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Competitiveness Analysis of ASEAN Automotive Industry: A Comparison between Malaysia and Thailand

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Abstract

The automotive industry in ASEAN started thirty years under different automotive policies and approaches leasing to different performance among its country members. This paper focus on Porter's five forces model analysis between Malaysia and Thailand since these two countries are made up the top three vehicles manufacturers in ASEAN. Thailand's annual production exceeds two million vehicles per year compared to Malaysia around five hundred thousand vehicles. The automotive components and parts in Malaysia recorded trade deficit which import of automotive parts at RM 4 billion of values compared to exported parts only at RM2 billion. Previous study suggested Thailand successful automotive policy strategy which launched thirty years ago emphasized on dependent strategy on foreign investment whereas Malaysia focus its automotive development on its national car company Proton. After thirty years, the successful Thailand performance in the automotive industry has been viewed as saturated and dominated by Japanese and American manufacturers. On the contrary, the lack of performance in the automotive manufacturing and components industry in Malaysia has been seen as attractive for investors to invest in Malaysia. Furthermore the high car passenger density in Malaysia offers advantage for the manufacturer in this industry.

Keywords: Industry Analysis; Government Automotive Policy; Porter's five Forces Analysis; Malaysian and Thailand Automotive Industry

1.0 INTRODUCTION

The performance of automotive industry in ASEAN is currently expanding after the implementation of AFTA (ASEAN Free Trade Agreement) and the liberalization of economic policy. After AFTA, the trade transaction between ASEAN countries was given with lower preferential tariff rate. One of the industries benefited the most form this economic liberalization is automotive industry. Overall ASEAN performance as automotive manufacturer in this region is being led by Thailand, followed by Indonesia and Malaysia in term of automotive production volume and automotive components and parts sales.

Globally, Thailand ranked at number 12th with average annual production of vehicles around 2 million vehicles performance per year. Considering ASEAN nations is relatively young in automotive production compared with developed countries like U.S and Japan, it is quite impressive. These countries have implemented different automotive policy in developing this infant industry in this region some thirty years ago. After thirty years, Thailand has successful emerged as one of the largest automotive hub in the world and has been referred as "Detroit of Asia," after one of the US's largest manufacturing hubs (Somolavanij, S. 2009). The automotive market was dominated by U.S, which in 1960s did about 75% of production worldwide. However, China now has become the largest vehicle manufacturer with a production rate of about 28 million yearly units, followed by the U.S with about 12.2 million units (PricewaterhouseCoopers, 2017).

In analyzing the competitiveness of the automotive industry between Malaysia and Thailand, comparison will be made based on Porter's five forces model in analyzing the attractiveness of the industry. According to Porter (2008), there are five major forces that affects any business in the world which are

bargaining power of buyer, bargaining power of supplier, threat of new entrant, threat of substitute product and intensity of rivalry in the country.

■ 2.0 COMPARATIVE AUTOMOTIVE POLICY OF MALAYSIA AND THAILAND

Thailand

Thailand's history to develop its automotive manufacturing started in the early 1980s. During the early developmental stage of Thailand's automotive industry, high tariffs and restrictions of origin were used to protect the domestic industry. Similar measure has been adopted in Malaysia by imposing high tariff on imported cars to protect the national car company at the same time. However, Thailand has realized these protectionist measures did not lead to the rapid development of the local automotive industry, because high car prices will limit the domestic demand and will not be conducive to automotive industry development (Wan-Ping, Tai, Samuel 2013).

Thailand government has opened the automotive market and had attracted multinational automotive manufacturers to set up plants in the country, expand the scale of the industry, and establish a regional production center. These multinational automotive manufacturers have managed to increase the production volumes of vehicles and the components and parts industry. In 2007, Thailand has launched its Automotive Industry Master Plan with five strategies which are listed in Table 1 below.

Table 1: Comparative Automotive Policy of Thailand and Malaysia.

