

ASIA IS A BUSINESS IMPERATIVE... NOW MORE THAN EVER

ASIAN AUTOMOTIVE NEWSLETTER

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A bimonthly newsletter of developments in the auto and auto components markets

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CHINA/HK

Delphi Automotive Systems of the US and Hong Kong-based **Brilliance China Automotive Holdings Ltd** have signed a US\$50m agreement to co-develop and supply engine management systems to *Jinbei* brand vehicles until 2005. Under the agreement, 70% of the system components will be manufactured at the production facilities of Delphi subsidiaries in Beijing and Suzhou, China. (March 23, 2001)

First Auto Works (FAW) of China is aspiring to become one of the largest truck manufacturers in the world, overtaking **Mercedes Benz**, **Renault** and **Volvo** and generating more than US\$12bn in truck sales, by 2010. In 2000 FAW manufactured 130,000 medium and heavy-duty trucks. The company plans to explore the possibility of collaborating with an international auto player to establish a large-scale components plant complex in Changchun, China. (March 30, 2001)

General Motors Corp (GM) of the US, **Shanghai Automotive Group** and **Wuling Auto Co**, both of China, announced that they will set up a shareholding company subsequent to the reorganization of Wuling Auto Co's assets. Shanghai Automotive will acquire 50.1% of Wuling Auto Co's state-owned shares. Following the listing of Wuling Auto Co on Shanghai's B-share market, GM will acquire 34% of Wuling Auto Co's shares. The new holding company will take over Wuling's existing Guangxi plant, which will become China's largest family car manufacturing facility. (March 30, 2001)

Hainan Sundiro of China, **Tianjin Honda** and five other **Honda Motors** companies, will form a JV,

INTRODUCTION

China's impending accession to the World Trade Organization (WTO) is having a significant impact on its automotive industry. The Government is actively trying to cultivate a world-class auto conglomerate within its borders. The focus of this issue is the subsequent reshaping of China's auto industry.

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Charles Maynard
Managing Director

Sundiro Honda Motorcycle Ltd, to produce and market motorcycles in China. Honda of Japan will hold a 50% stake in the JV. Hainan Sundiro will hold a 47.3% stake, and Tianjin Motorcycle Group will hold the remaining 2.7% stake. The JV has registered capital of US\$99.6m. (March 22, 2001)

Michelin of the US and China-based **Shanghai Tire and Rubber (STR)** will establish a US\$200m JV for the manufacture of radial tires for passenger cars and light trucks. Michelin will hold a 70% stake in the JV, **Shanghai Michelin Warrior Tire Co**, and STR will hold the remaining 30%. Michelin, which already has one China-based JV with **Shenyang Tire General Factory**, endeavors to become the leading international tire manufacturer in China. At present the US company only has a 5% market share in China. (March 26, 2001)

Shanghai Automotive Industry Corp (SAIC) of China and **KSPG Company** of Germany have invested US\$51m to form **Shanghai-PG Non-Ferrous Parts Co**, a 50:50 JV that will operate inside SAIG's **Shanghai Automotive Non-Ferrous Casting Plant**. The JV is engaged in the development, production and assembly of nonferrous metal casting parts, modules and dies for motor vehicles. These products include engine covers, gas recycling systems and pumps. The JV, which plans to achieve an annual production capacity of at least 110 million tons of casting and revenues of RMB526m (US\$63.6m), is the OEM supplier of **Shanghai Volkswagen** and **Shanghai GM**. (March 1, 2001)

Ssangyong Motor of Korea has agreed to divest its US\$3.2m manufacturing unit in China to **Huizhong Auto**, a Shanghai-based truck and passenger car manufacturer. Ssangyong Motor will also dispatch nine technicians to China to assist Huizhong Auto, a **Shang-Qi Group** company, in the technology transfer. (February 28, 2001)

Volkswagen of Germany plans to invest US\$1.5bn towards the expansion of its JVs in Shanghai and Changchun, China by 2005. Volkswagen endeavors to cover all of Asia from its regional HQ in China and will introduce a new model to the Chinese market each year between 2001 and 2005. The company

anticipates the number of vehicles sold each year to increase from 336,000 to 650,000 by 2005. (March 17, 2001)

