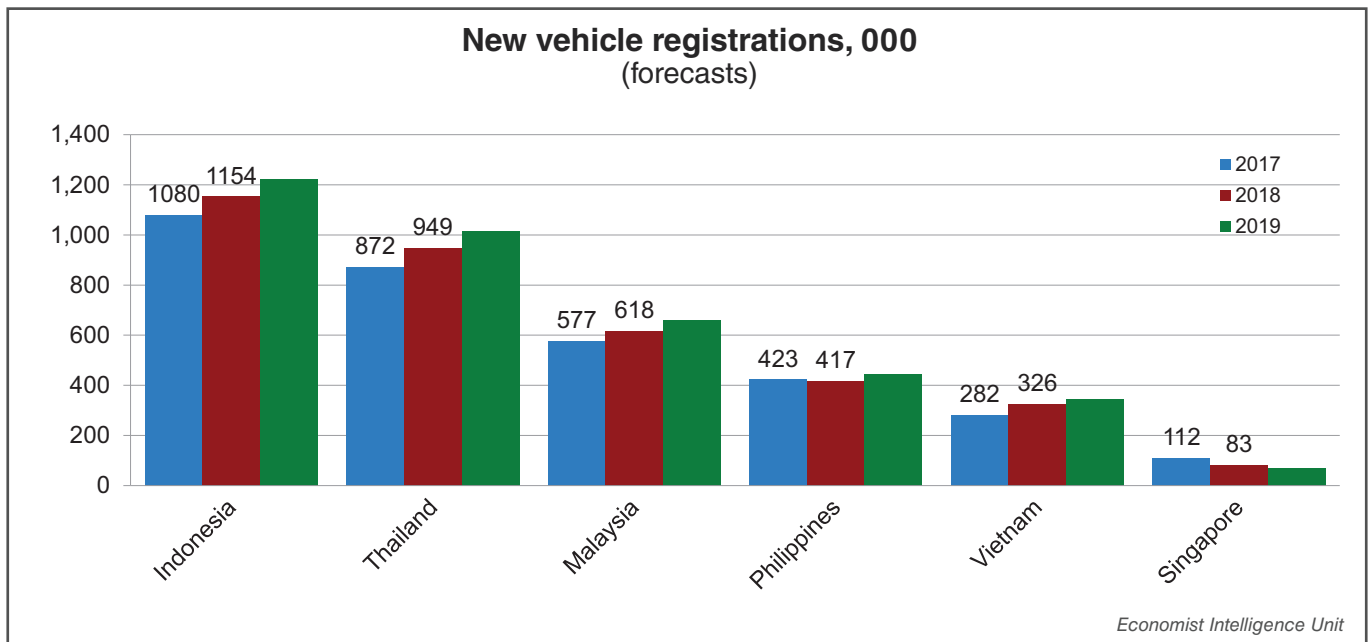
Part of the problem is that, although automotive tariffs have fallen across the region, some non-tariff barriers remain. Vietnam, for example, tightened inspections for all imported vehicles in early 2018. It also stipulated that each imported car would need a new Vehicle Type Approval (VTA), much to the chagrin of Thai exporters who were forced to suspend sales. Malaysia, meanwhile, has duly dropped its tariffs but still imposes excise duties ranging from 75% to 200% on cars without local content. Last year, it also announced that imported vehicles would need a Vehicle Entry Permit (VEP); prices for these are low, but they remain an administrative hassle.

Such actions have prompted protests from OEMs and importers, and in March 2018 Vietnam belatedly announced that it had started customs clearance work on 2,000 Thai cars that now have the required VTAs. Indonesia, too, has managed to get its certificates in order, so it can export to Vietnam. Overall, however, although production and exports across the region showed promising growth in 2017, after a decline in 2015-16, they are still well down on their peaks of 2013 or 2014.

The picture for sales is also mixed. The market in the Philippines has been strong, with new vehicle sales reaching successive annual records. In 2017, total sales were up nearly 18% on the previous year, and more than twice as high as five years earlier. Myanmar reported the biggest improvement in the ASEAN region, with a 97% jump – although total sales are still low at just over 8,000 units. The Thai and Singapore markets also saw substantial growth in 2017, but in these cases, it was not enough to get back up to previous peaks. Meanwhile, Indonesian growth was subdued, and Malaysia dropped back slightly. Vietnam saw sales drop by nearly 9%, while those in oil-dependent Brunei were down by 11%.



*The dropping of tariff barriers under the AEC's Trade in Goods regulations did not result in the big bang that many had expected. Instead, the AEC's promise is only slowly being fulfilled*



The prospects for 2018-19 are equally mixed. Most of the region's markets are expected to see growth, while Vietnam will see a recovery. Singapore, however, appears set for a slump after the authorities set a target for zero growth in the stock of private cars and motorcycles until 2020. As for longer term prospects, in five years' time the region's vehicle sales look set to top 5 million, compared with fewer than 4 million last year. That means that sales will be on par with those of India, which by then will be world's fourth-biggest market.

**Who will benefit?**

The question, still, is which vehicle manufacturers and which countries stand to benefit most from this growth? Japanese OEMs have long seen the ASEAN region as their back yard, and appear well-positioned to take advantage of the new openness. Toyota and Honda are already using their bases in Thailand to raise exports into countries such as Vietnam and Malaysia. But they are seeing strong challenges from Chinese vehicle manufacturers among others. Geely last year bought a 49.9% stake in Malaysia's national carmaker, Proton, while SAIC-GM Wuling Automobile (a China-US joint venture producing commercial vehicles) opened a US\$700m plant in West Java, Indonesia.

As the OEMs jostle for position, so too do the countries in which they are investing. The main battle is between Thailand and Indonesia, both of which are vying to become the region's production base. Thailand undoubtedly has a head-start. Toyota has been there for

55 years and plans to lift annual production capacity in the country by 200,000 vehicles over the next three to four years, with a particular focus on hybrid production. Honda, having bounced back from the devastating floods of 2011, opened a new plant there in 2016 and then a research and development facility in 2017.

The Japanese vehicle manufacturers are not alone. BMW is also expanding its production capacity there, while Ford made Thailand its regional hub in 2014. In December 2017, China's SAIC, which has been operating in Thailand in a joint venture with CP Group since 2012, opened a Thai plant to produce its MG Motors cars for local sale and for export. To support such investment, Thailand recently developed a new industrial policy that includes automotive; it also extended its eco-tax programme to include a series of tax breaks and other incentives for electric car production.

However, Indonesia is also luring in investors – not just from China but also from Japan. Toyota Motor Manufacturing Indonesia employs 9,300 people at two vehicle plants and two parts plants in the country. Nissan has a joint venture with IndoMobil Group, while its subsidiary Mitsubishi opened a 160,000-vehicle plant in Cikarang in April 2017. Hyundai of South Korea will start production in Indonesia later this year, adding to the SAIC-Wuling investment of last year.

Those opting for Malaysia include Geely, through its acquisition of Proton. In early 2018, it was joined by PSA Group, which has invested in the manufacturing facilities



*The region is also poised to benefit from the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the huge trade agreement that will bring together the ASEAN nations of Malaysia, Singapore and Vietnam with new partners such as Canada, Mexico and Chile*

of Naza Corp, another local company. Daihatsu, meanwhile, remains one of the founding partners of Perodua, now Malaysia's biggest OEM, although it has been blocked in its efforts to raise its stake. Malaysia's National Automotive Policy (NAP) 2014 aims to raise production to 1.3 million a year by 2021 – ambitious, given that output fell to just 460,000 units in 2017. Undaunted, the government is now planning a National Automotive Policy focusing on mobility and new generation vehicles.

### Smaller players

The region's smaller automotive bases are also trying to get in on the act, although their prospects appear limited. In Cambodia, KamAZ, a Russian truck manufacturer, last year signed a Memorandum of Understanding with a local firm to distribute its heavy trucks there and eventually establish an assembly plant in the country. In Laos, Daehan, a local automaker, is looking to export pick-up trucks to markets such as Vietnam, Myanmar and Cambodia.

Even more OEMs are looking to Myanmar, given the availability of ample cheap labour, tax incentives and the promise of an underdeveloped market. Six foreign OEMs currently assemble their vehicles in the country: Nissan, Suzuki, Ford, Isuzu and Lifang, a Chinese automaker. Ford and Suzuki have already announced expansion plans, although their focus is currently on home sales rather than export.

As for the Philippines, in mid-2015 the government finally rolled out its long-awaited Comprehensive Automotive Resurgence Strategy (CARS Programme) to underpin its investment incentives. It is now developing a programme to boost the share of the manufacturing sector in GDP from 23% to 30%, and to lift employment in the sector from 9% to 15%. However, foreign investment may be discouraged by the volatile nature of Rodrigo Duterte's government.

Investment is also increasing in Vietnam. In February 2017, Thaco, a local car manufacturer, signed an agreement with PSA to build a local assembly unit in Chulai to produce two new Peugeot SUV models. Vietnam is also getting its first indigenous automobile manufacturer. A start-up, VinFast, an offshoot of the property company VinGroup, is planning to release its first sedan and SUV models before the end of 2019, with a production capacity target of 100,000 per year at the start and 500,000 by 2025. Total investment is set at US\$3.5bn, and construction for the first phase of the production plant began in late 2017.

Yet clearly the region's smaller markets are less confident than Thailand that falling trade barriers are to their advantage. The imposition of non-tariff barriers in countries such as Vietnam and Malaysia represents a last-ditch effort to protect their nascent automotive industries from the effects of freer trade – and risk undermining the principle of the AEC. Despite the persisting niggles, however, the momentum behind the ASEAN region is growing, not just for its own sake but also because of its external partners.

Prime among these are the six countries (China, India, Japan, Australia, South Korea and New Zealand) with whom it has signed free trade agreements – and with whom it is now planning the Regional Comprehensive Economic Partnership. The region is also poised to benefit from the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the huge trade agreement that will bring together the ASEAN nations of Malaysia, Singapore and Vietnam with new partners such as Canada, Mexico and Chile. If that becomes a reality, then vehicle manufacturers will certainly need to take ASEAN into account in their global planning.

# Interview: Yukontorn Wisadkosin, President, Ford ASEAN

*The Blue Oval has a long relationship with Thailand and other ASEAN markets. Success, says Ford's Yukontorn 'Vickie' Wisadkosin, depends on playing to your strengths*

Back in early 2015, GM announced it would be quitting production in Indonesia and scaling back operations in Thailand. The move underlined the importance of foreign OEM strategy in the ASEAN region, and in particular for those from the US and Europe; whilst opportunities for manufacturers remain rife throughout the emerging markets, Japanese dominance of the compact segments means success requires some imagination.