Thailand	Malaysia
• Increasing Productivity by develop Thailand automotive industry to an industry wide lean supply chain and creating production supply chain network to enable comparison of competitive advantage, thereby make Thailand automotive industry highly competitive. • Expanding domestic and ASEAN markets by developing small passenger car together with maintain Thailand position as the production base for pick-up truck. Also develop infrastructures to increase efficiency in transportation. • Develop design and engineering technology as a foundation of sustainable and systematic competition and value creation, using technology roadmap as an essential tool to enable collaboration on research and development and testing projects. • Develop human resource by industry-wide development of human resource in management and production. Human resource development is a key factor in creating competitive advantage for Thailand automotive industry emphasizing on formal education system, training system that meet the industry demand. • Promote domestic and foreign investment to promote the industry growth and linking to international level.	• To develop a competitive and capable domestic automotive industry. • To develop Malaysia as the regional automotive hub in Energy Efficient Vehicle (EEV). • To increase value-added activities in a sustainable way while continuously developing domestic capabilities. • To increase exports of vehicles, automotive components, spare parts and related products in the manufacturing and after market sectors. • To increase the participation of competitive Bumiputera companies in the domestic automotive industry, including in the after-market sector. • To safeguard consumer interests by offering safer and better quality products at competitive price. • To enhance the ecosystem of the manufacturing and after market sectors of the domestic automotive industry.

The Automotive Industry Master Plan aimed for Thailand to act as a regional hub for automobile exports. The Thai government also introduced selective industrial policy by picking product champions which is pick-up truck production and related components industries as its first product champion. In response to this policy, Toyota company has decided to relocate its global pick-up truck production base from Japan to Thailand (Natsuda and Thoburn 2013).

Thailand depends on the foreign automotive companies to set up automotive manufacturing plants in the country and had successfully produced 2 million vehicles performance year. However, most of the automotive industry in Thailand is controlled by foreign owned company from the car producer to components producer. This is because automotive industry operates in global value chain (GVC) environment which is a producer-

driven industry. In this scenario, the producers have more influence and control in the automotive industry because they have been governing this highly capital and technology intensive chain by controlling core technologies, production processes, and research and development (R&D). As a result, majority of the vendors in Thailand are in-controlled by the foreign car manufacturers (Natsuda and Thoburn 2013).

Malaysia's history in the automotive production started in 1985 with the establishment of its national automotive company which is Proton (Perusahan Otomobil Nasional). However, the automotive history started in Malaysia earlier in the 1970s when government launched the ISI (Import Substitution Policy) promoting local automotive components and parts production in Malaysia. Similar with Thailand, during the early developmental stage of Proton, high tariffs of imported vehicles were implemented and incentives to produce locally assembled cars were given to protect its domestic industry.

Malaysia opted to develop its own automotive manufacturing industry Proton because the government saw the importance to have own automotive manufacturing industry since automotive is seen as "industry of the industries". Malaysia chose not to rely on foreign direct investment in automotive manufacturer industry because intended to focus on the local vendor development program. However after three decades the inception of Proton, the automotive industry in Malaysia is still not competitive and able to compete with international automotive companies. The sale of Proton were once dominated the local market in mid 90s and had been really affected with the flourished of foreign cars following the implementation of AFTA in 2005. The components and parts industry in Malaysia also operating at trade deficit where imports components and parts are higher than exported parts (Table 4).

Table 2: Total Production Passenger and Commercial Vehicles for ASEAN countries 2000 – 2015 (AAF, 2015)

	2000	**2002**	**2004**	**2006**	**2008**	**2010**	**2012**	**2014**	**2015**
Indonesia	292,710	299,257	408,311	296,008	464,816	702,508	1,065,557	1,298,523	1,098,780
Malaysia	284,600	395,000	372,916	502,973	489,269	567,715	569,620	596,418	614,664
Philippines	41,840	53,683	70,728	41,603	62,523	80,477	75,413	88,845	98,768
Thailand	325,888	595,649	927,981	1,193,903	999,378	1,645,304	2,453,717	1,880,007	1,913,002
Vietnam	6,862	13,197	19,868	18,211	107,760	106,166	73,673	121,084	171,753

In 2006, the government launched the National Automotive Policy (NAP) with the aim to improve the competitiveness of the automotive industry in Malaysia by selecting the same strategies with Thailand, to focus on the technology and engineering strategy as well as market expansion. NAP underwent another revision in 2014 with the emphasis to develop the EEV (Energy Efficient Vehicle) segment. With this revised policy, Malaysia aims to be the regional hub for the production of EEV which Thailand currently lead as the regional hub for pick-up truck production in South East Asia. Noted from the above Table 2, since the implementation of NAP ten years ago in 2006, sales of vehicles in Malaysia has not recorded a significant increase if compared to Thailand.

