

## GLOBAL BUSINESS

# Thai-made pickups crisscross globe

Japanese automakers shift production bases, lured by lower taxes, currency

TAKAFUMI HOTTA

Staff writer

**S**cattered drops of liquid metal gradually meld into the form of a car. Next, the large screen image changes to show a different scene — a new car emerging from a cloud of smoke.

This was part of the special-effects laden visual presentation that Mitsubishi Motors Corp. used to unveil its new Triton pickup truck in Bangkok in late August.

The film's splashy production techniques, which resembled a scene from the "Terminator" movies, sparked thunderous applause from the audience. "It reflects the large budget of our subsidiary in Thailand," said Osamu Masuko, president of the automaker.

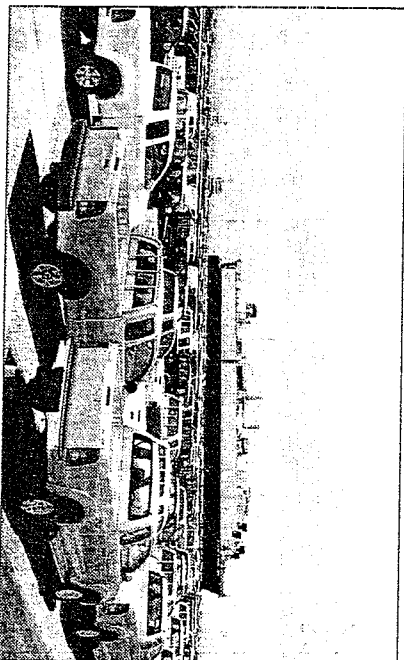
In contrast to its huge losses in Japan and North America, the company produced a record 130,000 vehicles in Thailand last year, earning ¥18 billion (\$159 million) in net profit, nearly 10% of its total sales in the country.

Bolstering the brisk performance were exports destined for 140 countries and regions. Pickup trucks last year accounted for over 90% of MMC's total vehicle output in the country. Of those, 70% were exported.

The newly released Triton, which features a riding performance and interior space on a par with passenger cars, is a strategic vehicle targeted at the European and Australian markets.

## Outdoor lifestyles

Pickup trucks come with a protruding nose and a roofless cargo bed. Originally developed for commercial use, they have become a rising popularity with people who want to use them as "over vehicles for outdoor



At Lam Chabang Port in Thailand, pickup trucks made by affiliates of Japanese automakers are lined up for export. On some days, more than 8,000 pickups await loading onto ships in the harbor.

ing briskly. Thailand is a land of pickup trucks, as it boasts a growing presence in the global market with its rapidly increasing output of models powered by 2.5 to 3-liter engines.

"Orders have been increasing at an annual rate of 20-30%, making it hard for us to catch up," said Shunichi Sato, president of Isuzu Motors Co. (Thailand).

Isuzu holds the largest share of the Thai commercial vehicle market. It plans to expand its pickup truck production capacity in Thailand by 50% to 300,000 units by 2007. MMC is considering building another vehicle plant in the country after 2010.

Nissan Motor Co., a laggard in the Asian market outside Japan, is poised to raise its annual output capacity in Thailand to 200,000 units, up 50% from the current level, over the next three years. "We'll play catch-up with rivals in the years to come by rolling out a series of new models," said Kosaku Hosokawa, president of Siam Nissan Automobile Co., Nissan's Thai affiliate.

At Lam Chabang Port, Thailand's largest export harbor, located 125km southeast of Bangkok, are numerous pickup trucks transported from the local plants of Toyota Motor Corp., Isuzu and MMC. Large ships leave the port after being loaded up with more than 200 vehicles at a time. On some days, more than 8,000 pickups await

NYK Bulkship (Thailand) Co., which handles cargo loading and unloading at the port. The storage facility is due to be expanded by about 30% in 2006.