One OEM that understands this well is Ford, which has had a presence in the region for some time. The Model T was sold in Thailand in 1913, and Ford manufacturing first arrived in 1960 as part of a joint venture with Anglo-Thai motors. Like GM, Ford has also scaled down some unprofitable ASEAN operations in recent years, shuttering its own Indonesian production in 2016, around the same time as its Japanese operations.

However, the area remains important to the OEM, where its SUV and pick-up offerings are especially popular. In the second half of 2018, the 2019 Everest (known in some markets as the Endeavour) will be launched in the country, a mid-cycle refresh featuring new engine options.

Yukontorn "Vickie" Wisadkosin has been the head of Ford ASEAN since October 2017, the first Thai-born employee to reach the position after she was promoted from Managing Director of Ford Thailand. Major markets falling under her responsibility include Thailand and Vietnam, but Ford also has ambitions to grow further into a number of Asia-Pacific emerging markets, including countries within the ASEAN block such as Myanmar and Cambodia. Here, Wisadkosin discusses the opportunities and challenges for Ford in the ASEAN region.

“*Vietnam has the highest growth potential. The automotive market there is relatively young, and the number of people who own cars is relatively small, so there's a big opportunity. In terms of market size, last year there were overall sales of about 250,000 units. This year it could reach 300,000*





*Vietnam offers excise tax exemption for CKD products, but in addition, the whole range of Ford ASEAN products is already available in Vietnam, and so the Haiduong assembly is a way for us to optimise our footprint in the region*

**Can you please walk us through Ford's activities in the ASEAN region: where does it build, and where does it sell?**

In Thailand, we have a wholly-owned manufacturing plant, along with a joint venture with Mazda called AutoAlliance Thailand. We also run a small manufacturing operation in Vietnam, where we assemble vehicles like the Fiesta in CKD (completely knocked down) operations. Then we have sales companies and distributors throughout the ASEAN region, including emerging markets such as Cambodia, Myanmar and Laos.

**Do you identify any ASEAN markets with particular potential for Ford?**

Generally speaking, the ASEAN region as a whole is still emerging, particularly in an automotive context. But if I had to rank the three major markets, those being Thailand, The Philippines and Vietnam, I would say Vietnam has the highest growth potential. The automotive market there is relatively young, and the

number of people who own cars is relatively small, so there's a big opportunity. In terms of market size, last year there were overall sales of about 250,000 units. This year it could reach 300,000.

Thailand remains the largest market, however, and over the first five months of 2018 we have seen a strong performance, with around 16% year-on-year growth. Growth is in fact faster than we originally forecast – we were expecting sales of around 950,000 units for 2018, but the latest figures are suggesting it could go as high as one million. Of course, we're only in June, and we'll need to stay vigilant. Q3 is usually slower for sales in Thailand.

**Conversely, are there any markets that present particular challenges right now?**

The Philippines presents some challenges, particularly with regard to foreign exchange. The peso is relatively weak, and the latest excise tax introduced in 2018 has also had an impact on the industry, because it has increased the manufacturer's suggested retail price for popular, mainstream automotive products.

**Are there any markets you would say make life difficult for foreign OEMs?**

No. In my experience, US OEMs have always been welcome in the region. Of course, each market presents its own challenges for each individual OEM. The Philippines is a good case in point. Meanwhile, in Vietnam, there were new regulations for CBU (completely built up) imports introduced earlier this year. These regulations subject all imports to a more stringent test process, which increases the OTB (open to buy) lead time. This applies to imports from any market, including Thailand. But as mentioned, the picture in Vietnam overall remains good, and so we find ways to deal with this.



*In my experience, US OEMs have always been welcome in the region. Of course, each market presents its own challenges for each individual OEM*



*Products like the Ranger and Everest have done very well in Thailand. Back in 2015, the Ranger's share of the one-tonne pick-up market was around 6.5%. Right now that figure is around 13.6%, and so we have doubled our share since then, and this is the biggest vehicle segment in Thailand we're talking about*

**You mentioned assembly in Vietnam. What's the logic behind that?**

Vietnam offers certain amounts of excise tax exemption for CKD products, but in addition, the whole range of Ford ASEAN products is already available in Vietnam, including the Focus, Fiesta, Transit, EcoSport and the Ranger. And so the Haiduong assembly in the Hanoi Metropolitan Area is basically a way for us to optimise our footprint in the ASEAN region. In Thailand we have a strong hub in Rayong where we build the Ranger and Everest, and those two products are exported throughout ASEAN. For other products, it makes more sense to build locally.

**So Thailand remains the hub. What are some of the major benefits there?**

A full answer to that question could take hours, but in short, Thailand is a mature market, and that means it is home to a mature supplier base. That's one of the most important qualities, because in order to enjoy the improved import-export conditions provided by the ASEAN free trade agreement, we have to meet local-content production requirements. In Thailand, that amounts to around 40%. In addition, Thailand is the biggest market, and being here means we also benefit from its own excise tax exemptions.

**Traditionally the Japanese OEMs are said to dominate the ASEAN markets, which are in closer proximity to their respective HQs and manufacturing bases. How does an OEM like Ford compete successfully?**

We do this by leveraging our own particular strengths, our brand heritage, and our personal expertise. Much of this heritage and expertise lies in trucks and SUVs.

That's what we do well, and we have made very good progress in expanding our customer base across ASEAN in this way. Products like the Ranger and Everest, for example, have done very well in Thailand in recent years. Back in 2015, the Ranger's share of the one-tonne pick-up market was around 6.5%. Right now that figure is around 13.6%, and so we have doubled our share since then, and this is the biggest vehicle segment in Thailand we're talking about. The pick-up segment in Thailand represents around 42% of the total industry, and so we have the right product to compete in the right segment. We will continue to grow this share.

It's not just Thailand, either, as the Ranger is making good progress elsewhere. In the Philippines, our share is around 26%, and in Vietnam, it's around 50%, making us number one. And so that's how we make our presence felt in the region – strong products.

**How do you explain the popularity of the one-tonne pick-up within the ASEAN markets?**

In Thailand, there are tax benefits to owning a pick-up. The government supports the segment, and so depending on the body style and CO2 emissions, excise tax can go down as low as 3%. Compare this with passenger cars, where excise duties can rise to as high as 20%. And so this is a benefit that can be transferred to the customer.

The other thing is that ASEAN nations still have large agricultural industries where pick-ups are used heavily to support local businesses. What also helps is their diversity – during the day, a pick-up can be used for work, and then on the weekend, it can be used to move families around.

# Promise remains in Indonesia, but Japanese OEMs maintain the lead

*ASEAN's largest economy, with a growing middle class, remains as tempting as ever for OEMs – but can Indonesia match Thailand's manufacturing clout?*

If any country has a chance of displacing Thailand as ASEAN's largest vehicle manufacturer, it is Indonesia, the region's largest economy overall. However, figures from the International Organization of Motor Vehicle Manufacturers (OICA) reveal the scale of that challenge: in 2017, Thailand built just shy of two million vehicles, nearly half of ASEAN's total output. Whilst Indonesia boasted a bigger year-on-year production growth (3% against Thailand's 2.3%), it lagged behind at 1.2 million units. What's more, Thailand now has big plans to boost production beyond previous highs to 3.5 million units per annum by 2020. So how realistic is it to expect Indonesia to take the top spot?

"It is certainly realistic," says Douglas Cassidy, Country Head, Indonesia at Ipsos Business Consulting, "but whether it actually happens will depend on developments in both countries." Significant variables

include the rate of growth for domestic demand, active support for exports, infrastructure, regulation, labour markets and political risk.

Concerted efforts to let investors know that the country is open for business have been reflected in recent figures. "Indonesia has made significant improvements within its business environment, with its ranking in the World Bank's 'ease of doing business' index rising from 120 in 2014 to 72 in 2018," says Cassidy, "but this is still some way behind Thailand's rank of 26." Recent investments in the country include Mitsubishi's opening of a 160,000 upa capacity plant in Cikarang in April 2017, and SAIC-GM Wuling, which has opened a US\$700m facility in West Java.

Overall, when it comes to the Indonesian industry's health, Cassidy believes the fundamentals are in place –



*Indonesia has made significant improvements within its business environment, with its ranking in the World Bank's 'ease of doing business' index rising from 120 in 2014 to 72 in 2018, but this is still some way behind Thailand's rank of 26*

“*Indonesia benefits from a domestic market with huge growth potential. This could enable OEMs to gain economies of scale with a solid domestic base, and then to build exports from there*”

exports have risen in recent years, and untapped potential remains a big selling point. Part of what gives Indonesia its appeal as a manufacturing destination is the huge growth potential within its domestic market. The country is the world's fourth most populated, at over 261 million people, and whilst these may be spread across the many inhabitable islands that make up the nation, over half live on Java.

Ownership rates remain low, however, with figures from management consultancy Solidiance suggesting a ratio of only 55 cars per 1,000 people. This is lower than Malaysia's 341 per thousand and Thailand's 196 per thousand, suggesting that the market is far from saturated. An emerging middle class might soon have the means to plug that gap. “Indonesia benefits from a domestic market with huge growth potential,” says Cassidy. “This could enable OEMs to gain economies of scale with a solid domestic base, and then to build exports from there.”

However, he adds, growth in sales has been tempered in recent years and careful monitoring will be required. Exports and production figures may have risen, but

“domestic sales have had a more variable track record, not helped by worsening nonperforming loan rates leading to a more cautious lending environment.” Production capacity may have increased over the years, he adds, but a notable chunk of it remains underutilised.

In short, OEMs cannot bank on any one particular outcome. “It is not inevitable that the expected growth will occur,” says Cassidy. “As well as GDP growth, Indonesia needs to ensure that wealth is more widely distributed if the population as a whole is to have the rising disposable income necessary to support domestic demand for new vehicles.” The money may be coming in – whether it is finding its way into the pockets of new consumers is another story.

In terms of political risk, Thailand remains under military rule following a coup in 2014. Whether it actually has investors spooked is another question – the coup is the 12th of its kind since the end of absolute monarchy in 1932, but whilst activity like this may be engrained in the culture, there can be no doubt that it is disruptive. By contrast, Indonesia has grabbed next to no headlines for political instability in recent years, with the possible exception of Jakarta governor Basuki Tjahaja Purnama's imprisonment on charges of blasphemy, prompting clashes between religious groups. Cassidy suggests the industry should expect upcoming presidential elections to cause some temporary downward pressure on consumer sentiment and investment. These are scheduled for April 2019.

