Chapter 4

The CLMV Automobile and Auto Parts Industry

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CHAPTER 4
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Introduction

To begin, consider the general economic characteristics of Cambodia, Laos, Myanmar and Viet Nam, collectively known as the CLMV countries. These countries joined ASEAN relatively late and are economically less developed than the original members. According to the World Bank (2012), Viet Nam's GDP stood at US$155.8 billion in 2012, Myanmar's is estimated to be around US$50 billion, Cambodia at US$ 14.04 billion, and Laos at US$9.41 billion. Therefore, these countries can be labelled as developing countries. This is also reflected in their gross domestic product (GDP) per capita. While Viet Nam and Laos have roughly around US$1,500, that of Cambodia and Myanmar are below US$1,000 and therefore among the least developed countries.

More than 20 years after the end of the civil war, Cambodia still has not made a lot of progress in the economic sphere. Under the military junta, Myanmar's economy also stagnated but with the gradual democratisation process, the country is receiving foreign direct investment (FDI) and appears to slowly move towards improving its economic status. However, while all these countries are on the path towards market economy and are strengthening their trade relations with Western countries, the common characteristic is that these

countries' economic relations are strongly linked to the United States, China, South Korea, and Thailand. Indeed, while the presence of the US, neighbouring countries China and Thailand, as well as Korea especially in Myanmar, Laos, and Cambodia is striking, economic relations with Japan are marginal.

1. The Importance of the Agricultural Sector in CLMV Countries

The most outstanding characteristic of the sectoral composition of CLMV economies is the weight of the primary sector. Only Viet Nam has a robust manufacturing sector while Cambodia, Laos, and Myanmar have their agricultural sectors playing the most important role. The manufacturing sector takes the second rank in Cambodia and Laos, and third in Myanmar, behind agriculture and services. This condition is also reflected in the main trade products of these CLMV countries. Products of their primary sectors are their most important exports, which mainly consist of industrial products. Laos has been labelled as ASEAN's battery as the country can use the Mekong river to generate large quantities of electricity; it can sell surplus electricity to Thailand and is an important business potential. In case of Cambodia, the tourism industry centers on the cultural heritage of Angkor Wat and is of great importance to the national economy. However, these imply that these countries lack a diversified economy.

The relative weight of labour-intensive manufacturing has rapidly increased in CLM countries since 2010. In Myanmar and Laos, textile and garment industries are trending while in Cambodia, there is the growth in manufacturing houseware products. These recent developments mean that labour-intesive manufacturing is not yet contributing as much as the primary sectors mentioned earlier but the increasing wages in Thailand suggest that the tendency to shift production to CLM countries is going to continue.

2. General Condition of Vehicle Sales in CLMV Countries

Let us investigate the vehicle sales in CLMV countries. A shared characteristic of these car markets is that used vehicles constitute a higher percentage of total sales than new cars. Of the four, Viet Nam has the highest number of new car sales. However, while a mark of 140,000 vehicles was reached in 2009, the number steadily declined in the subsequent years as it fell below 100,000 units in 2012. Besides the general economic condition, restrictive fiscal policy and an increase of the vehicle tax discourage sales. Reliable (time series) data on Cambodian vehicle sales are unavailable but it is said that 1,300 new cars and 29,000 used cars were sold in 2011. A similar lack of data exists in Myanmar. During the military rule, second-hand vehicle imports were severely limited and subject to high import tariffs, but with democratisation, these restrictions were relaxed in 2011, thus, about 113,000 – mostly Japanese – used vehicles were imported in 2012. Meanwhile in Laos, second-hand vehicle imports were legally prohibited until 2011, hence there are no data on such imports. However, whoever visits Laos can observe that the prohibition obviously was not enforced as the number of foreign vehicles is high. Regarding new vehicle sales, a total of 34,500 units were sold in 2012, which consists of 15,700 passenger cars and 7,000 pickup trucks. While the lack of official statistics for second-hand vehicle imports forces us to narrow our view to Cambodia and Myanmar, it must be stated that the phenomenon definitely also exists in Laos, but due to an official policy, the magnitude cannot be accounted for.