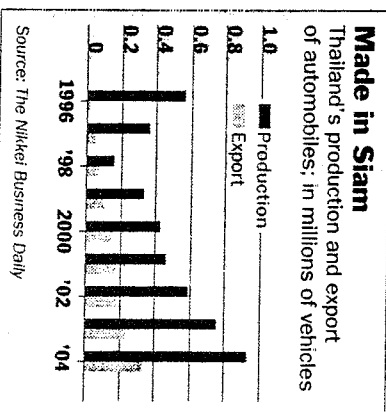
Last year saw a total of 930,000 vehicles produced in Thailand, bringing the country closer to the club of major auto-producing nations, which annually turn out 1 million vehicles each. Of the total, 40% were pickup trucks made for export.

History has shown that, after first meeting domestic demand, vehicles made in major auto-producing countries have found their way into overseas markets. But for Thailand, domestic and external demand have been growing at almost the same pace. Behind such rapid growth lie two factors.

## Special treatment

The first is that, when pickup truck production was first launched in Thailand in the 1970s by Japanese automakers, including Toyota, the local government paid attention to the highly durable and low-cost vehicles and gave them preferential treatment by lowering the commodity tax to 5% or less, compared with 30% or more for passenger cars.

Vehicles eligible for preferential treatment were expected to be useful in people's livelihoods as well as boosting Thailand's competitiveness



by giving it special treatment. Then with the appreciation of the yen in the 1990s, costs prompted Japanese automakers to shift their pickup truck export bases to Thailand.

The second factor was the Asian currency crisis of 1997, which sparked a dramatic fall in auto production in Thailand the following year, just after Toyota had begun operating a plant in the country. "The plant had to be temporarily closed," remembered Ryoeichi Sasaki, president of Toyota Motor Thailand Co.

Subsequently, Toyota decided to shift pickup truck production to the Thai plant from a factory in Hamura, in western Tokyo, owned by affiliate Hino Motors Ltd. This later lifted the Thai plant's utilization rate to a reasonably high level.

Shifting pickup truck production to Thailand by automakers is still continuing, with Toyota, Isuzu and MMC having totally moved output there, and a senior Nissan official saying, "Shifting all pickup truck production to Thailand is a subject worth considering."

A weak baht since the currency crisis of the late 1990s has helped bolster the export competitiveness of Thai-made pickups. But that type of competitiveness is not enough to ensure sustained growth of the Thai automotive industry.

632

accounted for over 90% of MMC's total vehicle output in the country. Of those, 70% were exported.

The newly released Triton, which features a riding performance and interior space on a par with passenger cars, is a strategic vehicle targeted at the European and Australian markets.

#### Outdoor lifestyles

Pickup trucks come with a protruding nose and a roofless cargo bed. Originally developed for commercial use, they have become increasingly popular with people who want to use them as passenger vehicles for outdoor activities.

Like the U.S., where large pickups with 5-liter-class engines have been self-

imported to 200,000 units, up 30% from the

current level, over the next three years. "We'll play catch-up with rivals in the years to come by rolling out a series of new models," said Kosaku Hosokawa, president of Siam Nissan Automobile Co., Nissan's Thai affiliate.

At Lam Chabang Port, Thailand's largest export harbor, located 125km southeast of Bangkok, are numerous pickup trucks transported from the local plants of Toyota Motor Corp., Isuzu and MMC. Large ships leave the port after being loaded up with more than 200 vehicles at a time. On some days, more than 8,000 pickups await loading onto ships in the harbor.

"The number of vehicles exported from here is rapidly increasing," said Masaharu Takagaki, vice president of

Two hours' drive from Bangkok brings you to the Eastern Seaboard Industrial Estate of Thailand's Rayong Province. The park's sign says "Detroit of the East."

On the site, which is home to a good number of autoparts makers, a plant run by Japan's Yorozu Corp. is operating at full capacity. Factory hands manning its production lines work busily even after 8 p.m., when most of the other plants around have called it quits for the day. The Yorozu plant is busy because its client, Honda Motor Co., is fully remodeling its Civic subcompact for the first time in five years.