### **In the backyard of the rising sun**

Like in other ASEAN markets, the Japanese OEMs rule the Indonesian market. Toyota leads, accounting for over half of domestic vehicle sales in 2017. Popular models include the OEM's Avanza, a multipurpose vehicle (MPV). The segment remains very popular in

“*Wuling has made a strong statement of intent in a market which saw total sales of just over one million in 2017*”





*Challenging the Japanese requires significant investment, strong market understanding, and a long-term view with regards to return on investment. Only the biggest OEMs have the resources to take them on, such as VW, PSA and the Chinese*

the country, where families are large, and where a trip on the weekend with the extended family is an extremely common pastime. Seven-seaters are therefore much-prized. GM attempted to cash in on this with the Chevrolet Spin, a mini-MPV manufactured at its Bekasi plant, just outside the Indonesian capital of Jakarta. First opened in 1995, and home to around 500 workers at the time of closure, the OEM shuttered the plant in 2015.

The Spin was no match for the likes of the Avanza, in part because the lack of an adequate local supply base meant costly component import costs for the US manufacturer. In contrast, strict local content requirements in Thailand have meant the flourishing of a strong Tier 2 and Tier 3 supply base. Ford followed GM's lead in 2016 when, after 14 years in the country, it stopped selling in the market. At the time, a Ford spokesperson told Reuters, "without local manufacturing, there's really no way that automakers can compete in that market."

"The Japanese OEMs remain dominant," affirms Cassidy, "but this will not necessarily remain the case forever." The likes of Nissan and Toyota, he explains, have achieved their position over decades, and are able to maintain it thanks to their powerful manufacturing capabilities in the key volume segments, as well as a nationwide dealership footprint. "Challenging this requires significant investment, strong market understanding, and a long term view with regards to return on investment. Only the biggest OEMs have the resources to take them on, such as VW, PSA and the Chinese."

Wuling's recent investment has been made in an attempt to compete in the MPV segment. It entered the market in 2017 with its Confero model, and is now expanding its range in 2018 with the Cortez. The sales

target this year is 30,000 units, and the West Java production facility has a capacity of 120,000 units per annum. "Wuling has made a strong statement of intent in a market which saw total sales of just over one million in 2017," says Cassidy.

As for luxury brands, Cassidy does not believe Nissan's recent decision to pull the Infiniti brand out of the market suggests anything important. "Ipso does not see this decision as particularly significant in the context of the auto industry, or even the luxury segment, as Infiniti's sales were close to zero in recent times," he suggests.

## **Euro 4 incoming**

From a regulatory standpoint, Indonesia is also planning its move to Euro 4 emission standards, and is developing further incentives for both the import and production of low emissions vehicles. The government first announced its intentions in March 2017, and the adjustment is expected to be gradual, taking place between 2018 and 2021. One issue is the ensured supply of Euro 4 standard fuel, without which engines can suffer damage.

The government has been pushing for more efficient models for some time, following the introduction of the low-cost green car (LCGC) initiative in late 2013. Should a model meet certain fuel economy standards and local content production figures (20km per litre and 85% respectively), it can benefit from significant tax incentives. Unsurprisingly, given the local content requirements, the Japanese OEMs dominate, and the segment has become popular, contributing to 25% of total domestic sales. Spending power in Indonesia may be rising, but with the average GDP per capita under US\$4,000, affordability remains an essential consideration.

# Singapore continues to lead on efforts to take cars off streets

*The ASEAN autonomous vehicle leader's collaborative approach with the industry on AVs could prove more sustainable than the 'Wild West' approach seen elsewhere, suggests nuTonomy*

The city-state of Singapore has repeatedly proven itself a leader in traffic management. It was the first in the world to introduce a congestion pricing scheme to relieve build-ups of vehicles in the city centre. An initial scheme was first implemented in 1975, and in 1998 it took advantage of various new technologies to implement the Electronic Road Pricing (ERP) system. This allowed for the collection of tolls from vehicles without requiring them to stop or slow down, and new vehicles sold in Singapore are built to work with the system, as well as allow easy payment for car-parks, tolls and other road services. Other cities have followed suit, including ASEAN neighbours such as Jakarta, which plans to put its own system into operation by 2019.

However, the country is not resting on its laurels – indeed, its tiny size and growing population mean it has a bigger challenge than ever to contend with. Whilst the the rate of population growth is a contentious

subject, some thought leaders, such as Cheong Koon Haen, Chief Executive of the Singapore-based Housing and Development Board, have suggested it could double from five million to ten million by 2030. Meanwhile, it is estimated that roads already account for some 12% of land use, and the government is determined it should build no more.

As such, Prime Minister Lee Hsien Loong has pushed his vision of a 'Car Lite Singapore', to prevent further overcrowding. A range of policies has been introduced, including big investments in the city's cycling and and public transport infrastructure. Furthermore, the Land Transport Authority (LTA) announced in October 2017 it would further cap the rate of growth for privately-owned passenger cars from 0.25% to zero. The city has always taken a hard line with vehicle ownership, and pre-existing quotas and charges make it one of the most expensive places in the world to buy a vehicle, meaning congestion

“*Singapore will support this technology on the roads, all the way to commercialisation. It wants autonomous taxis and autonomous mobility on demand to encourage people to give up their cars. NuTonomy is confident that the government will allow significant commercial operations*”



*A passenger might be blindfolded and feel they just had the smoothest ride of their life, but if they were to have their eyes open they might feel differently because the car isn't doing enough to communicate to the rider that he or she is safe*

and pollution problems are nowhere near the levels seen in other Asian megacities. Only 15% of Singaporeans own cars, and the October announcement will only make things trickier for would-be vehicle owners.

But along with all this, the government also sees the potential in autonomous vehicles (AV) to take cars off the road, with the hope being that autonomous fleets in continuous operation will render private ownership even more unnecessary. The support of government has meant that Singapore has become something of a hot-bed for autonomous testing. It has worked closely with the Centre of Excellence for Testing and Research of Autonomous Vehicles-NTU (CETRAN), and the 2017 Road Traffic Act granted the LTA freedom to develop its own rules for autonomous vehicles over the next five years, after which these will be assessed and turned into legal code. Trials in Singapore's 'One-North' district began in July 2015, and following the progress here, the LTA expanded the test-bed, opening up 55km of roads for AV testing and exposing the technology to further road-traffic scenarios.

Speaking at the launch of a purpose-built, 2-hectre self-driving vehicle 'test town' in November 2017, Transport Minister Khaw Boon Wan said there were at least ten companies in Singapore now testing driverless vehicle technology. These include Volvo, Belgian logistics firm Katoen Natie (who put Singapore's first autonomous truck to work at ExxonMobil's giant manufacturing facility), and nuTonomy: the self-driving tech company spun off from MIT in 2013, and acquired by Delphi (now Aptiv) in late 2017.

## Two models

Doug Parker, Chief Operating Officer at nuTonomy, believes that two models for AV testing have now emerged. One is a 'Wild West' approach, seen in

some parts of the US, where the rules are lax and virtually any OEM or AV development team can test on the roads. This has attracted a number of participants, he says, but it is unclear if this can work in the long term. The aftermath of Uber's fatal AV crash demonstrated the potential problems, with the state of Arizona promptly banning the company from operating test vehicles on the road, and the company pulling its AV efforts out of the state altogether in late May.

Singapore, he continues, is home to a more collaborative environment. "The government here has made it clear there will be rules," he explains, "but it wants to develop them in partnership with the industry. It is very encouraging. Its investment arm is invested in our company, and it has created grants for a number of different companies to test their own technology. That signalling is powerful, because it attracts companies like us to make major investments."

"Most importantly," he adds, "Singapore has signalled that it will support this technology on the roads, all the way to commercialisation. It wants autonomous taxis and autonomous mobility on demand to encourage people to give up their cars. NuTonomy is confident that in the coming years the government will allow significant commercial operations."

In addition to passenger vehicles, Singapore is also lending its support to automated garbage collection and street-sweeping vehicles, which it says could operate at night. This would free up space for passenger transport in the day. In addition, there are plans to introduce autonomous buses onto the road by 2022, with trials set to begin in three, less built-up neighbourhoods. The Nanyang Technological University (NTU) has also announced plans for a fully autonomous rapid transit system to run students around campus, in collaboration



*We may have morals over how data is used, but there will need to be some certainty that all companies are playing by the rules*

with engineering firm SMRT Services and EU-based automated transport tech developers 2getthere. It is hoped the system will be up and running by 2019.

NuTonomy put its first test vehicle to work in the One North district in August 2016. Participants who had signed up to the trial could hail autonomous cabs within the area for free. What has it learned since then? Ten years ago, says Parker, when the first AVs were trialled, the experience could feel uncomfortable and robotic, with sudden braking and acceleration. Today, he says, the experience is much more like that of a human driver, and comfortable to the point where, after getting over the initial surprise of the vehicle driving itself, people quickly become 'bored' and do things like check their phones, much like in a normal taxi ride.

One important thing the trials have helped nuTonomy understand, says Parker, is the difference between what he calls 'eyes closed' comfort and 'eyes open' comfort. The former refers to the motion of the car, and what the passenger feels as it moves back, forward and side to side. The latter refers to the passenger's level of comfort with regard to things like how close the vehicle passes to vulnerable road users, such as cyclists, or children playing on the sidewalk.

"Even in low risk situations," he says, "it's important for the car to take a wide berth, or slow down appropriately. A passenger might be blindfolded and feel they just had the smoothest ride of their life, but if they were to have their eyes open they might feel differently because the car isn't doing enough to communicate to the rider that he or she is safe." The company, he adds, is currently exploring the next level of options for how an AV might interact with a passenger: potential options include contact centres which, if a passenger becomes nervous, would be able to communicate with them: "They might say, ok, the car doesn't seem to be acting appropriately – we'll pull this one over to the side of the road and get you a new one."

Importantly, Parker believes the trials have also demonstrated just how much demand for the technology there is, particularly in the ASEAN states, and that the general public is ready. "When we announced we would be doing a small public pilot, we had thousands and thousands of applicants through our website," he says, "and so there is a real public hunger to get into the cars. There were instances of people from outside the country showing up at our offices, and asking for a ride."

Developments in Singapore will doubtless benefit AV roll-outs in markets all over the world. Whether Singapore can complete the autonomous driving project is another matter – the nation boasts a world-class infrastructure, with well maintained roads and ample markings and signage. Further lessons will be required abroad, including mature markets such as the US where potholes are a huge problem: the American Society of Civil Engineers estimates that US\$2trn will be required by 2025 to fix the nation's roads and streets.