■ 3.0 DIFFERENCE BETWEEN MALAYSIA AND THAILAND AUTOMOTIVE POLICY

The main difference between Thailand successful automotive policy and Malaysia is on the government policy on FDI (Foreign Direct Investment) which encourage foreign participation of automaker. According to W.P Tai (2013) mentioned the independent modes on national car project like Proton had restricted the growth of automotive industry in the country. He elaborated further the difference strategies between both countries that the "dependency strategy" versus the "independent strategy adopted by Thailand. Refer to table 2 above, the dependency development relies on foreign investment. In order to boost up the automotive industry in a country require a high capital investment. In order to get high capital investment and volume, a country need to attract the foreign investment by liberalizing the market. Thailand acted first by liberalizing the automotive policy in the year 2000 following WTO. Malaysia had to ask for extension until 2005.

Table 3: Analysis of Different Automotive Development Approaches (W.P Tai, 2013)

Automotive Policy / Strategy	Advantages	Disadvantages
Thailand Dependency Development	• Smaller financial burden on the government • Less Pressure on the open market	• The automotive industry is dominated by foreign capital • More difficult to develop the economic scale of mass production • Cannot bring about the growth of related industries
Malaysia Independent Development	• Protection brings mass production • More likely to support the growth of related industries • Can use the home country's resources	• Greater financial burden on the government • Over-protection cannot respond to pressure from trade liberalization

Second notably factor, Thailand had targeted in the category of pick-up truck and had succeeded to make Thailand as the top manufacturer of pick-up truck in this world. Whereas Malaysia had emphasized on the national automotive company (Proton) and to date has been unable to compete with international brand. Malaysia should open the automotive industry to international market in order to make the industry more competitive by liberalizing its automotive market (Segawa, Natsuda, and Thoburn 2014; Wad, Peter, Chandran Govindaraju 2011). It is high time for Malaysia to change its independent approach and to liberalize its market rather to international market rather than operating at domestic market and small Islamic countries market (Wad 2009).

On the contrary, independent approach in Korea proved to give positive impact to the industry. For example Korea is one of the successful country developed their automotive industry also used the independent development strategy which depends on home country resources and did not on FDI. When a country chooses to use independent development, they have to bear in mind that the manufacturer needs to compete in highly competitive because the domestic market is very limited. In this regard, the government interventions are deemed necessary in order to protect the industry in the early stage. The protection policy views that government intervention policy is necessary ingredient for infant industry (Pack and Saggi 2006) at early stage but WTO views this intervention or protection policy should be outlawed.

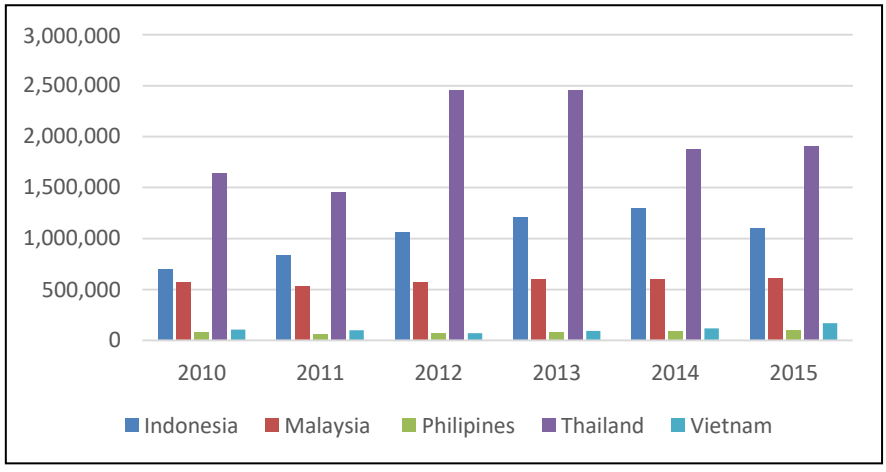

Figure 1: Total Production Passenger and Commercial Vehicles for ASEAN countries 2010 - 2015 (AAF, 2015)