3. Current Condition of the Automobile Industry in CLMV countries

A most striking characteristic of the CLMV automotive industry is the presence of Chinese, European, Japanese, Korean, Malaysian, and US original equipment manufacturers (OEMs) in Viet Nam and operations of completely knocked-down (CKD) assembling companies in Cambodia and Myanmar. So far, there is no CKD assembly plant in Laos.

Concerning Japanese OEMs, the county's leading car-maker Toyota started production in Viet Nam in 1996. In the same year, Suzuki set up a small truck production. Honda, which at the time was one of the leading two-wheeler producers in the Vietnamese market, started four-wheeler production in 2006.

Regarding Korean car-makers, Kia's small car Picanto is assembled from CKDs by Vietnamese company Truong Hai Auto Corp. (THACO). Seemingly trying to establish a strong position in the large developing market to profit from the anticipated motorisation, Kia has rapidly increased its sales and now occupies the second rank in vehicle sales behind Toyota in 2013.

Turning to Western OEMs, General Motors (GM) took over the Vietnamese plant of bankrupt Daewoo and uses it for production. Similarly, Ford entered the market in 1997 and today produces sedans, sport utility vehicles (SUVs), and hatchbacks. Mercedes-Benz (Daimler) uses the plant of a local company for the assembly of its cars.

China's Chery contracted compact car production to local companies Viet Nam Motors Industry Corp. (Vinamotor) and Vinaxuki, the latter produces models of (Harbin) Hafei Motors.

The Vietnamese companies Truong Hai and Tan Chong, which are both located in the Da Nang area in central Viet Nam, are remarkable cases. While Truong Hai is a privately owned Vietnamese company, Tan Chong was founded by a Chinese Malaysian. However, both firms sought to establish vehicle production in Viet Nam's central region around Da Nang during the

1990s.[1] Both companies assemble CKD kits into completely built units (CBUs) for some major global OEMs. In Truong Hai's case, it receives technological assistance or technology transfer from its partners. Central components are imported from abroad, Kia ships CKD kits from Korea while Mazda supplies kits and components from Japan and China. The company even built an own port where CKD kits and other components are delivered and operates its own training facility for its future staff. In the case of Tan Chong, the company assembles CKD kits for Nissan, which are sourced from ASEAN and India. This production method deserves attention as it is likely to increase for developing markets just like the CLMV countries.

Among the CLMV countries, Cambodia and Myanmar have CKD-based assembly plants. In Cambodia, Hyundai operates a shared management joint venture (JV) with two local companies to assemble the H1 model from CKD kits in the Koh Kong industrial zone, which is near the border of Thailand. The Beijing Automotive Industry Corp. (BAIC) and a local company founded Khmer First Car, which is located near Phnom Penh airport and produces light trucks with components imported from China. Ford became the first OEM from the triad to open a plant in Cambodia, precisely in the Sihanoukville Special Economic Zone and close to the city's airport. This plant is operated by the Thai automobile distributor RMA and it produces the Everest SUV with parts imported from Thailand. In Myanmar, China's Chery produces its rebadged model as the Myanmar Mini. In the same fashion, ZX Auto (Hebei Zhongxing Automobile) produces pickup trucks with a company affiliated to Myanmar's Ministry of Industry. Moreover, local company Super Seven Star licensed designs from China to produce commercial vans by CKD assembly. Under military rule, Suzuki produced the mini truck Carry and the small car Wagon R until 1998. Due to internal conflicts that influenced the market, Suzuki suspended production until democratisation commenced. Since May 2013, Suzuki restarted local production of the Carry. The OEM has a positive attitude towards the market and plans to build a new factory in the currently established Tirawa Special Economic Zone in the outskirts of Yangon by 2015.

[1] In an interview conducted with Tan Chong on 25 February 2014, a staff explained that the company planned to set up production in Da Nang in 1997 but gave up preparations in 1997, when the Asian Financial Crisis hit the region, including Malaysia, which in turn introduced foreign exchange controls to stabilise the Ringgit.