In the meantime, Singapore will present its own obstacles. One that Parker points to is data collection and privacy, a particularly tricky issue given the staggering volumes of data that tomorrow's vehicles will collect. In addition, the government has plans to install 'Smart Lampposts' throughout the city. These will be able to provide instructions to driverless vehicles and monitor their progress, but will also be fitted with cameras and sensors to analyse data as detailed as a driver or pedestrian's face.

"Our cars have a dozen-plus sensors all collecting important details, particularly 360-degree cameras found inside and outside," he concludes. "In a city full of autonomous cars, you could track people any time they're outside. This kind of situation will require strong regulation – we may have morals over how data is used, but there will need to be some certainty that all companies are playing by the rules." In the coming years, Parker expects that all states, including Singapore, will begin to address the issue.



# Auto industry nonplussed by Philippines instability

*The Southeast Asian archipelago remains attractive for OEMs despite Duterte's politics, but new policies could change the nature of the country's industry in years to come*

Since his ascent to power, Rodrigo Duterte has proven an enormously divisive figure. The Philippines president is popular for his strongman image, cultivated during his time as mayor of Davao City. His repeated support for the extrajudicial execution of drug dealers and other criminals has since become national policy, under the so-called 'Philippine Drug War'. The policy has support among voters – indeed, the execution of “tens of thousands of drug dealers” was an important part of Duterte's presidential campaign – but parts of the international community have been horrified by the scale of the killing, with thousands dead, including young teenagers.

Markets may now be responding to the turmoil. Inflation in the country has now surpassed targets, and the Philippine peso has weakened considerably against the dollar where other ASEAN currencies have strengthened. Yet for all its aversion to instability, the automotive industry remains firmly attached to the country. The Philippines remains an important consideration for OEMs in the ASEAN region, where sales have outperformed other Southeast Asian nations.

The year to come may prove tricky, with tax reforms creating new difficulties, but the country is throwing considerable weight behind energising local production, in an attempt to become a production and export hub. Ambition is not lacking on the part of the government – in early 2018, trade secretary Ramon Lopez said the country could be ready to manufacture up to a million units a year by 2027. Anna Relama, Consultant at Asia-focused management consultancy Solidiance, believes that success in recent years demonstrates the health of the nation's automotive sector.

**How would you describe the health of the Philippines automotive industry? It certainly seems there was cause for optimism at the end of 2017.**

The Philippines has seen eight straight years of positive growth, and 2017 was indeed another good year for the automotive industry. Sales reached a record high of 473,943 units, 65% of which were commercial vehicles, and 35% of which were passenger vehicles. Overall, this represents growth of 17% from the previous year. That's among the fastest in ASEAN, alongside Myanmar's 90%, and Thailand's recovery-induced 13%.

That said, optimism must be tempered. One of the strong drivers behind the 2017 growth was panic-induced advanced purchases in anticipation of higher excise taxes in 2018, making that level of growth an unsustainable prospect in the long run.

**Can you put the tax reforms in some more context?**

The current administration ratified a landmark tax reform law in late 2017, called the Tax Reform for Acceleration and Inclusion, or TRAIN law, which would impose additional excise taxes on a number of goods, including automobiles, beginning in 2018. Prior rates of 2% to 60% have changed to between 4% and 50%, which severely affects the pricing on the most affordable and most bought models.

We are now midway through 2018, and the automotive industry is feeling the effects. Year-on-year growth is still positive, but consistently lower than in previous years. This is far from unexpected, however, and industry associations had already forecast flat growth for the year, with hopes of stabilisation to follow. One could say the



*One could say the Philippine automotive industry has hit a speed-bump, and will continue at this pace for the rest of the year. 2019 onwards however is likely to prove a different story*

Philippine automotive industry has hit a speed-bump, and will continue at this pace for the rest of the year. 2019 onwards however is likely to prove a different story.

**Does TRAIN constitute the biggest challenge for OEMs in the Philippines? Are there others?**

TRAIN is certainly one of the big difficulties here. Pricing strategies needed to be quickly readjusted, and sales efforts were made more aggressive to combat higher levels of hesitation among buyers. In addition, automotive portfolios needed to be reviewed and managed, because the same tax reform law also puts in place extraordinary exemptions, which are completely new in the Philippine context. Among those exempted are purely electric vehicles, electric pick-ups, and to a certain extent, hybrid vehicles. These regulatory changes could effectively set the stage for a surge in electric and hybrid vehicles, but this can only happen with aggressive consumer education around electric cars.

**'Political instability' is an expression which has been used widely since Duterte's election. Do you believe his rise to power has had any impact on the automotive industry?**

Purely within the context of the automotive industry, and outside of the regulatory sphere, I do not think that the current state of politics has made any significant impact on the Philippines' automotive industry – not for now, at least. Automotive in the country remains private sector-driven, and for as long as the country's macroeconomic conditions continue to stay healthy, business will go on as usual.

**The Philippines has ambitions to be an even bigger manufacturer in the region, but with Thailand and Indonesia to contend with, how realistic is this?**

The Philippines does have big ambitions in this regard. Specifically, the government's goal is to attain a 70:30 CKD to CBU market split by 2022, suggesting a 150%

increase in nationwide capacity, and full utilisation by that date. As of 2014, the ratio of CKD to CBU vehicles stood at 32:68. As such, it's acknowledged the goal is a big one, but this has resulted in an even greater push from the public sector.

**What form does this push take?**

First there is the Investment Priorities Plan 2014-16, which identified automotive manufacturing as a preferred activity in the country. Then, there's the Comprehensive Automotive Resurgence Strategy (CARS Program, Executive Order 182), which aims to revitalise the Philippine automotive industry and develop the country as a regional automotive manufacturing hub. There's also the Restructured Motor Vehicle Development Program (Executive Order 156), which bans the import of all types of used motor vehicles, parts, and components, restructures the tariff schemes, and grants incentives to local assemblers, parts and component manufacturers for the export of CBUs and parts. Finally, I would point to the Industry Development Program, which establishes a technical working group that would focus on initiatives such as end-of-life programs for vehicles and re-fleeting programs that would replace vehicles that are over ten years old.

**And presumably, TRAIN creates incentives for local manufacturing investment too?**

Yes. Coupled with the TRAIN law, which puts imported vehicles at even greater disadvantage, these regulation limitations could in fact make the country's automotive manufacturing ambitions attainable, as they aim to really elevate local manufacturing or assembly as the most viable option for large-scale OEM operations in the country. A study by the Japan International Cooperation Agency suggested that annual vehicle production can reach one million units by 2027, but this would, of course, depend largely on the proper implementation of the multiple programs mentioned.

# Thailand, the great ASEAN car factory, sets its sights even higher

*Despite unrest in the Kingdom, Thailand is confident it can further boost its status as an ASEAN manufacturing hub, and attract new energy vehicle manufacturers*

Founded over 50 years ago, the modern country of Thailand is home to one of the ASEAN region's more mature automotive industries. It contributes around 12% to the national GDP, and the sector as a whole employs around 500,000 people. To date, nearly 20 OEMs have established a presence in the country. The Japanese OEMs dominate, with Toyota, Honda and Nissan all assembling in the country, but BMW, GM and Daimler are also there, along with a number of Tier 1 suppliers. Unlike in some other Asian markets, OEMs are not required to enter joint ventures with local companies.

The introduction of local content requirements for the domestic market to dodge high import tariffs spurred the emergence of a sizeable manufacturing base, now used by OEMs to serve the wider ASEAN region.

"Thailand is a small country," says Bussarakum Sriratana, Executive Director of the Thailand Board of Investment. "Most of the companies who invest in Thailand are not able to produce exclusively for the local market. And so they export their vehicles to markets in Oceania such as Australia and New Zealand, as well as the Middle East and other ASEAN markets."

To that end, automotive manufacturing is concentrated in the country's 'Eastern Economic Corridor' (EEC), an economic zone and industrial hub with easy access to the Laem Chabang Seaport which looks onto the Gulf of Thailand. In 2016, the country produced around 1.9 million units, making it the world's twelfth largest automotive manufacturer, sixth largest commercial vehicle manufacturer, and ASEAN's biggest

“*It doesn't matter whether it's the military or a politician controlling the country, business goes on as usual. Some political unrest might mean not everyone can work properly, but generally we deal very well with these situations*

manufacturer overall, beating Indonesia's 1.18 million units. Around 1.19 million of the 1.9 million total were exported, at a value of US\$18bn.

## **Future of the EEC**

Now Thailand wants more, with an ambitious target of 3.5 million units by 2020, exceeding the 2013 highpoint of nearly 2.5 million. To that end, the government is spearheading a multi-modal logistics integration programme, incorporating developments over land, sea, air and rail. This includes a massive expansion of the Laem Chabang port. Currently it has a capacity of



*Battery assembly alone could qualify a company for a five-year exemption on corporate income tax, but if that company was to extend its capacity to also produce other components, such as traction motors, they could enjoy up to ten years*

three million Twenty-foot Equivalent Units (TEU) annually, a shipping measurement referring to the size of a standard container which is used to measure the volume of goods which can pass through a port. All being well, the plan is to expand this to 18 million TEU annually. Along with proximity to China, Thailand is surrounded by some of the world's fastest growing economies, such as Cambodia, Laos, Vietnam and Myanmar. Expansion of the port will help to meet the surge of demand expected in the years to come.

Along with the port expansion, existing incentives will be pushed and new ones drawn up. Exemptions and discounts on taxes, import duty reductions, exemptions of import duty for raw materials and machinery and more are all applicable for foreign manufacturers in the EEC. "There are also non-tax incentives," adds Sriratana. "For example, we allow foreign investors to own land under the company or project. We also facilitate visas and work permits to allow expats to work in Thailand, for example as technicians."

New incentives are aimed in particular at attracting investment in electrified powertrain part manufacturing. Last year the Board of Investment approved incentives for new energy vehicle (NEV) production, with exemptions from corporate income tax on offer for manufacturers of battery electric vehicles (BEV), hybrid electric vehicles (HEV) and plug-in electric vehicles (PHEV). "Companies manufacturing BEVs will qualify for the highest incentives, assuming that you include certain production steps in the project," explains Sriratana. "Battery assembly alone could qualify a company for a five-year exemption on corporate income tax, but if that company was to extend its capacity to also produce other components, such as traction motors, they could enjoy up to ten years."

HEVs and PHEVs can benefit from between three and six years, again depending on the parts built. Sales of NEVs remain low in Thailand. HEV and PHEV sales rose

by 24.7% in 2017 to 11,945 units, but this represents a small portion of the 870,748 vehicles sold overall. BEV sales were just 165 units. The government has indicated it wants 1.2 million EVs and 690 charging stations operating by 2036. Other incentives, such as a 20% discount on EVs for government agency employees nationwide, hope to help reach the target.