Yulon Motor of Taiwan and **Dongfeng Motor** of China will invest RMB40m (US\$4.8m) to establish a 49:51 automobile distribution JV in China. The two companies also plan to invest RMB300m (US\$36.3) to set up an automobile-financing venture in China and are awaiting the approval of the Chinese Government. Separately, a Yulon Group Company called **South-East Motor Corp** plans to raise production capacity from 60,000 vehicles to 150,000 vehicles at its plant in Fuzhou, China. (March 28, 2001)

INDIA

Ford Motor Company of the US has acquired a 20% stake in **Thirdware Solution Ltd**, a Mumbai-based software solutions and systems implementation firm, which the former is using to roll out its global applications. Ford Motor Company is discussing the possibility of an equity acquisition or alliance with other Indian IT companies for the purpose of outsourcing software. By April 2001 Ford will have opened a technology center in Chennai, India to facilitate software development. (March 22, 2001)

The Indian **Department of Heavy Industries** has drafted an auto policy, which stipulates that foreign carmakers with majority equity stakes in India-based ventures invest US\$12.5m on an R&D facility in the country. The Department has also proposed that foreign auto firms that want to manufacture cars in India invest a minimum of US\$250m within the first three years of operation. The Department views these policies as part of its ongoing effort to double the contribution of the Indian auto industry to the country's economy by 2010. (March 6, 2001)

Tatra Udyog Ltd, an automobile JV between **Tatra AS** of the Czech Republic-based **Skoda** group and UK-based **Venus Udyog**, has opened a new engine

manufacturing plant in India. Operations at the JV's HQ in Aurangabad, Maharashtra have been suspended due to a lack of clarity in proposed changes to India's auto policy. Skoda management has expressed interest in resuming operation in India but is waiting for the finalization of the automobile policy. (March 14, 2001)

SKF Group of Sweden plans to make India a global manufacturing base and major export hub for its bearings and auto-related products. The group plans to overhaul the Pune and Bangalore units of its India-based subsidiary, **SKF Bearings India Ltd**, to meet increased export demand from other Asian markets. Separately, SKF Bearings India Ltd will begin to jointly produce brake-by-wire systems with Italy-based **Brembo** by 2004. (March 14, 2001)

Toyota Motor Corp of Japan plans to invest US\$400m in the Indian car market over the next five to ten years through its Pune-based JV **Toyota-Kirloskar Motor**. The latter will build small and mid-size passenger cars in addition to the *Qualis MPV* model, which it launched in Q1 2000. The passenger cars produced by Toyota-Kirloskar Motor are expected to narrow the gap between the "upper mid-size" segment and the "near luxury segment" in India. (March 29, 2001)

INDONESIA

Daewoo Motor of Korea is endeavoring to team up with US-based **General Motors'** Indonesian subsidiary and **PT Gaya Motor**, a subsidiary of Indonesia's **Astra** automotive group, to locally assemble its automotive products. Before Daewoo Motor can begin production in Indonesia, it has to come to an agreement with the **Indonesian Organization of Land Transportation Owners** on the price of the cars that will be assembled in the country. (February 13, 2001)

Indonesia will begin to import multipurpose vans from China in H1 2001. It will receive 700 *Changan*

and *Wuling* vehicles this year. Changan vans have an engine capacity of between 800 cc and 1,000 cc, while Wuling vehicles range from 800 cc to 1,300 cc. The two models will cost around Rup43m (US\$4,300), which is less than half the cost of similar vehicles sold in the country. (March 13, 2001)

PT Tunas Ridean Tbk (TURI) of Indonesia has acquired shares equivalent to a 55% equity stake in authorized *Opel* dealer **PT Surya Mobil Megahtama** for US\$160,000. Following this transaction, TURI holds a 99% stake in the company. TURI acquired the shares from shareholders **PT Adira Dinamika Mobilindo (ADM)** and Andry Jusuf. (March 29, 2001)

JAPAN

Aisin Seiki Co, Denso Corp and **Sumitomo Electric Industries**, all of Japan, plan to establish a JV to manufacture and sell fully assembled automotive brake systems by Q4 2001. The move is in line with the growing trend among automakers of procuring fully assembled brake systems from parts suppliers to cut costs. The three companies will announce their respective stakes in the JV in Q2 2001. (March 23, 2001)

