

# Preface

The ASEAN region is going through a time of changes. Concretely, efforts towards the realisation of the ASEAN Economic Community (AEC) 2015 are under way, which will result in a common market with a population of over 600 million. This is roughly half of the Chinese population and the creation of a common market will have great consequences for the world economy.

This research project is focusing on the impact of AEC 2015 on the automotive industry, which includes vehicle producers and auto parts suppliers. The reason is that the brand-to-brand complementation (BBC) scheme as proposed by Mitsubishi Motors allows the automotive industry to play an important role in the historic development of AEC. The BBC scheme and the ASEAN Industrial Cooperation (AICO), which went replaced by the ASEAN Free Trade Area (AFTA), developed into the present AEC 2015. However, this development is not the only relationship between the automotive industry and AEC. In fact, the AEC is the driving force in the development of the automotive industry. It cannot be denied that the agglomeration of the automobile original equipment manufacturers (OEMs) and the extensive supplier industry are linked to this growth. Moreover, it cannot be doubted that the production of completely built units (CBUs) in various ASEAN member states is based on the use of a system of intra-regional reciprocal parts supply. In short, the automotive industry has been a main promoter and beneficiary of regional integration. Therefore, the research will be limited to exploring the impact of the forthcoming AEC 2015 on the automotive industry.

Basing on the latest 2013 available data, vehicle production in the ASEAN5 (Indonesia, Malaysia, the Philippines, Thailand and Viet Nam) countries surpassed 4.44 million units and sales reached 3.50 million units. If we are presuming a 5 percent annual growth rate for production and 7 percent for sales, this would result in 5.90 million produced and 5.60 million sold units in these countries by 2020. In fact, this estimate is relatively moderate as it partly includes the so-called CLMV countries (Cambodia, Laos, Myanmar, Viet Nam), which can be expected to experience a rapid market expansion. If

the annual growth rate would reach 10 percent, the market would even surpass the 6 million unit mark.

If one adopts this projection, the ASEAN market has a truly high growth potential. Naturally, this is not to deny other markets: If projections for the Chinese automobile market are correct, sales will reach 25 million units in the same timeframe. However, the supremacy of the ASEAN market lies in its political stability, the advanced state of certain markets, and the historical impact of Western culture on institutions. This market has created a production system that rests on the international division of labour between diverse countries, meaning that this automotive production system differs from the Chinese or Western systems.

This volume contains six chapters. In the first chapter, Kobayashi gives an overview of the automotive industry in the ASEAN region. He identifies that under the forthcoming AEC 2015, automobile production separates into two distinct subtypes. On one hand, production is located in fully developed clusters such as the region around Bangkok in Thailand. In such industrial agglomerations, production relies on the fully integrated supply chain in the country with few inputs from neighbouring countries. On the other hand, production is diffusing to less developed countries such as Viet Nam. In such locations, low volume production is largely dependent on the import of components from ASEAN, Japan, Korea or China. Thus, the automotive industries in these countries follow different patterns, which can be understood as the next evolutionary stage of automotive industry development in the ASEAN region.

In the second chapter, Kurosu and Koyama explore automotive logistics in ASEAN. They describe the general industry dynamics and identify hard and soft infrastructure issues that trouble the logistics industry. While they find that ASEAN governments have already identified these problems, the authors show that the implementation of policies is behind schedule and needs more attention in order to support manufacturing industries like the automotive industry, which depends on timely production.

In the third chapter, Shiraki discusses the differences in human resource utilisation in Japanese and Western multinational enterprises (MNEs) and

issues for MNEs operating in the ASEAN region. He finds that ASEAN lacks fundamental data on labour-related migration which makes the analysis of the issue complicated, effectively limiting investigations to case studies. Thus, he argues that ASEAN countries should consider the creation of a comparable data to enable data-based analysis and policy formulation for migration-related issues in the region.

In the fourth chapter, Kobayashi and Jin explore the current situation of the automotive industry in CLMV countries in more detail. They find signs that these countries are attracting investment in labour-intensive parts production from neighbouring countries such as Thailand. However, they also observe several remaining issues for the development of an automotive industry in these countries, mostly related to insufficient infrastructure development and bureaucratic red tape.

In the fifth chapter, Agustin and Schröder explore the supply chain relations between ASEAN and India from the latter's perspective. They find that despite increasing trade in automotive components, the relation is rather one-sided, in that India imports much more from ASEAN than it exports to the region. Their case study approach demonstrates that India gets slowly integrated into supply chains in the ASEAN region. However, it becomes clear that the historic development as separated markets is still impacting the present relation. Case studies suggest that the division can be explained by lower cost of intra-ASEAN sourcing as opposed to imports from India, Indian companies' concentration on other markets as well as the relatively low technology level of Indian component manufacturers.

In the appendix, Shimizu and Kobayashi consider the impact of AEC 2015 on the Japanese economy and the prospects for future trade liberalisation in the different contexts of the Regional Comprehensive Economic Partnership (RCEP), the Trans-Pacific Partnership (TPP) as well as various free trade agreements (FTAs) with neighbouring countries such as China or India. This chapter also highlights remaining issues for the full realisation of AEC 2015.that while it appears safe to assume that a liberalised trade in goods will be achieved, the authors doubt that the other pillars of AEC 2015, namely liberalisation of services trade, investment and finance, and free movement of individuals will be realised on schedule.

Hideo Kobayashi

*Research Institute Auto Parts Industries, Waseda University*