There is also discussion of fostering the development of technologies further down the line, including autonomous and connected vehicles. A separate project within the EEC, the Economic Corridor Digital (ECD) will develop its digital capabilities. "There is a still a long way to go," concedes Sriratana, "but the encouragement is there, starting with the investors who develop the embedded software and so forth. The demand for autonomy in the market isn't there yet, and so autonomous-related investors in Thailand are those dealing with the primary, critical software functions." Further human resources will be required in the country to support any such investors, she adds. Some institutions have already emerged within the country's universities to prepare Thai technicians for the automotive industry's future requirements.

### **Business as usual, in spite of coup**

Political instability in the region does not appear to have notably deterred the worldwide industry. The Thai military seized control of the state from the Pheu Thai caretaker government in 2014. It was the 12th instance of a coup since 1932, and the junta remains in charge to this day. Elections are scheduled to return to the country in early 2019.

However, whilst a drop in domestic demand impacted on some suppliers and total unit production, it was business as usual for the major OEMs. Speaking at the time, Takao Katagiri, then Nissan's Regional Chief, said: "What is happening now has not had a direct impact on actual livelihoods and corporate activities.

“*Thailand is a small country, and most of the companies who invest in Thailand are not able to produce exclusively for the local market. And so they export their vehicles to markets in Oceania such as Australia and New Zealand, as well as the Middle East and other ASEAN markets*”

Manufacturing is operating smoothly and our sales and business operations are going on as usual.”

Sriratana agrees with this assessment. “It doesn't matter whether it's the military or a politician controlling the country,” she says, “business goes on as usual. Some political unrest might mean not everyone can work properly, but generally we deal very well with these situations.” Those who have invested in the region have adapted to conditions in the country, and frequent contact helps maintain confidence. “Through regular consultation, we ask foreign investors what can be improved, and how we can facilitate them. From them we take recommendations.”

Domestic sales remain strong. The country saw 16% year-on-year growth in light vehicle sales for Q1 2018. One-tonne pickup trucks remain an extremely popular segment in Thailand, a country where extended families are important and with a large agriculture industry. As Sriratana points out, there were sales of 428,193 pickups in 2016, meaning a ratio of just over 1:2 between pickups and lighter passenger vehicles,

“*Import taxes for luxury cars, for example, would be very high, but for EVs, it will be very low, as we want to stimulate EV demand within Thailand*”

which sold 805,033 units. At one stage, she says, pickups were hitting the equivalent of 60% of passenger vehicles, but some government intervention has reversed this. “In 2013, we launched a policy called Eco-Car which stimulated demand for compact vehicles,” she explains. “Oil prices in Thailand are expensive, and trends in recent years have seen consumers make the switch to small cars.”

In previous years the trend has shaped different OEMs' strategies. Not long after exiting Indonesia, GM ceased production of the Chevrolet Sonic in Thailand, reducing output at its facility in Rayong city in the EEC and creating a 'voluntary separation programme' for its staff. Focus has since shifted to the company's “American heritage”, namely SUVs and pick-ups.

Efforts also continue to develop the country's sizeable local production base. The Thai Automotive Industry Association counted a total of 1,700 Tier 2 and 3 suppliers in the country in 2016, with roles including stamping, plastics, casting, forging and trimming. “To encourage the local supply base, we organise meetings that help match local Tier 2 and Tier 3 suppliers with Tier 1s, or OEMs,” says Sriratana. “This also helps to develop the quality of products, as they can then talk to each other.”

A stronger domestic market is naturally desirable, concludes Sriratana, and taxes on imports remain one method of achieving this. However, she concludes, it is a matter of balancing the tax system to make sure it does not drive away desirable products. “Import taxes for luxury cars, for example, would be very high,” she says, “but for EVs, it will be very low, as we want to stimulate EV demand within Thailand.” Like many Asian capitals, Bangkok suffers from overcrowding and pollution, and with average disposable incomes growing, this problem could get worse if NEVs don't gain a local foothold.



# Despite opportunities in Vietnam, local industry faces challenges

*Faith remains in the motorisation of Vietnam, which expects growth after a subdued 2017. But whilst ASEAN-wide policies ease access, the government has moved to protect local industry*

2017 was not a spectacular year for the Vietnamese automotive industry. New registrations totalled just over 272,750 units in 2017, down 10% compared with 2016's figure of 304,427. Compared with a 24% increase in Thailand and a 17% increase in the Philippines, the country's sales were among the worst in the major ASEAN countries.

Yet the country is still being touted as one of ASEAN's most promising markets for growth, and the previous year was not all doom and gloom – it surpassed 2017 GDP targets, for example, with growth of 6.81% beating a forecast of 6.7%. Vietnam has become a middle-income economy, but it is still due a sizeable wave of motorisation; indeed, figures from Asia-focused consultancy Solidiance show it has one of the region's lower vehicle ownership rates, at only 16 vehicles per thousand people.

It is a big opportunity for OEMs, particularly following the ASEAN Free Trade Agreement's (FTA) move to drop import duties for vehicles originating in the ASEAN bloc from 0% – previously in Vietnam, this figure stood at 30%. Indeed, it is speculated that the 2017 drop in sales could have been a result of customers waiting for tariffs to be removed and thus benefit from cheaper prices.

"The 2017 sales figures need to be placed in a broader context," says Michael Sieburg, Associate Partner at Solidiance. "Prospective buyers in 2017 remained on the side-line, choosing to wait until 2018 in anticipation of the import tariff drop. While some other regulatory headwinds have impacted the industry in early 2018, sales through April were up 9% over the same period in 2017, and to put it in an even larger context, sales in

“*The Vietnamese government is keen for its own automotive industry to flourish, and has introduced non-tariff measures to encourage local investment and deter over-reliance on imports*”

Vietnam surged 24% in 2016, which is more reflective of current and likely near-term trends.”

These regulatory headwinds have ruffled feathers. The Vietnamese government is keen for its own automotive industry to flourish, and has introduced non-tariff measures to encourage local investment and deter over-reliance on imports.

Chief among them is Decree 116, which went into effect at the start of 2018. Among other things, this required OEMs exporting completely built up (CBU) units to acquire vehicle type approval (VTA) certification from the country of origin, instead of acquiring it in Vietnam upon arrival. Unable to acquire Thai VTAs which would satisfy Vietnamese standards, Honda and Toyota



*It is a waste of time, it is costly, and it is an inconvenience to customers. We do not believe Vietnam actually has the capacity to perform this many checks. VAMA is proposing that emissions and safety tests are applied to the first shipment only, and accept this report for following shipments*

announced they would stop exporting vehicles to Vietnam, and were thus unable to meet demand from customers. Honda resumed in March after Vietnam finally accepted a Thai certification.

Pham Anh Tuan is the Head of Policymaking at the Vietnam Automobile Manufacturers' Association (VAMA), and as he explains, this is just one of the difficulties for OEMs brought about by Decree 116. It is true, he says, that the drop in tariffs will present local production with even more difficulties, and that the regulations have been introduced to help offset this. The small market, low production volume and lack of a supply base mean that production costs in the region are already high, and cannot compete with overseas competition. However, as it stands, VAMA is keen to see changes to the measures introduced by government

“Most of our CBU-importing members have been unable to find suitable overseas VTA matching Vietnam’s specifications,” he says. “Most countries only test and certify for domestic usage, and export vehicles

are outside their scope. Some countries don’t even have VTA as the government will, for example, only check emission standards.”

Other times, countries will have VTA for export purposes, but the challenge remains getting Vietnamese regulators to accept them. “It is quite obvious that there is a gap between the specifications required by our own domestic-usage vehicles, and vehicles exported from elsewhere,” says Pham. “VAMA would like to see Vietnamese regulators accept a local VTA issued here, instead of overseas VTAs.”

Along with VTA approval, imports are now subject to more stringent testing conditions for safety and emissions than existed before. What is particularly troublesome for OEMs, says Pham, is that each shipment batch must be tested, resulting in the same vehicle being tested over and over again. “It is a waste of time, it is costly, and it is an inconvenience to customers,” he says. “In any case, we do not believe that Vietnam actually has the capacity to perform this many checks. VAMA is proposing that emissions and safety tests are applied to the first shipment only, and accept this report for following shipments.”

Even completely knocked down (CKD) assemblers are facing some difficulties. One new requirement which is scheduled to take effect in 2019 is for manufacturers to have access to an 800 metre testing track with a 400 metre straight section. That much land is a sizeable investment, and as Pham points out, it may not be available in proximity to those whose operations are already up and running: “In some cases, they will need to set up courses far away from the plant, which is very costly and troublesome. It’s a huge impact for existing manufacturers. Without a track, they may have to stop operating.” Whilst VAMA believes the requirement could arguably be justifiable for new arrivals, the organisation does not want it applied retroactively.



*The 2017 sales figures need to be placed in a broader context. Prospective buyers in 2017 remained on the side-line, choosing to wait until 2018 in anticipation of the import tariff drop*



*In some cases, OEMs need to set up test courses far away from their plants, which is very costly and troublesome. It's a huge impact for existing manufacturers. Without a track, they may have to stop operation*

Of course, the continuing presence of local production is an encouraging sign. Thaco is the leading player, a domestic entity which assembles Kia, Mazda and Peugeot models. The company accounted for 43% of local production in Q1 2018. Others include Toyota's facility in Phuc Yen-Vinh Phuc. The facility builds around 36,000 units a year, with models including the Camry, Corolla Altis, Vios and Innova. Cars assembled at the plant account for around 80% of the brand's sales in the country.

Ford, too, has a manufacturing presence in the country, and owns 75% of the Haiduong Assembly Factory, run in partnership with Song Cong Diesel. Opened in 1995, models made at the factory include the Focus, Fiesta and Transit. As Pham points out, local production remains desirable for Vietnam, owing to significant tax contributions from manufacturers, the creation of jobs, and to spur further investment.

As Sieburg explains, challenges persist in further developing the industry. "For starters," he says, "the local automotive market is relatively small, and remains dominated by the two-wheeler segment, which in turn is ruled over by Japanese players such as Honda and Yamaha." Then there are the neighbours – Thailand and Indonesia, he says, already have scales of production which can serve both local and regional export markets.

"Compounding the local production challenge in Vietnam is that automotive parts are primarily imported, eroding cost competitiveness further," he adds. "But whilst regional integration might deter local automotive production, it could spur the development of the automotive parts sector that could serve the larger production markets, like Thailand and Indonesia. This could ultimately serve to make production in Vietnam more competitive." However, he adds, this a particularly long-term play.