Thailand dependent strategy was regarded to be the important factor which make Thailand to be more successful compared to Malaysia (Intarakumnerd and Chaminade 2011; Natsuda and Thoburn 2013; Wad 2009; Wan-Ping, Tai, Samuel 2013). Production volume of Thailand surpasses all the countries in ASEAN. It was noted that the sales volume of vehicles in Thailand surpasses quite drastically high compare to the volume of production. This proves Thailand automotive policy welcoming foreign investor to produce fruitful result.

Production volume in 2012 leapfrogged forty percent compared in year 2011. Malaysia production volume was recorded increased at a stable rate from the year 2010 to 2015. Table 1 indicated Thailand's substantial increase in the production volume in the year 2012.

■ 4.0 PORTER FIVE FORCES ANALYSIS

In analyzing the competitiveness of the automotive industry between these two countries, comparison will be made based on Porter's five forces model in analyzing the attractiveness of the industry. According to Porter (2008), there are five major forces that affects any business in the world which are bargaining power of buyer, bargaining power of supplier, threat of new entrant, threat of substitute product and intensity of rivalry in the country (Figure 2).

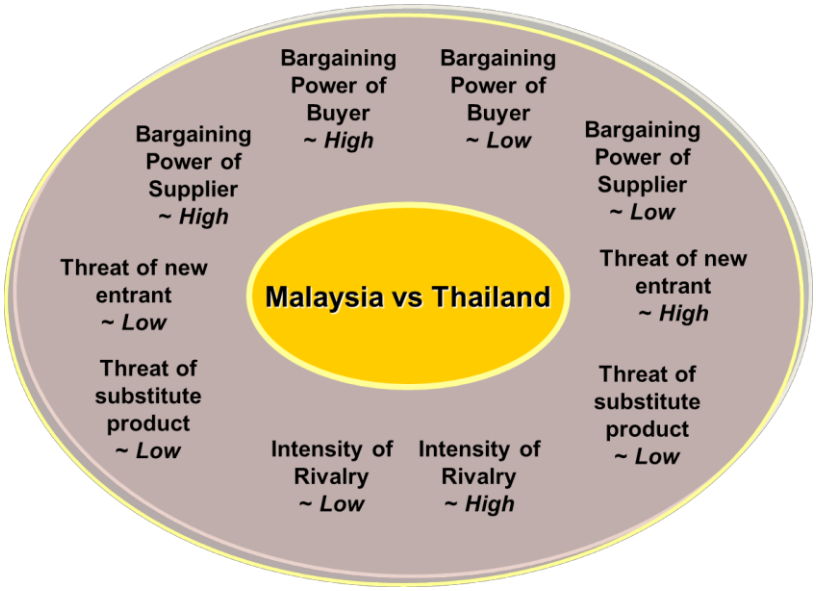

Figure 2: The Five Competitive Forces Analysis For Automotive Components and Parts Industry

Bargaining power of buyers

In economy theory, a perfect competition market occurs only when there are a high number of buyers seeking the product or services and adequate numbers of suppliers to supply the product in order to avoid imperfect market such as monopoly or oligopoly. In the challenging automotive industry, these situations cannot be avoided. Since automotive industry has been regarded as capital intensity industry and required a high number implicit and explicit knowledge, only few players are able to operate in this market (Bhatia 2016).

In Malaysia, the number of manufacturers and assemblers are lower compared to Thailand. At present, only five Japanese owned or controlled passenger vehicle makers operating in Malaysia which Perodua, Toyota, Honda, Nissan and Suzuki. Another three Malaysian companies which are Proton, Naza and Inokom and one is South Korean (Hyundai, which also is a minority shareholder of Inokom), making Daimler owned Mercedes the only European company represented (Henriksson 2012).

