

Executive Summary

Developing countries aiming for rapid development of their economies through industrialization often make the automotive industry a strategic sector to be promoted because it can occupy a significant proportion in an economy due to its extensive upstream and downstream linkages to many diverse industries and sectors. In their promotion of the automotive industry, the majority of the six Asian countries in this report (China, Republic of Korea, Thailand, Taiwan, Malaysia, and India) used incentive policies such as protection of domestic markets and preferential treatment for vehicle manufacturers.

Total vehicle production in the six countries rose tremendously between 1980 and 1993, and the pace has been accelerating since 1985. In particular, production in such countries as Korea, Taiwan, and Thailand increased four- to five-fold between 1985 and 1993. The most rapid increase was recorded in Korea, whose ranking rose year by year and which became the world's sixth largest producer of passenger cars in 1993 with over two million units annually. The situation in the automotive industries of the six countries can be summarized as follows:

- (1) During the 1980s Korea opened its doors to Japanese capital and began passenger car exports. Although Korea actively introduced the Japanese system of component procurement to improve quality standards and lower costs, its vehicles faced difficulties in international competitiveness in terms of price and quality.
- (2) Taiwan completely changed its automotive industry policy from protection to deregulation in 1985. The new policy included the free entry of assemblers, reductions in import tariffs, the loosening of local content requirements, and the promotion of foreign capital inflows and technology transfers. As a result, the major Taiwanese vehicle manufacturers, which had previously monopolized the domestic market, were exposed to competition from joint ventures located overseas. In order to survive, they were compelled to invite foreign capital, especially from Japan, and form their own joint ventures. Many of these introduced the Japanese system of components procurement and made efforts to improve quality and lower costs.
- (3) Japan's influence dominates in auto-related capital in Thailand, just as it does in Taiwan. The Thai government's promotion of the automotive industry had been based on a policy of import substitution since the 1960s. Protective policies included import controls on assembled cars, high tariff rates for components, the prohibiting of new assembly factories, limitations in the manufacture of certain types of vehicles, and the promotion of the domestic production of components. In response to the last of these, Japanese-affiliated manufacturers in Thailand assisted in the development of the Thai components industry. Since 1990, however, Thailand has switched its policy to one of gradual liberalization, influenced by the worldwide free trade paradigm which began in the mid-1980s. To survive in the competitive market, Japanese-affiliated companies launched new strategies, which led to price reductions.

- (4) Vehicle production almost doubled between 1985 and 1990 in countries such as Malaysia, China, and India. In terms of capital and improved competitiveness, Japan's influence dominated in Malaysia and India; while in China, European and U.S. participation stood out.
- (5) China intends to use competition among foreign companies to foster its automotive sector. The Chinese government limits the number of assemblers allowed to foreign capital. Its method of promoting the industry is quite different from that of other Asian countries, where the number of firms is increasing due to liberalization.

On the demand side, the rapid increase in vehicle production in the six countries since 1980 can be explained by the increases in per capita income that followed their rapid economic growth. From the supply side, the Japanese capital outflow caused by the rapid appreciation of the yen against the U.S. dollar since the 1985 Plaza Accord overlapped with the period of liberalization in the Asian countries. Sustained economic growth has led to an increase in automotive production, and because vehicle demand quickly reflects per capita income growth, it is expected that the struggle for market share in Asia will intensify among vehicle manufacturers from both advanced and developing countries.