### **Vietnam's answer to Proton?**

But one interesting development is the emergence of what could prove to be the country's very own OEM – Vinfast. The company is a subsidiary of the Vingroup conglomerate, owned by Pham Nhat Vuong, the country's first billionaire. Over the years, the group has engaged in everything from real estate, to education and healthcare, to amusement parks. Vinfast's mission is to bring the country its own 'modern, high-tech car brand'. It broke ground on a 500,000 square metre manufacturing complex in September 2017, construction of which is well under way, and its first planned models are a saloon and an SUV which it expects to unveil at the October 2018 Paris Motor Show, and release by Q3 2019.

The company has enlisted considerable experience from overseas. BMW has licensed a production platform and engine for the two models. In March 2018, Magna announced it had signed an agreement with Vinfast to provide complete engineering and development services. More recently, in late May 2018, it was announced the company was working with EDAG, a German engineering services provider, to develop and launch a small electric hatchback in late 2019. The potential OEM-to-be also has plans to release an electric motorbike by the end of this year.

Does it have a realistic chance? "Vinfast is an ambitious undertaking," says Sieburg, "and it's moving forward very quickly. There is justifiable excitement about these plans, especially given the relative lack of electric vehicles in Vietnam's cities, which are increasingly confronting rising emissions and air pollution. Of the 45 million bikes on the road, electrified models make up a very small portion, and Electric cars are virtually absent." Initial signs, he concludes, are promising, and Vinfast appears to be serious in its efforts.

# Major infrastructure projects to keep ASEAN truck market healthy

*As ASEAN governments prepare to pour huge sums of money into infrastructure and modernisation projects, truck manufacturers will be keen for a slice of the action. By Bharani Lakshminarasimhan, Program Manager On-Highway Commercial Vehicle Research in Frost & Sullivan's Automotive & Transportation practice*

Within the global automotive industry, ASEAN countries have emerged as important markets in terms of demand, production and exports. The ASEAN truck market is significantly consolidated, with few OEMs accounting for the majority of sales. Japanese OEMs dominate the market due to their long presence in the region, comprehensive product offerings, strong network and high brand recognition.

Comparatively, American, Chinese and Indian trucks have a lower uptake. Chinese brands have a presence across all ASEAN countries, but the sales figures are significantly lower than their Japanese

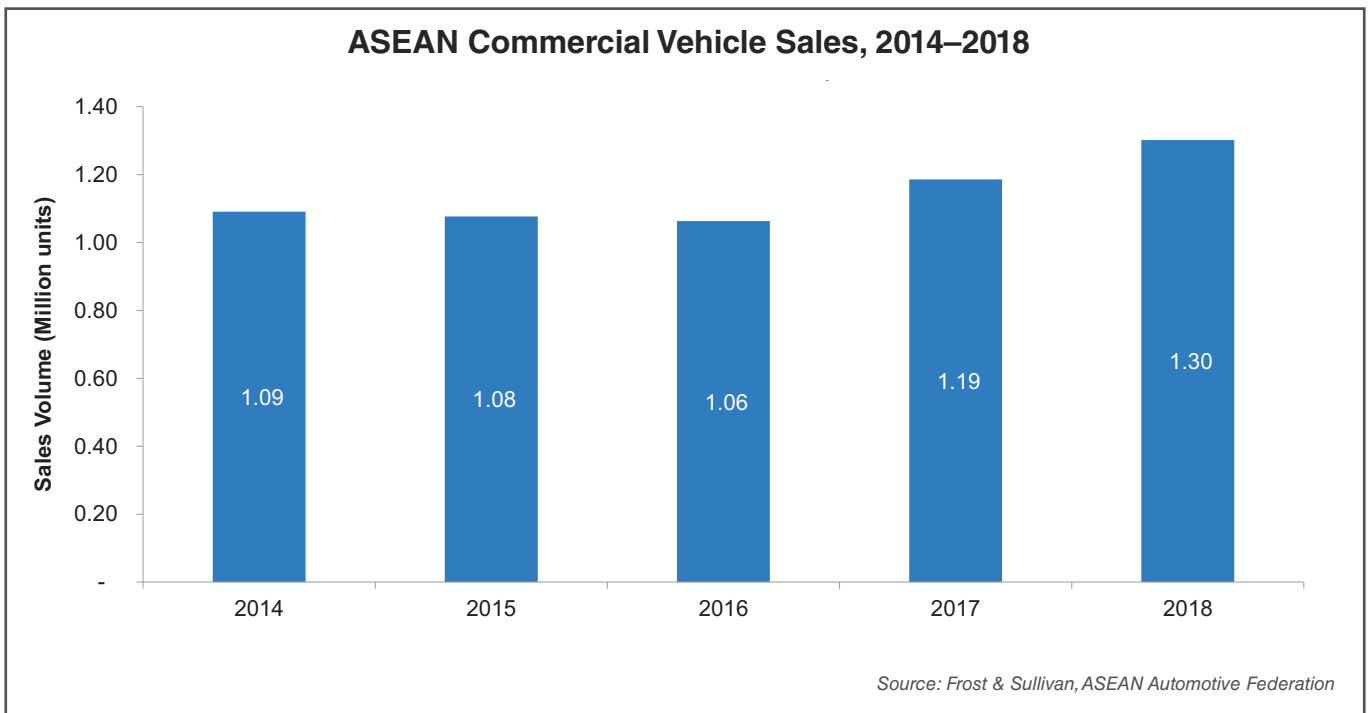
rivals. European OEMs have found a market in certain application areas such as container hauling, mining, timber and petrochemicals. Korean trucks are strong in Vietnam and Myanmar.

## **Economic growth will support the truck market**

ASEAN, being a dynamic automotive market, presents significant growth potential. Most ASEAN governments are committed to creating favourable business environments in order to attract foreign direct investment. This in itself is a boom for truck manufacturers, as the growing automotive component and assembly sectors will require more trucks.

The healthy growth of ASEAN economies and continuing government efforts in infrastructural development is expected to help increase sales of commercial vehicles in the region. The latest forecasts from the International Monetary Fund (IMF) regarding GDP at current prices indicate that the ASEAN economy is likely to grow by 7.7% in 2018 when compared with the previous year. In the key manufacturing hubs, namely Indonesia, Malaysia and Thailand, the economy is expected to grow at 5.3%, 5.3% and 3.9% respectively over 2018, as compared to the previous year. The IMF's outlook for the growth of ASEAN economies by 2023 remains positive, which creates significant drivers for the global players in the truck market to enter ASEAN.

“*Japanese OEMs dominate the market due to their long presence in the region, comprehensive product offerings, strong network and high brand recognition*”



### The big three ASEAN markets

According to the IMF, Indonesia's GDP growth at constant prices was 5.1% in 2017 and is expected to rise to 5.3% in 2018 and 5.5% in 2019. The economy is expected to be driven by a strong growth in investments and a continued stable recovery in consumption.

GDP growth in Thailand recovered from 3.3% in 2016 to around 3.9% in 2017. The Bank of Thailand (BOT), the country's central bank, has projected an economic growth of 3.8% for 2018. Export performance is also likely to improve. A continued surge in tourism activity is expected to drive economic growth.

Strong domestic and external demand helped Malaysia achieve a significant growth in GDP in 2017 at 5.8%. In 2018, growth is expected to remain strong at 5.3% and it would be primarily driven by high private consumption and supported by a stable labour market and sustained growth in income.

### Infrastructure development – a major driving force

Infrastructure development projects across the ASEAN region will provide a significant impetus to the truck market in the region. Indonesia is expected to spend more than US\$500bn on new infrastructure

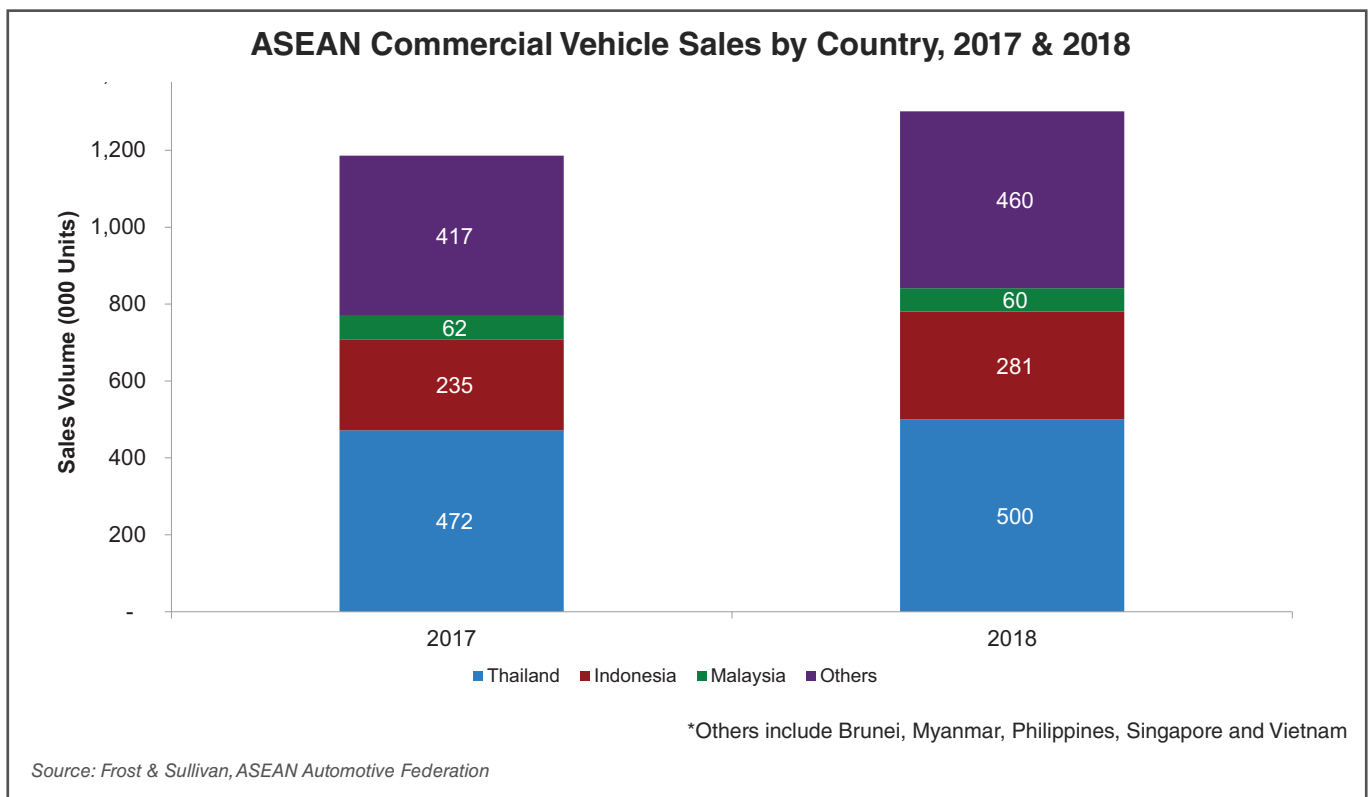
development, translating to almost 1,600 projects over the next three years, while Thailand is expected to see successful implementation of large public infrastructure projects including the Thailand-China railway network in 2018.