DaimlerChrysler is considering acquiring Sweden-based **Volvo's** 3.3% equity stake in **Mitsubishi Motors Corp** of Japan. DaimlerChrysler already has a 34% stake in the Japanese carmaker. The acquisition of Volvo's stake is expected to further collaboration between DaimlerChrysler and Mitsubishi Motor Corp, particularly in the area of car and truck manufacture. (April 3, 2001)

Eaton Corporation of the US has acquired **Sumitomo Heavy Industries'** 50% stake in their fluid power JV, **SEHYCO**. The Kameoka, Japan-based JV is to be renamed **Eaton Fluid Power Ltd**. It will continue to manufacture and sell a complete line of hydraulic motors under the *Orbit* and *Orbitrol* brand names. The motors are used in steering and power transfer applications for construction and farm machinery products. (March 6, 2001)

Fuji Heavy Industries of Japan and **General Motors Corp (GM)** of the US have formed a strategic alliance to market subcompact cars in Asia. In Q2 2001 Fuji Heavy will sell its *Subaru Forester* sports utility vehicle in the Philippines through **GM Auto World**, the local GM sales channel. (March 14, 2001)

Johnson Controls Inc of the US intends to strengthen its sales to Japan through its recent acquisition, **Ikeda Bussan Co.** Through Ikeda Bussan, Johnson Controls has picked up new business, including a seat contract with Japan-based **Honda Motor Co** which was not a client prior to the acquisition. The President of Ikeda Bussan has been placed in charge of the **Nissan Motor Co** account. In 2001 Johnson Controls expects sales to Nissan to grow from 3% of annual revenues to 8%. (March 14, 2001)

Nippei Toyama Corp, a Japan-based machine tool manufacturer, has received its largest order ever from **General Motors Corp** of the US. The order is for ¥16bn (US\$127m) worth of production lines for automobile engine parts. The lines will produce cylinder heads and blocks for General Motors Corp plants in Canada and in the US, with at least 200 machine tool units until 2003. (March 9, 2001)

Yazaki Corp of Japan and **Siemens Automotive** of Germany have formed a strategic partnership for the development and sale of automotive electronic systems. The partnership entails setting up two 50:50 JVs, one in Germany and one in the US, to market to **Ford**, **BMW** and **Renault-Nissan**. The two companies will also form another Germany-based JV, in which Yazaki will hold a 75% stake, to supervise the production of wiring harnesses at Siemens' factories in Brazil, the Czech Republic, India, Lithuania, Slovakia and Turkey. (March 26, 2001)

US-based management consulting firm **PAC Project Advisors International Ltd.** The latter will hold a controlling 86% equity stake in the JV. The remaining 14% stake in the JV that will be held by Chiyoda Corp marks the effective withdrawal of the firm from the automotive plant engineering market. The JV will be capitalized at US\$0.8m and is expected to generate revenues of US\$8m in its first year of operation. (March 27, 2001)

Ford Motor Company intends to buy airbags and 15 other auto parts from various Korean auto parts manufacturers. It is also expected to send senior procurement staff for the Asia-Pacific region to Korea to meet with parts suppliers. The move is related to the company's need to cut costs in the face of declining sales. The US carmaker reported that Q4 2000 net profits fell approximately 40% to US\$1.1bn. (March 15, 2001)

General Motors Asia Pacific President Rudolph Schlaiss has said that the Korean government and local labor unions will have to reach a binding agreement before General Motors can proceed with negotiations regarding the acquisition of **Daewoo Motor Company**. While General Motors' discussions with Government officials have been encouraging, the company is unsure of the Korean labor unions' commitment to restructuring and working within the framework of a global economy. The compilation of a business plan on how the two companies can work together is underway. (March 28, 2001)

Hyundai Motor of Korea has announced its plans to cooperate in auto financing with **DaimlerChrysler Services AG (debis)**, a financial affiliate of the multinational carmaker. The two firms are discussing the possibility of Hyundai using debis' installment financing system for vehicles it sells overseas, particularly in Europe. This development follows an agreement, which the two companies signed in Q2 2000, to expand their cooperative relationship in areas other than auto making. (March 13, 2001)

Hyundai Motor and automaker **DaimlerChrysler** are discussing the possibility of establishing a JV to build a commercial vehicle factory in Chonju, North Cholla province, Korea. The two firms are expected