With only eleven vehicles manufacturer and assembler and higher car ownership density compared to other ASEAN countries, buyers in Malaysia have bargaining power in buying passenger vehicles. Car ownership density is calculated based on the car density ratio in the country. Malaysian car ownership was recorded at 334 vehicles per 1000 persons is higher compared to Thailand only 62 vehicles owned performance 1000 persons (Henriksson 2012). When compared with the number of vehicle manufacturers and assemblers, Thailand recorded a higher number of players compared to Malaysia. Thailand with 70 million population have higher bargaining power in purchasing vehicles with 13 vehicles assembler which are Toyota, Mitsubishi, Isuzu, General Motors, Mazda, Nissan, Honda, Hino, Daimler Chrysler, Ford, Volvo, BMW and Tata Motors.

Overall interest rate levels remain quite low and the ease to get car loan since many young graduates managed to own national car in the first few years of working are the factors contributed to higher car ownership density in Malaysia. Interest rate in 2012 was recorded at approximately 2.9% for non-Malaysian cars and 2.5% for Malaysian-made cars. Subsidized fuel price for RON 95 has a pump price of RM 1.9, although the actual market price is RM2.75 (31% subsidized) (Henriksson 2012).

Bargaining power of suppliers

Supplier for automotive components and parts to automotive industry forms a symbiotic relationship simply because the increase in sales of vehicles will directly increase the demand for parts and components (ASEAN Secretariat 2014). Logistically, automotive components and parts industry will locate their plants close to automotive manufacturer in order to save on logistic cost and fulfill the criteria of JIT (Just in time) production. According to ASEAN Investment Report 2013-2014 mentioned the increase in automotive manufacturing activities raises demand for parts and components, which in turn induces investment by parts and components companies to expand capacity and to operate close to the manufacturers.

Automotive manufacturer in Malaysia have to depend on the imported automotive components and parts from abroad for high technology parts. Referred to table 5 below, the value of imported automotive components and parts in Malaysia is facing deficit compared to export parts. It was recorded that most of the top global automotive OEM are operating in Thailand since majority of U.S and Japan car maker has chosen Thailand as the manufacturing hub.

Table 4: Imports and Export Automotive Components Malaysia 2003-2011
(MIDA, 2012)

MYR Billion	2003	2004	2005	2006	2007	2008	2009	2010	2011
Imports	1.50	2.24	3.98	4.08	4.50	4.60	4.42	5.50	4.97
Exports	0.86	1.07	1.40	1.85	2.70	2.00	1.98	2.57	2.38

Thailand automotive components and parts industry is composed of 648 first-tier or OEMs, and 1,641 of 2nd- and 3rd-tier manufacturers. The country's first-tier suppliers mostly consist of global auto parts makers and their partners and a few Thai companies. The high numbers of world class auto parts industry in the country offers competitive advantage for automotive manufacturer to operate in Thailand, compared to Malaysia which lack of global standard automotive suppliers. At present only 800 vendors registered with PVA (Proton Vendor Association), MACPMA (Malaysia Automotive Components and Parts Manufacturers) and KVP (Kelab Vendor Perodua) which most of these Malaysian vendors produce a low technology and low value components such as bumpers, brake pads, exhausts pipes, etc. For high tech components, Malaysia still depends largely on the import of automotive components and parts (Henriksson 2012).

Table 5: Top 20 global OEM automotive part manufacturers with multiple plants in ASEAN
(UNCTAD 2013)

Corporation	Thailand	Singapore	Malaysia	Indonesia	Vietnam	Philippines	Cambodia	Myanmar
Robert Bosch	√	√	√		√	√		
Denso	√	√	√	√	√	√	√	√
Continental	√	√	√			√		
Magna International	√							
Aisin Seiki	√	√		√				
Johnson Controls	√	√	√	√				
Faurecia	√							
Hyundai Mobis			√					
ZF Friedrichshafen	√	√	√	√	√			
Yazaki	√	√		√			√	