4. Current Condition of the Automotive Components Industry in CLMV Countries

A common characteristic of the auto parts industry in all four CLMV countries is that this industry is relatively poorly developed. While some auto parts suppliers have already located production to these countries, especially in Viet Nam, it is certainly not wrong to state that in comparison to other ASEAN countries, the industry is weakly developed. However, if one takes a closer look at the component producer's activities, it becomes clear that parts production dedicated to two-wheelers is considerable. In fact, Viet Nam is among the top 4 countries in two-wheeler production and sales (Fujita 2012). Therefore, it can be expected that suppliers currently focused on two-wheeler parts production may shift towards four-wheeler component production. The large presence of Japanese two-wheeler producers is also the reason why Company T, which produces seat covers for Toyota and two-wheeler co-driver seats, has set up production in 1997. While the company formerly supplied components for the two-wheeler production of Suzuki, Yamaha and other competitors, it mainly supplies Toyota's car assembly operations today. Similarly, Company S, a shock absorber manufacturer of the Honda *keiretsu*, started operations in 1996. During that phase the company only supplied two-wheeler shock absorbers to Honda, however in 2012, the company opened a second plant that produces components for four-wheelers. While the main component producing companies in Viet Nam were mainly Japanese that supplied Japanese OEMs, it must be stated that Korean suppliers and OEMs also significantly increased their presence. For example, since Hiroshima-based Company O which specialises in machining entered the market, its sales to Korean companies such as Hyundai-Kia account for 30 percent of total sales turnover.

Regarding the auto parts industry in Cambodia, Laos, and Myanmar, it must be stated that it is presently underdeveloped. As vehicle production is only conducted via CKDs, these operations rely on overseas imports for the vast majority of components and that production depends on foreign inputs. Thus, parts suppliers with independent design capabilities can hardly be found. Probably the strongest aspect for the industry in these countries is that they share a border with Thailand, the centre of automobile production in ASEAN.

Hence, labour-intensive production steps are increasingly conducted by so-called satellite plants that are close to the border between Thailand and the respective CLM country. Thus, it can even be stated that shifting labour-intensive production to CLM satellite plants may be the basis for future industry agglomerations. Therefore, while the concentration of advanced parts production and final assembly seems to concentrate in Thailand and Indonesia, there is on the other hand the simultaneous diffusion process in less complex production stages towards neighbouring countries such as Cambodia, Laos, and Myanmar. It appears reasonable to assume that labour-intensive parts production – prime examples are wire harness and castings – in Thailand will be under pressure due to increasing wages so that the responsibility for these components will be shifted towards neighbouring countries.

In 2012, two major wire harness producers – Sumitomo Electric and Yazaki – indepently from each other established production sites close to the Thai border. Similarly, Denso built a plant for labour-intensive electronic parts in the proximity of the Thai-Cambodian border. While a similar influx so far cannot be observed for Laos, automotive component manufacturers Toyota Bōshoku and Asahi Tec are said to be considering setting up production in the country. In Myanmar, Asumo (Denso) as well as Inoue Kogyo intend to begin production in 2014. Furthermore, Chinese and Korean parts suppliers also quickly seek to set up subsidiaries in Myanmar and future investments from Indian, Indonesian, and Malaysian firms are anticipated.

Conclusion: Problems for Auto Parts Makers in CLMV Countries

Automotive component producers in CLMV countries face numerous issues. First, the issue of insufficient infrastructure must be raised. Undoubtedly, abundant workforce and low wages are attractive but reliable electricity supply and sufficient road infrastructure are necessary conditions for attracting manufacturing industries. Regularly occurring black-outs not only disrupt production but also create serious issues for quality standards. Therefore, each company must secure emergency electricity supply

(generators), which increases costs and reduces profits. Automotive component producers in CLMV countries face numerous issues. First, the issue of insufficient infrastructure must be raised. Undoubtedly, abundant workforce and low wages are attractive but reliable electricity supply and sufficient road infrastructure are necessary conditions for attracting manufacturing industries. Regularly occurring black-outs not only disrupt production but also create serious issues for quality standards. Therefore, each company must secure emergency electricity supply (generators), which increases costs and reduces profit. Regarding road infrastructure, while main roads are still not completely asphalted, there is the task of extending the network of asphalted roads to branch roads. The second main issue is education of workers. While a normal worker's wage is truly cheap, the level of physical endurance and capacity is reportedly lower than that of Thai workers. Hence, improved education and training are certainly desirable.

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