The Malaysian Government has allocated RM210bn (US\$52bn) for new infrastructure projects such as new hospitals, highways (Pan Borneo), schools, and railways (ECRL) in 2018. This is expected to encourage activities in the construction, manufacturing, and infrastructure sectors. Though the projects would take place over a long lifecycle, they are likely to boost the demand for medium and heavy trucks.

With a large shipping container handling volume, Singapore has secured its position as a key hub in the global logistics industry. To leverage this opportunity, the government will focus on public and private investments to optimise port infrastructure and facilities. Moreover, bolstering local and regional freight transport is expected to increase demand for commercial fleet transport service providers.

Economic development across the Greater Mekong Sub region is also expected to benefit truck markets across member ASEAN countries including Laos, Myanmar, Thailand and Vietnam. There are over 500 special economic zones and industrial zones across the Greater Mekong Sub region, and the continued





focus of member countries on upgrading cross-border transport network promises new infrastructural development projects to increase trade.

China's One Belt One Road (OBOR) initiative is expected to present significant infrastructural development in some of the key Southeast Asian countries as it is the preferred route for the '21st Century Maritime Silk Road'. The 'Belt and Road' initiative has led to the initiation of railway construction across Indonesia, Thailand, Malaysia and Laos. The China-Indochina Peninsula Corridor of OBOR will promote offshore economic activities in Singapore and require development of ports and other facilities. In 2016, a Memorandum of Understanding (MoU) was signed between The China Construction Bank and International Enterprise Singapore for providing financial support to Singapore and China-based companies cooperatively investing in OBOR projects.

**The ASEAN commercial vehicle market in detail**

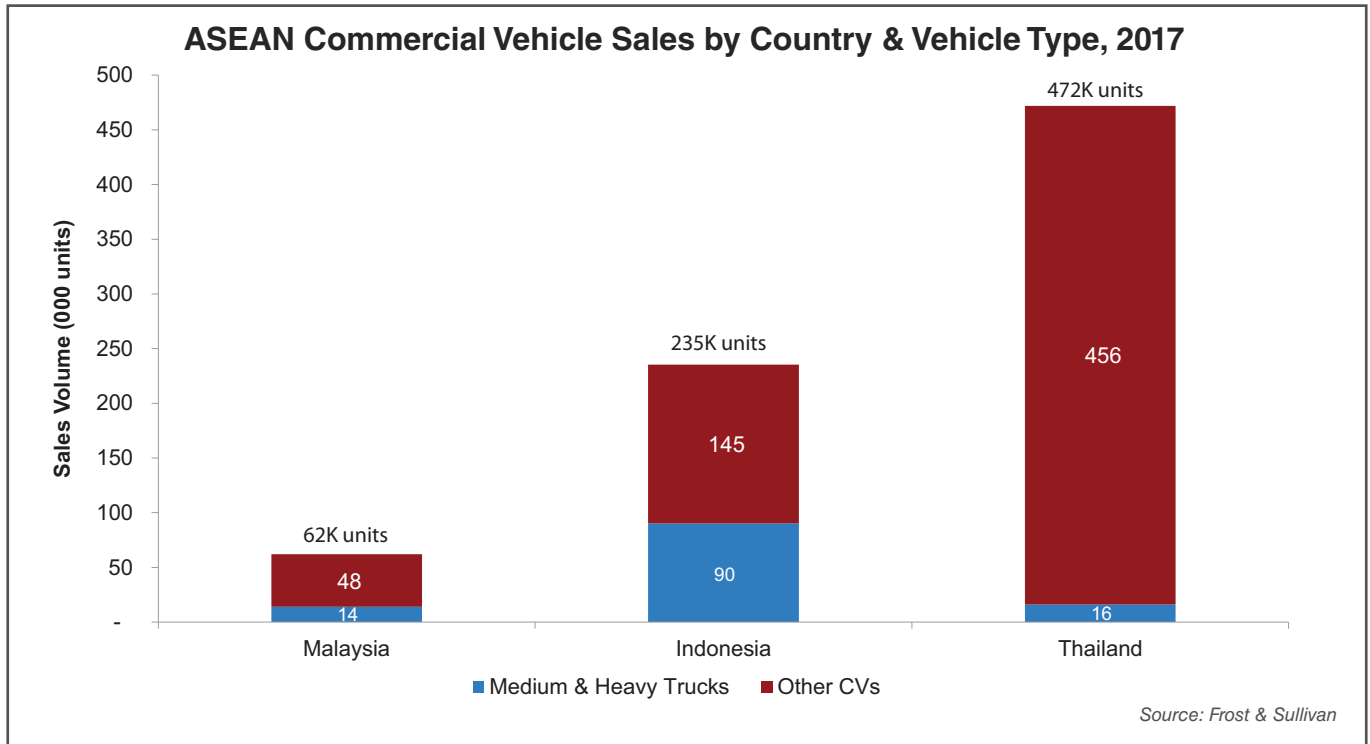
The overall automotive TIV in the ASEAN region (including Indonesia, Thailand, Malaysia, Myanmar, Philippines, Singapore, Brunei and Vietnam) reached 3.3 million units in 2017, including both passenger vehicles and commercial vehicles, with commercial

vehicles accounting for 35.5% of the market. Total automotive sales in the ASEAN region are expected to grow by 5.3% and reach 3.5 million units in 2018.

In 2017, commercial vehicles sales – including pick-ups, light trucks, medium and heavy-duty trucks, and buses – totalled 1.2 million units, and this is expected to grow by 9.8% to reach 1.3 million units in 2018. In the ASEAN region, Thailand leads the demand for commercial vehicles, followed by Indonesia and Malaysia. Thailand accounted for 39.8% of total CV sales in ASEAN in 2017, and it is expected the country will remain the leading market in 2018, with CV sales expected to exceed 500,000 units.

Medium and heavy-duty truck sales in Indonesia reached 90,000 units in 2017 and this is expected to grow by 22% in 2018. Thailand truck sales in 2017 stood at 16,000 units, and this is expected to undergo a 0.2% decline in 2018. This can be attributed to contraction in the mining and construction sectors.

In Malaysia, despite healthy economic recovery in 2017, truck sales contracted and reached 14,000 units. Further decline of 5.2% is expected in 2018, which can be primarily attributed to cautious business sentiments, i.e. higher household debts and stringent loan approvals.



### Sales competition

Though the competitive scenario in the ASEAN truck market varies across the region’s individual countries, a common theme is the dominance of Japanese OEMs. In Thailand, Hino and Isuzu hold a significant share in total truck sales. There is also the presence of a large number of international players, who supply their products as completely built-up units (CBU). According to Thailand Automotive Institute, there are over 49 truck and bus brands present in the Thai market.

Truck sales in Indonesia are dominated by Hino, Mitsubishi Fuso and Isuzu. The three brands account for more than 80% of the medium and heavy truck market in Indonesia.

In Malaysia, the prominent truck brands are Isuzu, Hino and Mitsubishi Fuso. In 2017, Isuzu accounted for the highest truck sales in Malaysia, followed by Hino. Mitsubishi Fuso remained the third best-selling medium and heavy truck brand in the country.

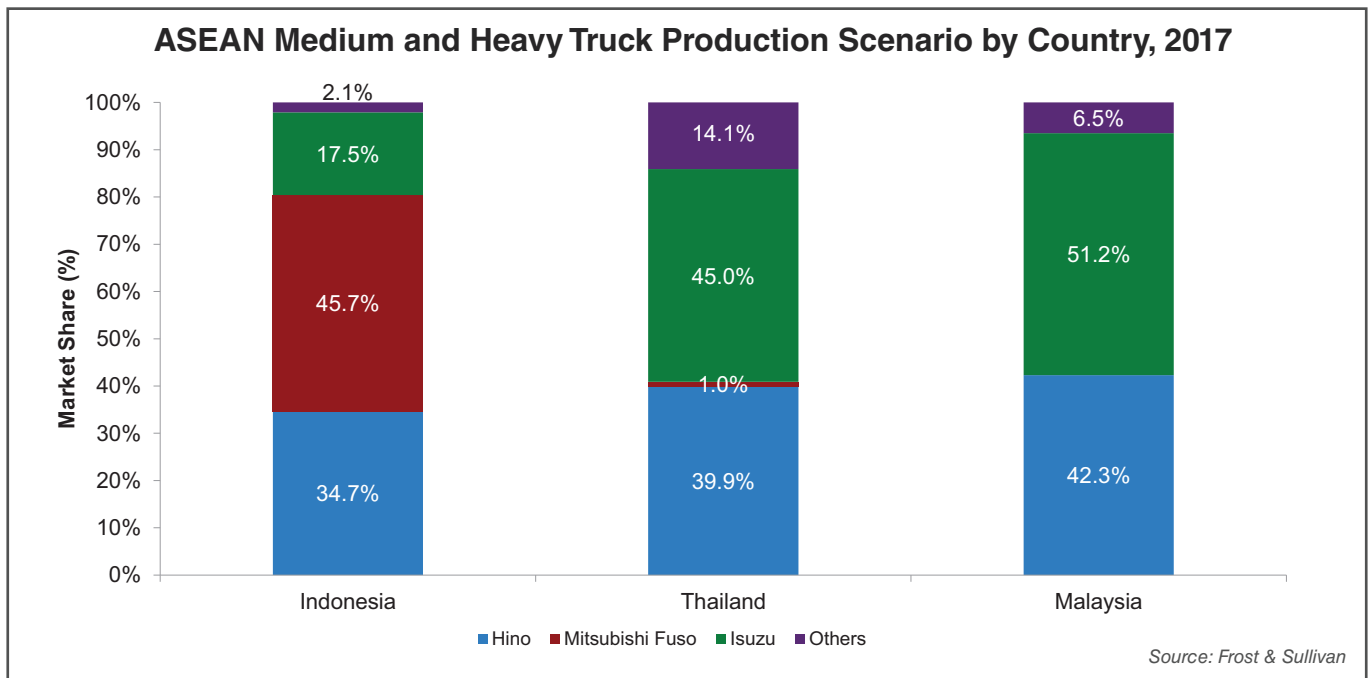
### Production competition

The ASEAN region presently accounts for 4.2% of global truck production, with Thailand and Indonesia as the two major manufacturing hubs in the region. Despite a slight fluctuation in vehicle sales across those countries,

commercial vehicle production has remained resilient due to healthy growth of commercial vehicle exports. Total truck production in ASEAN (only Indonesia, Malaysia and Thailand) increased by 25% in 2017 compared with 2016, with growth primarily attributed to the Indonesian market. Indonesia, Thailand and Malaysia remained the major truck production hubs in the region, collectively accounting for over 85% of total ASEAN truck production.