Lear	√	√			√	√		
Delphi Automotive	√	√						
TRW Automotive	√	√	√					
BASF	√	√	√	√	√			
Valeo	√		√	√				
Sumitomo Electric	√	√	√	√	√	√	√	
Toyota Boshoku	√		√	√	√			
JTEKT	√	√	√	√	√	√		
Hitachi Automotive	√	√	√	√	√	√		
Cummins	√	√				√		
	19	**15**	**13**	**11**	**9**	**8**	**3**	**1**

In view of this, the bargaining power of supplier in Thailand is lower than suppliers in Malaysia. With high number of global automotive suppliers present in Thailand, the automotive components and parts industry will be highly competitive which it will gives advantage for car manufacturer. There are 19 OEM automotive part manufacturer operating in the which is a significant market for automobile exports and remains a crucial regional automotive manufacturing hub (Win 2017).

According to the market report by Reciprocus International (2017) growth opportunities are still present in the region. Based on the research, Malaysia is the second largest destination for auto industry exports from countries like Thailand and Singapore, with a total value of US$ 353.9 million in 2015 and a modest CAGR of 1.59% over the period 2011 -2015. Malaysia's vehicle fleet is also forecasted to grow at a CAGR of 5.5% over 5 years to reach a size of 17.3 million by 2020. Given the fact export figure of components and parts in Malaysia is still low plus with the strong demand of sales of passenger vehicles, market for suppliers in automotive components and parts industry is considered to be attractive.

Threat of new entrants

The threat of new entrants bring new capacity and a desire to gain market share that puts pressure on prices, costs, and the rate of investment necessary to compete in an industry. Thus, the long domination of Japanese and American manufacturers and component manufacturers in Thailand has make the market saturated. High volume of car production averagely 2 million unit annually provide advantage in economies of scale and the low entry barrier due to Thailand liberal government policy introduced thirty years ago. However, the high attractiveness of setting up components and parts manufacturing in Thailand has poised high threat of new entrance in this industry.

Recent market report by Reciprocus International (2017), foresee Thailand will continue with the domination of Japanese manufacturers and there are still growth opportunities for global OEMs companies to invest in Malaysia. Based on this prospect and with the strategic alliance between Proton and China automotive company Geely foresee the new entry of automotive components manufacturers into the market.

The National Automotive Policy (2014) still give priority to develop the automotive ecosystem which comprise of OEMs (Original Equipment Manufacturer) and REMs (Replacement Equipment Manufacturer). One of the objectives is to drive the local automotive vendors to become export oriented vendors in order to overcome the deficit in export quantity of components and parts as in the National Automotive Policy (Table 4). Thus, the presence of international automotive manufacturer such as Geely Auto in Malaysia hopefully will spur the growth in the automotive industry in Malaysia.

Table 6 Porter Competitiveness Analysis of Automotive Industry between Malaysia and Thailand

		Malaysia		Thailand
Bargaining Power of Buyers	***High***	Malaysian car ownership is 334 vehicles per 1000 persons is high compared to Thailand. National status car manufacturers only Proton and Perodua dominate 40% of the market. Only four non-national car assembler in Malaysia which are UMW, TCIM, Kah Motor and NAZA Group. Other car brands are imported as CBU model leaving Malaysian with limited choices of vehicles	***Low***	Thailand car ownership is only 62 vehicles performance 1000 persons. Size of population and country size are bigger than Malaysia. However Thailand has 16 automotive assemblers mostly are Japanese brands and U.S brands such as Ford, GM and Chevrolet. Buyers have more choices cars with lower tariff.
Bargaining Power of Suppliers	***Low***	Malaysia still lacking of global standard automotive suppliers. Only 350 vendors registered under MACPMA which most of these vendors only supply low technology and low value components. Malaysia still depends largely on the import of automotive components and parts.	***High***	Thai auto parts industry is composed of 648 first-tier or OEMs, and 1,641 of 2nd- and 3rd-tier manufacturers. The country's first-tier suppliers mostly consist of global auto parts makers and their partners and a few Thai companies. Thailand has high numbers of world class auto parts industry.
Threat of New Entrants	***High***	Previous protection policy for national car brand has ended. However the presence of automotive companies are still low compared to Thailand. With the strategic alliance between Proton and China automotive company Geely foresee the new entry of China automotive components manufacturers into the market and continuation of Japanese domination in Malaysian automotive industry.	***Low***	Domination of Japanese and American manufacturers and component manufacturers. Low entry barrier due to Thailand liberal government policy introduced thirty years ago. High volume of car production averagely 2 million unit annually provide advantage in economies of scale.
Intenstity of Rivalry of existing competitors	***Low***	Automotive industry in Malaysia is in oligopoly market dominated by few big players DRB, Sime Darby, DMM, TCIM, UMW and NAZA. Low intensity of rivalary for automotive manufacturer and components manufacturer.	***High***	Automotive industry in Thailand is in perfect competition market. With the high number of manufacturer and population the market is saturated since majority companies are controlled by the Japanese automotive manufacurers.
Threat of Substitute Product among competitors	***Low***	Malaysian public integrated transport system (MRT, LRT, BRT, Intercity bus, feeder bus) is still not fully integrated until the year 2025. Malaysian consumer largely still depend on private owned vehicles.	***Low***	Thailand has no public integrated transport system. The Bangkok Mass Transit or known as BTS Skytrain does not reach all Bangkok. Tuk-tuks are only used for short distance. However car ownership is low due to high household debt, unstable political environment and security threats has diminshed consumer confidence and spending.