KOREA

Chiyoda Corp of Japan plans to spin off its automotive plant engineering business into a JV with

to reach an agreement regarding the JV in Q2 2001. (March 19, 2001)

MALAYSIA

Naza Kia Sdn Bhd (NKSB), Korea-based **Kia Motors'** Malaysian sales unit and distributor, has arranged for the local production of Kia's compact *Spectra Wing* model. NKSB has commissioned **Automotive Manufacturers Malaysia Sdn Bhd (AMM)** to assemble the cars from knocked-down kits, with additional parts shipped from Korea, beginning in May 2001. AMM has set an annual production target of 10,000 units. (March 14, 2001)

PHILIPPINES

General Motors of the US is considering establishing a car assembly facility in the Philippines if the local Government agrees to allow all industry players to import cars on a semi-knocked down (SKD) basis. **The Philippines Board of Investment** abolished the SKD privilege in 1998 to develop local auto parts for the export market. If the Government decides to reinstate the SKD privilege, General Motors may also consider importing completely knocked down (CKD) units, which have the same tariff of 3% as SKD units. The **Motor Vehicle Parts Manufacturers Association of the Philippines** is critical of granting SKD privileges due to their belief that the import of SKD units will result in job cuts. (March 5, 2001)

TAIWAN

Formosa Automobile Corp, an automobile manufacturing JV between Taiwan-based **Formosa**

Plastics Group (FPG) and **Daewoo Motor** of Korea, has begun to produce and sell the *Formosa No. 1*, a clone of Daewoo's *Magnus* sedan. FPG acquired the vehicle assembly plant near Taichung, where Formosa Automobile Corp is based, in Q3 1998. Daewoo supplies the JV with advanced components such as engines and transmissions. Formosa Automobile Corp hopes to sell approximately 1,000 vehicles per month in 2001 and to gradually claim a 15% share of the sedan market in Taiwan. (March 13, 2001)

THAILAND

Delphi Automotive Systems of the US has announced plans to invest US\$11.5m to establish a manufacturing subsidiary in Rayong, Thailand. The subsidiary will manufacture fuel tank systems and brake calipers, making Delphi the first company to manufacture these products in Southeast Asia. (March 27, 2001)

General Motors Corp of the US is considering using the Rayong production facility of its subsidiary **General Motors Thailand** as a manufacturing base for another vehicle alliance. While General Motors is already scheduled to produce 20,000 **Isuzu** pickup trucks and 60,000 **Chevrolet Zafira** minivans at its Rayong facility, it is also interested in producing higher volume models and those classified as "city cars" in Thailand. The US auto major has not disclosed the identity of its potential partner, as negotiations have not yet been concluded. (March 30, 2001)

Renault of France will resume selling cars in Thailand in a move to build its presence in the ASEAN markets. The French carmaker intends to use **Nissan's** dealer network to serve potential customers despite some concern that the vehicles produced by the two automakers compete in the same segment. It is likely that Renault will choose to market its five seat *Scenic* minivan, which does not compete directly with Nissan models sold in Thailand. (March 9, 2001)

VIETNAM

PT Semesta Citra Motorindo (SCM) of Indonesia plans to export 1,000 of the 3,000 *Kanzen* brand motorcycle engines it produces each month to Vietnam, beginning in June 2001. While the annual demand for motorcycles in Vietnam has reached 1.2 million units, only 400,000 units are produced locally each year. At present the remaining 800,000 motorcycles are imported from China. SCM President Rini Soewandi views the Vietnamese market as presenting significant prospects for Indonesia's automotive components companies. (March 27, 2001)

specialized business units (sales, imports & exports, financial affairs and business development), three R&D centers and nine large, state-owned enterprises, notably the Shanghai Bus & Coach Company. It has 60,000 employees.

SAIC has 32 JVs with global players including Bosch, Volkswagen and ZF of Germany; Ford, General Motors and ITT of the US; GKN of the UK; Koito of Japan; Valeo of France and Chai Tai Group of Thailand. In 1984 SAIC and Volkswagen AG set up a 50:50 JV, Shanghai Volkswagen Automotive Co Ltd, with a US\$1.5bn factory to manufacture passenger cars in China. The JV began manufacturing Volkswagen's Santana model in 1985. It now also makes the Passat B5 and is expected to introduce a version of the Polo in 2001. In 1997 SAIC and GM invested US\$1.6bn to form Shanghai GM, a 50:50 JV and its wholly owned subsidiary Pan-Asia Automotive Technical Center in the largest Sino-US JV project to date. The JV began producing the *Regal* sedan in 1998. It has since commenced production of the *W-Wagon* minivan and other high-end vehicles.

