

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

ASIAN AUTOMOTIVE NEWSLETTER

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INTRODUCTION

The agreement between China and the European Union signifies a near end to China's marathon WTO negotiations. China's accession will have multiple impacts on all companies present in China, particularly when combined with the bilateral agreement establishing normal trade relations with the US.

We hope that you find the *Asian Automotive Newsletter* informative. BDA is a corporate finance advisory firm, which helps clients to identify and to execute acquisitions and JVs in Asia. If you think that BDA's services may be useful to you, please contact me at cmaynard@bdallc.com.

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CHINA/HK

Dongfeng-Citroen, a JV between **Dongfeng Automobile Company** of China and **Citroen** of France, has sold 15,000 units of its *Fukang (Citroen)* car in China in Q1 2000. This represents an increase of 36% over the same period in 1999. The company's 1999 revenues of RMB16m (US\$2m) account for a 9% national market share. (May 30, 2000)

FAW Group, China's major car producer, will soon introduce its latest product, the *Hongqi Flagship CA7460*, an advanced sedan jointly developed with **Ford Motor** of the US. FAW has spent four years developing the sedan and owns 100% of the intellectual property rights. (May 8, 2000)

Ford Motor Company plans to invest aggressively in China as a result of Beijing's accession to the World Trade Organization (WTO), which is expected to strengthen the domestic automobile industry. Foreign investment is expected to force domestic automakers to improve their competitiveness and efficiency during the period of transition following China's WTO entry, in order to be able to compete with the multinationals. (June 6, 2000)

Fuzhou Automotive Plant has started producing the *Fuda FZ6430*, a luxury model light bus. The bus is developed with imported technology from Mazda's *E2000* car. The bus will have eight seats, is equipped with strengthened steering, has a high powered air conditioner and is designed to have a top speed of 120 kilometers per hour. Fuzhou expects to sell 600 buses this year priced at RMB168,000 (US\$20,000) each. (May 30, 2000)

The Shanghai General Motors Automotive Co Ltd, a subsidiary of **General Motors** of the US, has developed a new Buick car, *Buick GS*. The new vehicle will be on the market from June 2000 priced at RMB369,000 (US\$45,000). (May 12, 2000)

Toyota Motor Corp of Japan will set up a 50:50 JV, **Tianjin Toyota Motor Corp**, with **Tianjin Automobile Xiali Corp**, a state-run company, to produce new compact vehicles. It will employ 500 people and produce 30,000 cars per year once it comes onstream in Q1 2002. The new models designed for the Chinese market will be sold in China under the Toyota brand through its network dealers. The new vehicles will be based on Toyota compact models known as *Echo* and *Yaris*. (May 31, 2000)

Yulon Motor Co Ltd of Taiwan plans to establish a JV in China in July 2000. **Amoy Golden Dragon Motor**, in which Yulon already has a 5% equity stake, is the most promising JV candidate. No further information has been disclosed. **Nissan** currently holds a 25% equity stake in Yulon and is likely to play a role in the JV. (May 15, 2000)

INDIA

TAIT Electronics of New Zealand will launch a two-way radio communication taxi service in India using Automatic Vehicle Location System (AVLS) and satellite-based Global Positioning System (GPS) through **Mega Corporation Ltd**. It aims to equip 500 luxury cars per year, once the operation comes onstream and forecasts an increase of installed units to 3,000 per year by 2004. (May 30, 2000)

INDONESIA

PT Toyota Astra Motor (TAM), Toyota's Indonesian JV, will establish a new sedan plant in Karawang, West

Java. The Rp462bn (US\$54m) plant will produce 30,000 units of *Solunas*, *Corallas* and *Camrys* annually. This brings the total investment in Toyota Astra Motor to Rp1.7tr (US\$204m). Japanese banks, including Bank of Tokyo, Bank of Sakura, Bank of Tokai and Bank of Sanwa, will provide 60% of the funding for the new plant. The other 40% will be sourced internally. (May 20, 2000)