In 2017, truck production in Indonesia, Malaysia and Thailand amounted to around 109,000 units according to OICA. Some of the key truck manufacturers in the region include Toyota, Daihatsu, Hino, Mitsubishi Fuso, Isuzu and Volvo (Volvo, UD Trucks). Other manufacturers include Scania (VW Group), Mercedes-Benz (Daimler), JAC and BAIC Group. As of 2017, Mitsubishi Fuso remains the leading manufacturer of trucks in Indonesia, followed by Hino, Isuzu and Toyota. In Thailand, Isuzu is the leading manufacturer of trucks followed by Hino, UD Trucks, Scania and Volvo.

The market in Malaysia has a relatively higher number of truck manufacturers when compared to the other two countries. Japanese brands Isuzu, Hino and Mitsubishi Fuso hold a major share of the total production volume in the country. Other truck manufacturers in the Malaysian market include UD Trucks, Mercedes-Benz, JAC, BAIC Group and Scania.



## Growth prospects and innovation in the truck market

Market dynamics and future growth prospects vary substantially when comparing the global truck market and the ASEAN market. From an innovation point of view, the key focus area of leading players in the global truck market includes the commercialisation of electric and hybrid heavy trucks, truck platooning and connected trucks. However, the manufacturers in the ASEAN region are more focused on manufacturing and the supply of products specific to local consumer demand, while also complying with local policies.

“*Price consciousness among consumers also creates challenge for the global manufacturers. A result of this can be seen in markets like Myanmar, Laos and Cambodia, where there is high demand for used trucks*”

Government policies across ASEAN countries promote fuel efficient vehicles and green technologies through incentives. Such policies have created business opportunities and truck manufacturers in ASEAN have been launching new trucks that are in line with the expectations regarding fuel efficiency, safety, emission levels. Some of the recently launched medium and heavy trucks include advanced driver assistance features for enhanced safety, comply with higher emission norms and offer higher fuel efficiency.

Another key focus area for ASEAN manufacturers includes after-sales network development. This is crucial for OEMs to maintain profitability, especially with the slow increase in new truck sales in markets such as Thailand and Malaysia. Also, leading market participants such as Hino, Mitsubishi and Isuzu have been focusing on expanding their dealerships and distributor networks across ASEAN.

Significant growth potential exists in the ASEAN truck market from key end-use industries including mining, construction, manufacturing, logging, petrochemicals and logistics. However, the ASEAN truck market faces some key challenges, such as increasing fuel prices and high operational cost for owners, that impact profitability. Price consciousness among consumers also creates challenge for the global manufacturers. A result of this can be seen in markets like Myanmar, Laos and Cambodia, where there is high demand for used trucks.

# Closer bonds could see ASEAN become ‘undeniable force’ in the auto industry

*Since its inception in 1967, ASEAN has slowly but surely brought together a set of incredibly diverse nations, and further integration is good news for automotive*

It is often pointed out that if considered as a single entity, the ASEAN region constitutes one of the world's largest economies, and the third largest market, with a population of over 633 million. Moves to integrate its member states' economies have helped partially realise this vision of a single market, most recently the formation of the ASEAN Economic Community (AEC) in late 2015.

The agreement was a coup for regional unity between the ten member states, and an encouraging sign for OEMs. Douglas Cassidy, Country Head, Indonesia, Ipsos, believes that the formation of the AEC is proof that ASEAN's value lies in its role as a consensus builder for such a diverse range of nation states, all with their own unique political systems. "It's a useful multilateral forum by which barriers to trade can be gradually removed at a pace that is acceptable to all members," he says. "The launch of the AEC was a significant step, and will help in reducing transaction costs for intra-regional trade."

## **Thailand wants to lead the way**

Now it is hoped that more integration is on the horizon, and Thailand, the region's biggest vehicle manufacturer, wants to lead the way. Next year, it will succeed Singapore for the ASEAN chairmanship, and Bussarakum Sriratana, Executive Director of the Thailand Board of Investment, says her country will use the opportunity to further advance the ASEAN project to a level comparable with other single-markets, such as the EU.

"I've worked with ASEAN for more than ten years," she says, "and every year there are discussions around how to improve the whole region as a destination. Under our chairmanship, we would like to talk about liberalising the investment sector, as well as the services sector, and upgrade our agreement to resemble an international one."



*It's a useful multilateral forum by which barriers to trade can be gradually removed at a pace that is acceptable to all members. The launch of the AEC was a significant step, and will help in reducing transaction costs for intra-regional trade*



*Internal competition will keep manufacturers and assemblers in ASEAN at the edge of their seats, effectively foregoing complacency and instead focusing on continuous improvement, innovation, and creativity. This will drive the region's products' global competitiveness upwards*

Sriratana points to developments such as the Regional Comprehensive Economic Partnership (RCEP), a proposed free trade agreement (FTA) between all members of the ASEAN bloc and the 'Plus Six' nations – China, Japan, South Korea, Australia, New Zealand and India. This will reduce taxes on goods, and liberalise laws around investment and services. Talks have also begun with the EU, says Sriratana, and right now, the only big unknown is the USA. The Trump administration's decision to withdraw from the Trans-Pacific Partnership (TPP) negotiations mean that any agreement between ASEAN and the US has been postponed for now. Some, such as the Philippines, have already signalled a desire to turn away from the USA, and instead forge greater links with Russia and China. Whether the ASEAN heads of state can remain united in their position with the Trump administration will surely prove one of the greater tests for deeper integration of the bloc in years to come.

### **Further economies of scale**

That said, OEMs are pleased with the progress that has already been made, and are fully on board for more. Yukontorn Wisadkosin, President of Ford ASEAN, says there is great potential for further economies of scale within the region. "We believe the elimination of the tariffs in the ASEAN trade in goods and agreements was just the first step," she says. "We continue to work with multiple governments to ensure we accelerate efforts to integrate."

Anna Relama, Consultant at Solidiance, agrees that in the long run, the automotive sector would benefit from ASEAN acting as a single player, and that competition between the member states has put it in a good place. "Internal competition will keep manufacturers and assemblers in ASEAN at the edge of their seats," she suggests, "effectively foregoing

complacency and instead focusing on continuous improvement, innovation, and creativity. This will drive the region's products' global competitiveness upwards, thus solidifying ASEAN's position as an undeniable force in automotive manufacturing moving forward."

Closer integration, she continues, would therefore not only benefit the member nations as a whole, but also the OEMs that participate locally as this integration expands the list of options available for them, allowing some flexibility when it comes to strategic operational decisions. Michael Sieburg, Associate Partner at Solidiance, agrees, adding: "Regional integration can serve to concentrate production and streamline supply chains," he says, "and this can serve to benefit the consumer in terms of lower costs."

However, he adds, this in turn could waylay the ambitions of smaller countries who want to establish themselves as production hubs. Integration, he says, "could have a disruptive impact on less efficient production areas as manufacturing moves to the more efficient areas such as Thailand and Indonesia, which already have the scale and a deep supply base." The Philippines wants to boost production to a million units a year by 2027, and Vietnam too is seeking to grow its production base.

As such, some non-tariff barriers (NTBs) have emerged in the smaller markets, in a bid to protect their own interests from Thailand and Indonesia's well-established production setups. "NTBs remain in ASEAN, such as Decree 116 in the Philippines," says Ford's Wisadkosin. The regulation requires every individual shipment of imported vehicles to undergo stringent testing, which some have objected to as unnecessary. "We would like to see the ASEAN region to eliminate these non-tariff barriers, which would allow for easier export and import of vehicles."





*We can expect Chinese OEMs to gain an increasing market share through their competitive edge in the growing EV market. The move away from internal combustion engine technology, a revolutionary shift, will have huge implications throughout the automotive supply chain*

### Rise of China?

Of course, one consideration for OEMs in ASEAN, and its local production bases, is the proximity to China, the world's largest car producer and market. ASEAN markets are traditionally dominated by Japanese players, particularly Toyota, and European brands, particularly luxury ones, are well known in the region. But with the rapid and colossal growth of Chinese automotive industry, is this balance of power shifting, and is that a cause for concern?

China should not be viewed as a threat, says Ipsos' Cassidy. "Chinese OEMs already have a substantial presence in ASEAN, employing lots of people, and Chinese manufacturers have a significant part of the aftermarket in, for example, Indonesia." These companies, he adds, play a useful role in stimulating competition within ASEAN and providing alternatives to the ASEAN consumer. Chinese OEMs who have already

moved to localise in the region include Geely, which in 2017 pursued the M&A route by acquiring 49.9% of Proton, the Malaysia-based OEM which produces the country's own national car brand. Meanwhile, Wuling has invested in a facility in Indonesia, in an effort to crack the country's popular MPV market.

But overall presence remains relatively minor, which is why Ford's Wisadkosin is not so concerned. "Competition is always welcome," says Ford's Wisadkosin, "but for the Chinese OEMs to compete effectively will require local investment. All the key players within ASEAN have local manufacturing within the region."

### Pushing electrification, pushing collaboration

But one megatrend is very likely to offer Chinese OEMs deeper inroads into ASEAN markets – electrification. All of the big ASEAN markets are pushing electrification in some fashion: in Thailand, the government has already approved sizeable incentives for EV manufacturing operations. In the Philippines, exemptions in the Tax Reform for Acceleration and Inclusion (TRAIN) laws are available for battery EVs and hybrids. As the world's largest EV market, Chinese OEMs have amassed considerable expertise in the area.

"We can expect Chinese OEMs to gain an increasing market share through their competitive edge in the growing EV market," affirms Cassidy. "The move away from internal combustion engine technology, a revolutionary shift, will have huge implications throughout the automotive supply chain."

Moving forward, Cassidy concludes, it is essential that ASEAN governments and regulators work together to ensure they facilitate and participate in what he dubs the 'new world', instead of trying to protect local vested interests.



*Integration could have a disruptive impact on less efficient production areas as manufacturing moves to the more efficient areas such as Thailand and Indonesia, which already have the scale and a deep supply base*