Intensity of rivalry among existing competitors

The automotive industry is considered to be an oligopoly around the world. Presently, automotive industry in Malaysia dominated by few big players DRB, Sime Darby, DMM, TCIM, UMW and NAZA due to heavily protected policy and regimes previously. The low intensity of rivalry for automotive manufacturer and components in Malaysia will offer more opportunity to investors.

Porter (2008) suggests considering parameters that includes number of competitors, industry growth rate, product differentiation, switching costs involved and the strategic stakes of the manufacturers to assess the industry rivalry among existing competitors. Automotive industry in Thailand is in perfect competition market. With the high number of manufacturers and vendors and the intensity of rivalry in Thailand is quite high since majority foreign owned companies are controlled by international automotive manufacturers.

Threat of substitute products and service

The threat to a car manufacturer is not just that a customer would buy a different brand of car but also need to potential customer taking the alternative modes of transport including bus, train or airplane to their destination. According to Porter (2008), while analyzing the threat from substitutes, one need to consider the parameters including availability of close substitutes, switching cost and substitute's price and value.

As far as the scenario of transport industry in Malaysia is concerned, the public integrated transport system (MRT, LRT, BRT, Intercity bus, feeder bus) is still not fully integrated until the year 2025. Malaysian consumer largely still depends on private owned vehicles. As for Thailand, the public integrated transport system is still not fully integrated plus the vast land area of Thailand will make the demand of private vehicles is still high. The Bangkok Mass Transit or known as BTS Skytrain does not reach all Bangkok. Tuk-tuks are only used for short distance. However car ownership is low due to high household debt, unstable political environment and security threats has diminished consumer confidence and spending. Thus, the threat for substitute products for both countries can be considered as low.

■ 5.0 CONCLUSION

The Malaysian automotive industry is currently at turning point. Began in 30 years ago saw the glory era of Proton and the decline of Proton some ten years ago due to the liberalization policy such as AFTA and WTO. The Malaysian automotive industry once dominated by domestic market will see a great potential for foreign investor to invest in the automotive industry in the country.

With the ample space for development and low intensity if rivalry in the industry will provide a good platform for the strategic partnership with Geely Auto between Malaysia and China. China being the largest car manufacturer in the world will give a positive impact to automotive scenario in Malaysia. Overall Malaysian automotive industry offer attractiveness is in the passenger car market and the growing business potential in the automotive components and parts business.

Automotive industry in Thailand is in perfect competition market. With the high number of manufacturer from Japan and U.S. will see the domination of Japanese and American companies in the country. Based on the high sales figure of automotive and companies in the country, investors are looking forward to invest in the developing countries like Malaysia and Myanmar (Win 2017) since it provides ample room for business development. Thus, Malaysia strategic partnership with international car maker such should be the right step to the right direction.

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