The Indonesian government will lift the ban on imports of completely built-up (CBU) luxury cars with engine capacities exceeding 4,000cc. A warning from many countries, as well as the EU, that the existing regulation violates the WTO agreement reportedly triggered the government's decision. (May 29, 2000)

JAPAN

Fuji Heavy Industries Ltd of Japan and **GM** of the US, plan to jointly develop a wagon using a platform developed by Fuji. Fuji will also partner with **Suzuki** to manufacture mini-vehicles for the Japanese market. Fuji recorded 1999 revenues of ¥1.3tr (US\$12.3bn) and is expected to increase its revenues 34% to ¥1.8tr (US\$16.5bn) by the year 2004. (May 30, 2000)

Honda will offer **GM's** OnStar service, which provides directions, tracks stolen cars and notifies the authorities of accidents, in some of its new models. Starting with models for sale in 2001, Honda's *Acura RL* luxury sedans will feature the OnStar service. In addition, Honda plans to participate in an online automotive parts procurement exchange, which GM is now developing. (May 30, 2000)

NHK Spring Co Ltd (NHK) will form a JV with US automotive supplier, **Lear Corporation**, to co-develop seat systems for Japan and other Asian countries, using Lear's proprietary People-Vehicle-Interface Methodology™ (PVI Method™). The venture will be located in Yokohama at NHK's seating division and will begin production in September 2000. (May 24, 2000)

Nissan Motor Co has decided to sell its 73% stake in the transmission maker, **Exedy Corp.** Sales to Nissan account for approximately 10% of Exedy's overall revenue. Strong sales of automatic transmissions in the US boosted sales by 9% to ¥104.6bn (US\$973m) and group operating profit by 29% to ¥5.7bn (US\$53m). (May 16, 2000)

Riken Corp will broaden its partnership with **Dana Corp** of the US to manufacture piston rings. The two companies formed a partnership in 1997 and are planning to set up JVs to handle production and sales in Asia, Europe and South America. Riken holds a 30% market share of the domestic piston ring market and has manufacturing facilities in Korea and Taiwan. (May 31, 2000)

Robert Bosch GmbH of Germany, the world's third largest automotive parts maker, will transfer its operations in Japan to its subsidiary, **Zexel Corp**, in July 2000. Zexel, which makes and sells diesel engine parts, will take over **Bosch KK's** ¥6bn (US\$56m) business. (May 26, 2000)

Toyo Tire & Rubber Co has partnered with **Michelin Antivibration System**, a subsidiary of **Michelin** of France, in the hope of obtaining more contracts from **Nissan**. The two firms will supply vibration-absorbing rubber components for use in new vehicles jointly developed by Nissan and **Renault**. (May 5, 2000)

KOREA

General Motors Corp (GM) and **Ford Motor Company** of the US are considered to be the front-runners in the ongoing bid for **Daewoo Motors** of Korea. Both manufacturers have reaffirmed their strong interest in acquiring Daewoo Motors and have stressed their intentions to retain the brand and separate identity of the Korean automaker. Ford anticipates that it will be able to aid in the recovery and growth

of Daewoo as a highly competitive automotive company. GM plans to use Daewoo Motors' research and development capability to develop low-cost car platforms for developing countries both in Asia and globally. (May 10, 2000)

Hankook Tire and **Halla Climate Control** of Korea have become members of **AutoXchange**, a global auto parts supply B2B website created and run by **Ford Motor** and **Oracle**. Ford and **GM** announced recently that they will deal with parts suppliers only through their Internet supply network. (May 20, 2000)

The resignation of **Hyundai Group's** founder **Chung Ju-yung** and his two sons, **Mong-hun** and **Mong-koo**, from management is fueling speculation about who will take the helm at the conglomerate. Given Chung's statement that the group would hire professional managers from the outside, we expect that many current chiefs of Hyundai affiliates will be replaced. This move is part of Hyundai Group's reform plan to separate ownership from management. However, Chairman Chung Mong-koo has caused an internal conflict by refusing to retire from management. (June 3, 2000)