In 2000 SAIC reported revenues of RMB85.4bn (US\$10.3bn). In 2001 SAIC, Liuzhou Wuling Auto Co and GM will participate in a RMB2bn (US\$242m) realignment scheme in which GM will acquire 34% of Wuling's shares after the minibus manufacturer is listed on Shanghai's B-share market. SAIC will acquire 50.1% of Liuzhou Wuling's state-owned shares and will have control of the shareholding company that will be formed by the three parties. The shareholding company will subsequently take over Wuling's existing Guangxi plant and raise annual production capacity to 1 million family cars, creating China's largest family car manufacturing base. The transaction is anticipated to be one of the largest reorganization of assets within the Chinese auto industry in recent history.

First Automotive Works (FAW) employs more than 95,000 workers at 36 plants. While FAW is the only Chinese automaker that can manufacture sedans independent of foreign partners, it has JVs with several major Western automakers. In 1991 FAW-Volkswagen, a US\$1.3bn JV between FAW (60%), Volkswagen AG (30%) and Audi AG (10%), a member of Volkswagen

FOCUS

Reshaping China's auto industry

China's impending accession to the World Trade Organization (WTO) signifies increased competition for its highly protected automotive industry. In its endeavor to transform the auto industry into a pillar of the Chinese economy, the Government is giving priority support to the "Big Three" automakers; Shanghai Automotive Industrial Corp, First Auto Works and Dongfeng Automotive and is encouraging cooperation between these firms and their counterparts in the West. These actions suggests that the Government is aware of the auto industry's weaknesses, which include small scale, irrational allocation of resources, weak technical and managerial skills and low efficiency. In 2000 China's car industry contributed a mere 1% to its GDP and produced 1.6 million vehicles, which is equivalent to the annual volume of a medium-sized carmaker in a developed country.

The following paragraphs profile the activities of China's Big Three automakers and their relationships with their Western counterparts:

Shanghai Automotive Industrial Corp (SAIC) manufactures cars, motorcycles, tractors, trucks, buses and auto parts. The company is comprised of four

group, was established to make Audi sedans and Volkswagen *Jettas* and *Santanas*. In 1995 Ford and FAW constructed a US\$15m auto parts facility in Changchun for their JV to manufacture automotive radiators for the Asia-Pacific region. The same year First Auto Works acquired a controlling 51% stake in Jinbei Automotive Co, which has a US\$230m JV with GM to manufacture *Chevrolet Blazers* in China. In 2000, FAW signed an agreement with Japan-based Mazda, owned 34% by Ford, to jointly produce 20,000 Mazda *Premacy* minivans by 2004.

In 2000 FAW reported revenues of US\$380m. By 2005 the company aims to increase its annual revenues to US\$12bn and its annual truck production capacity to 800,000, making it one of the largest truck manufacturers in the world. Separately, the company plans to explore the possibility of collaborating with an international auto player to establish a components plant complex in Changchun, where it is headquartered.

Dongfeng Automotive was founded in 1969 as Number Two Autoworks company. The group is

headquartered in Shiyan, with additional operations in Xiangfan and Wuhan. The group officially changed its name to Dongfeng Automotive in 1992 and in 1999 listed on the Shenzhen stock exchange. With 105,000 employees and 2000 revenues of RMB26bn (US\$3.3bn), the company is a major player in the domestic market. It operates a number of subsidiary groups involved in all aspects of automotive manufacture and has an annual production capacity of 506,000 automobiles and trucks.

Dongfeng Automotive has JVs or agreements with over 300 companies representing over 40 countries. In 1992 Dongfeng and France's Citroen established the Dongfeng-Citroen JV, held 70% by Dongfeng, 25% by Citroen with the remaining 5% held by France's Societe Generale and Banque National de Paris (4% and 1%, respectively). The JV introduced the *Fukang* model in 1998 to great success, particularly in the taxi market. In 1998 Dongfeng established a 50:50 JV with Honda to manufacture at least 30,000 *Accord* engines for the Chinese market.

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