On display near the production lines are models of suspension parts made by the firm. On one of the parts is labeled "Shipped to Canada." This summer the factory began supplying products to Canada, its first market outside Thailand and Japan.

"This is the first time we have ever shipped large quantities of products to such a distant location," said Yoji Ota, president of Yorozu (Thailand) Co. The Thai firm makes suspension parts for 1,500 Civics a month and ships them to Canada for assembly.

Honda was quite bold in deciding

to use such a large number of Thai-made components to optimize its global parts procurement. "Purchasing from Yorozu (Thailand) is quite a rare move for us," said Honda's Senior Managing and Representative Director Satoshi Toshida.

As they have pushed into foreign markets, Japanese automakers have increased local production as well as the amounts of parts purchased locally. The trend is progressing further amid intense competition in the global market.

In the past, automakers purchased supplies either in Japan or in the countries where they assembled their cars. They are now procuring parts from other overseas locations.

#### Thailand linchpin

Autoparts made in Thailand are enjoying particularly strong demand. Siam Nissan President Hosokawa said, "Thai firms are some of our most important suppliers." Nissan is considering using Thai-made parts in its vehicles sold in Australia and other locations.

Thai parts makers have become competitive because Thailand has attracted a large number of manufac-

#### Special treatment

The first is that, when pickup truck production was first launched in Thailand in the 1970s by Japanese automakers, including Toyota, the local government paid attention to the highly durable and low-cost vehicles and gave them preferential treatment by lowering the commodity tax to 5% or less, compared with 30% or more for passenger cars.

Vehicles eligible for preferential treatment were those expected to be useful in people's livelihoods as well as boosting Thailand's competitiveness in global markets, recalled a senior Thai Ministry of Industry official.

The Thai government also promoted auto plant construction in the country

turers. A total of 174 corporate members of the Japan Auto Parts Industries Association were operating in the country as of November last year. Japanese automakers making cars there procure nearly 90% of their supplies locally.

As the number of parts makers operating in Thailand has risen, the level of their technology has also improved. It takes sophisticated design techniques to make molds for car bodies, for example. Honda is now making such molds in Thailand for export to Japan, the U.S. and Europe on a full-scale basis beginning next year.

"Thailand has an edge over China in that new product development is possible there," said Yoji Nakamine, president of Auto Alliance Thailand Co., a joint venture between Mazda Motor Corp. and Ford Motor Co.

Thailand's car output was equivalent to less than 20% of China's production in 2004. Still, Thailand is attracting a large number of parts producers.

The country enjoys an advantage because it signed an accord with Malaysia, the Philippines and Indonesia to halve import tariffs on certain

southern high level.

Shifting pickup truck production to Thailand by automakers is still continuing, with Toyota, Isuzu and MMC having totally moved output there, and a senior Nissan official saying, "Shifting all pickup truck production to Thailand is a subject worth considering."

A weak baht since the currency crisis of the late 1990s has helped bolster the export competitiveness of Thai-made pickups. But that type of competitiveness is not enough to ensure sustained growth of the Thai automotive industry.

To do so, innovation in productivity, nurturing of support industries and development of other competitive vehicles will be necessary.

car parts. Now as members of the ASEAN Free Trade Area, the tariffs have been lowered to less than 5%. Overall car production in the ASEAN region stands at some 2 million vehicles per year.

#### Horizontal integration

As a result, Honda, for example, purchases automatic transmissions from Indonesia and manual transmissions from the Philippines. Toyota buys gasoline engines from Indonesia and diesel engines from Thailand. This horizontal division of labor among manufacturers in different countries is significantly improving economies of scale.

However, the currency crisis that erupted in East Asia in 1997 has widened the gap between Thailand, which has developed into an important manufacturing base for export autoparts, and its three neighbors, whose automotive sectors have failed to thrive to the same extent.

In fact, of some 110 Japanese autoparts makers that have set up in the four countries since 1996, 60% opted for Thailand, causing the others to fear that they might fall further behind.

## Southeast Asia remapping car parts production