Hyundai Motor Company of Korea has announced the formation of a strategic alliance with American-German automaker **DaimlerChrysler AG** and **Mitsubishi Motor** of Japan, to produce a small passenger car, dubbed the "Z." The three companies will begin producing the 3.8 meter long car in 2002. Hyundai plans to invest W1tr (US\$885m) in the project. (May 7, 2000)

Renault SA of France is undertaking a full due diligence inspection prior to its agreed takeover of **Samsung Motors** of Korea. Renault will review five operational sections including personnel, finance, production and marketing. **Renault-Samsung Motors**, the JV created by the takeover, will begin operations in Q3 2000. The new entity intends to increase capacity by nearly 100% to produce as many as 500,000 units per year. (May 22, 2000)

MALAYSIA

APM Automotive Holdings Bhd, Malaysia's largest automotive parts manufacturer, aims to set up representative offices and to form JVs in ASEAN. The Philippines and Thailand are at the top of its list, followed by Indonesia and Vietnam. (May 25, 2000)

Denso (Malaysia) Sdn Bhd, a JV between **Denso Corporation** of Japan and local partners, has formed an alliance with **UMW Auto Parts Sdn Bhd**, **Ototek Sdn Bhd** and **UMW Toyota Motor Sdn Bhd** to sell and to distribute its spark plugs in Malaysia. Denso, which claims to be the largest automotive components manufacturer in Malaysia, is reportedly the world's first producer of iridium alloy spark plugs. The company hopes to break into the spark plug market in Malaysia with a 10% market share in the first year. (May 15, 2000)

Perusahaan Otomobil Nasional Bhd (Proton), Malaysia's national car manufacturer, will set up an assembly plant in Iran. Proton currently has small assembly plants in the Philippines and Vietnam and has expressed interest in establishing similar facilities in China and Indonesia. (May 2, 2000)

Volvo Cars Malaysia Sdn Bhd, a subsidiary of Swedish automaker, **Volvo**, plans to increase its market share in Malaysia in 2000. Following Volvo's takeover of its assembly and wholesale operations from **Federal Auto Holdings Bhd**, the company has tried to capture a wider customer base in Malaysia by winning back customers lost to competitors such as **Audi**, **BMW** and **Mercedes Benz**. Volvo's share of the luxury market grew marginally in Q1 2000 to 20.0% from 19.2% in 1999. It hopes to increase its market share further to 25% by 2001. (May 18, 2000)

To submit stories to future editions of the *Asian Auto Newsletter* please contact Wendy Lai in Singapore on (65) 533 8500 or via email at wlai@bdallc.com.

PHILIPPINES

Motor Vehicle Parts Manufacturers Association of the Philippines (MVPMAP) President, Feliciano Torres, expressed the desire of MVPMAP members to increase auto parts exports to the US, which is the second biggest buyer of local parts after Japan. Since 1996, 26% of the auto parts produced in the Philippines have been exported to the US. MVPMAP members hope that as US companies expand their presence in the region, the opportunity to boost exports will grow as well. (May 4, 2000)

SINGAPORE

Cycle & Carriage Ltd (C&C) of Singapore has been appointed a distributor for seven models of cars produced by Korean automaker, **Kia**. The *Carnival*, a new seven-seater minivan, the four-wheel drive *Sportage* and the *Sepbia* sedan are among the Kia models being sold by C&C. C&C aims to sell 2,000 Kia cars in the first year of distribution. (April 15, 2000)

Denso Corporation of Japan has established an R&D center in Singapore to handle all raw-materials procurement activities for subsidiaries in the Asia-Pacific region. The Japanese auto parts maker, which has invested US\$2m in the new center, aims to boost the local procurement ratio to 90% by 2003. (May 8, 2000)

Skoda of the Czech Republic has chosen Singapore as a test market for the launch of its *Octavia* car model. Infused with capital and technology from **Volkswagen**, which took over the Czech carmaker in 1992, Skoda plans to enter the Chinese and Indian markets by the end of 2000. **JTA Motors**, the authorized distributor of Skoda cars in Singapore, expects to sell 200 *Octavias* by year end. (May 27, 2000)

TAIWAN

General Motors Corp's BuyPower website, which sells vehicles directly over the Internet, has attracted numerous consumers in Taiwan. GM is offering Taiwanese consumers who purchase vehicles through its website a 10% discount. This marketing strategy has resulted in a high volume of sales and has reduced distribution and marketing costs by US\$1,000 per vehicle. (May 2, 2000)

THAILAND

BMW of Germany has opened **BMW Manufacturing (Thailand)**, its first wholly-owned plant in Asia. Located at the Amata City Industrial Park in Rayong Province, the facility produces the *3 Series* passenger car for the Thai market and has a maximum capacity of 10,000 units per year. BMW has invited its parts suppliers to start up in Thailand to support the local assembly of its vehicles in the country. (May 20, 2000)

Ford Motor Company is deciding on a location for an Asia Pacific R&D center, and Thailand is the top candidate. Ford is also considering Australia, China, India, Singapore and Taiwan as possible locations. According to Thai Government officials, Thailand meets most of the criteria for the project. (May 10, 2000)

General Motors Corp (GM) has inaugurated a US\$640m assembly plant in Rayong, Thailand. Completed sixteen months behind schedule due to the economic crisis, the plant will produce the *Zafira*, a cross between a minivan and a sedan. The manufacture of 8,000 units is planned for the rest of 2000, and 40,000 units in 2001. 85%-90% of the vehicles produced will be exported to other parts of Asia and to Latin America. (May 8, 2000)

Volvo Truck and Bus (Thailand) Co has launched a small assembly operation at the existing facilities of

Thai-Swedish Assembly, a long-standing partner in Thailand. Volvo Truck plans to assemble 150 units, primarily for sale in Thailand, in 2000. It will increase its production level to 600 units per year by 2005. The establishment of a Thai operation is an attempt by Volvo Truck to access the increasing demand in Asia for medium and heavy trucks. (May 24, 2000)

VIETNAM

Auto-assembly JVs in Vietnam have reported combined sales of approximately 3,000 units in Q1 2000, double the same period last year. **Toyota Vietnam** recorded sales of 894 units; the **Hoa Binh Motor Corporation**, 570 units; **VIDAMCO**, 300 units and **Ford Vietnam**, nearly 300 units. 14 JVs have already been licensed in 2000. Three JVs involving **Chrysler**, **Nissan** and **SinVet** have yet to develop their operations. (April 28, 2000)

Vinastar Motors Corporation (VSM) of Vietnam, a JV between **Tracimexco** of Vietnam, **Proton** of Malaysia, **Mitsubishi Corporation** and **Mitsubishi Motors Corporation** of Japan, will market its new sports car, the 5-seat *Mitsubishi Lancer*, in the domestic market. VSM, which has a 9.3% share of the Vietnamese market, has a production capacity of 5,000 cars per year. (May 15, 2000)

FOCUS

Renault's expansion in Asia

Renault has been aggressively establishing its foothold in Asia through alliances formed with Nissan and with Samsung Motors over the past year. Renault was by no means the first Western company to have entered the Japanese market. While Ford and GM had previously established presences in Japan, Renault was the first foreign company to take effective management

control at the outset. This action has triggered fierce competition between US and European components groups for acquisitions in Japan's car parts industry. The competition has been furthered by DaimlerChrysler's investment in Mitsubishi and GM's acquisition of a 20% stake in Fuji Heavy, the manufacturer of Subaru.

Renault - Nissan Alliance

Carlos Ghosn, Nissan's CEO seconded from Renault, unveiled his "Nissan Revival Plan" in Q4 1999. The goal of this plan was to remove the most unprofitable elements of the carmaker's operations and thereby invigorate the company. The centerpiece of the plan was the closure of three assembly plants and two engine facilities in Japan. This entailed transferring production from Tokyo to Kanagawa Prefecture and reducing the number of parts suppliers by 50%. By concentrating its resources, Nissan expects to reduce its expenditure by ¥5bn-¥10bn (US\$47m-US\$93m) annually. The company also plans to integrate the Renault and Nissan dealer networks worldwide, which is already leading to a rationalization and merging in some countries, while others are left untouched.

Renault - Samsung Alliance

Renault has become the only foreign manufacturer in the Korean market, the second largest in Asia, following its acquisition of Samsung Motor in Q2 2000. This status is not permanent as Daewoo is to be sold shortly, most likely to either Ford or GM, and it looks increasingly probable that Hyundai Motor Company will also lose its independence. Renault endeavors to raise annual sales of the Samsung brand by 150,000-200,000 vehicles by 2005. While Samsung's plant is effectively a start-up, which accrued minimal sales in 1999, there are key synergies with Nissan as it originally sourced equipment from the plant. The acquisition of Samsung, therefore, gives Renault a lower cost manufacturing site than its plant with similar specifications in Japan. This has raised the likelihood that Renault will continue to consolidate manufacturing plants in Japan and move production offshore to Korea.

Impact on French autoparts suppliers

The structure of the keiretsu system in Japan leaves Renault in a strong position to dictate the structure

of its supplier base as it holds significant stakes in many of its suppliers. Nissan has been actively divesting these stakes. The process is likely to continue in order to raise cash as well as to establish alliances between the suppliers to the two auto manufacturers.

(I) Valeo SA

Asia accounted for only 5% of Valeo's 1999 revenues. However, according to Noel Goutard, Chairman of Valeo, the company wants to expand its presence in Asia and is "in a race for critical size." Following Renault's alliance with Nissan, Valeo has been strengthening its ties with Nissan group companies. This is illustrated by the following tie-ups:

Unisia Jecs has a clutches partnership with Valeo. Unisia is one of Nissan's biggest parts suppliers and is 30% owned by the Japanese automaker

Zexel Corp and Valeo have a partnership through which the latter will supply climate control and engine cooling systems for new Renault-Nissan vehicles worldwide. The joint operations will manage 27 industrial plants and 17 R&D centers worldwide.

Ichiko Industries Ltd, a Japanese automotive lighting equipment maker affiliated with Nissan, and Valeo signed an agreement in Q2 2000. Under the agreement, Valeo's automotive lighting equipment affiliate will buy most of the 21% stake which Nissan holds today in Ichiko, becoming the largest shareholder in the Japanese firm. Ichiko also supplies components to Toyota Motor Corp. It has seven production plants in the US and Asia, but none in Europe.

(II) Michelin et Cie

Michelin, the second-largest global tire manufacturer, has entered into an alliance with **Toyo Tire & Rubber Co** to win more business from Nissan. Toyo and Michelin Antivibration Systems will also supply vibration-absorbing rubber components for use in the new engines being developed jointly by Nissan and Renault. This move follows Toyo's decision in April 2000 to integrate its vibration-absorbing rubber operations with those of **Kinugawa Rubber Industrial Co Ltd**, another Nissan affiliate.

Other manufacturers such as **Sommer Allibert** and **Saint Gobain** have announced their interest to enter

the Japanese market and have taken some preliminary steps towards doing so. As yet they have not acquired equity stakes.

The French suppliers have been fast off the mark because of Renault's active encouragement through its dominant role in the management of Nissan. Nissan and Renault have also established a good working relationship with each other, which some of the other cross-border partners have failed to do. While the other foreign investors do not have perhaps as free a hand as Renault does in Japan, they will all grow in influence in the region. Manufacturers and suppliers need to plan ahead for these developments, by indentifying and teaming up with the right local partners.

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ABOUT BDA

Business Development Asia is a corporate finance advisory firm which assists US companies to expand their businesses in Asia. BDA specializes in the health industry and helps clients to find local business partners and has senior advisors in Bangkok, Jakarta, Kuala Lumpur, Manila, Seoul and Shanghai. For further information on BDA's services or on any of the articles in this newsletter, please contact Charles Maynard in New York, Euan Rellie in London, Andrew Huntley in Singapore, or Frank Zhang in Shanghai.

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