

Business Strategy in Asia and Industrial Cooperation (Tasks and Outlook on the Auto Industry)

I . Impact of Economic Crisis and Toyota's Actions

1) Conventional strategy

– Was country-by-country, dispersed operation due to local content requirements in each country

<Characteristics>

- a. Limited use of intra-regional complementation program, the Brand-to-Brand Complementation (BBC) Scheme
- b. Production and sales in a market of a limited size

2) Expansion of auto market before Asia crisis

- a. In mid-90s, great growth was forecast for the market in 2000.
- b. Thus, to deal with the growth in demand, production was expanded
→ Construction of second plants in Indonesia, Thailand, Philippines

<Market Projections in 1994 for ASEAN 4, in thousands of units>

	90	91	92	93	94	95	2000
Total	822	779	751	919	1112	1100	1380

ASEAN 4: Indonesia, Malaysia, Philippines, Thailand

3) The Asia crisis and the three excesses

- a. Excess in Capacity: Sudden lowering of the plant operation rate which resulted from the slowing of sales.
- b. Excess in human resources: Due to the low plant operation rate
- c. Excess of borrowing: Due to reduced sales and higher interest rates, revenues plummeted in local affiliates, parts suppliers, and dealers, and many of them needed to borrow for cash flow. Also, relying on short-term capital rather than long-term capital was another reason.

4) Toyota's actions

- a. No plant closures, but keeping minimum one-shift production
– maintaining employment, no layoffs of regular employees
- b. Increasing exports from ASEAN countries. Promotion of AICO

<Exports from Toyota Entities in ASEAN> (Unit: 100 million yen)

	1997	1998	2000(proj.)
Japan	25	97	140
Total (incl. Japan)	287	356	800

- c. Further promotion of technology transfer
 - Toyota accepted twice as many trainees, or around 430, as usual in 98
- d. Cooperation to supporting industry, such as local suppliers
 - Management training by Toyota
 - Establishment of training center in Thailand
- e. Capital increase and other financial assistance
 - Capital injection in Thailand, Malaysia, Philippine operations

II. Recovery from the Crisis

1) Recovery is not complete

- a. There is a recovering trend since 1999, but there still is time needed, likely until 2003, before the market will reach pre-crisis levels.

<data>ASEAN 4 market (unit: thou. Units) (projections for '00~'02)

	95	96	97	98	99	00	01	02
Market total	1366	1448	1300	447	660	800	1000	1150

2) Liberalization trends

- a. Intra-regional liberalization through AFTA:
 - ASEAN trade will be promoted via CEPT. CEPT aims to apply 20% tariff or lower on all ASEAN products by Jan. 2000, and 0 - 5% by Jan. 2003.
- b. Extra-regional liberalization through WTO:
 - There are rules such as the Trade Related Investment Measures (TRIMs) agreement, which states that countries must abandon all TRIMs (e.g. local content requirements) by the beginning of 2000.

3) More competition

- a. Market entries by US Big 3
 - (GM-Thailand, Indonesia Ford-Philippines, etc.)
- b. Competition from other Japanese and Korean makes
 - <points to consider>
 1. Operations still have overcapacity
 2. Industry reformation, involving Japanese, US, and European makes
 3. Strengthening cost competitiveness for future survival

III. Mid-Term Outlook and Tasks

1) Potential is large

- There is no question about the potential of the Asia market, thus, the focus will be on how to retain the present position in Asia.

2) Government expectations

– On the other hand, governments expect the following from companies:

- a. Expansion of exports
- b. Increase of employment
- c. Transfer of technology

3) Tasks for Japanese makes

– Under these circumstances, Japanese makes face the following tasks:

- a. Reorganization and optimal use of ASEAN production facilities
 - 1) Fully utilize AICO/AFTA, making most of intra-regional liberalization
 - 2) Utilize procurement, production, and sales system that was developed
 - 3) Japan is a market that is relatively close, which is a merit. Market linkages with Japan should be strengthened in the future.
 - 4) Complementation with China and India should be investigated

b. Concrete strategy

1) Thailand as export base

– ASEAN local entities have been engaged in a short-term, emergency operation to deal with the crisis, however, they must be positioned as entities within the global strategy of Toyota

<data> Exports of 1t P/Us from Thailand (# of units)

	97	98	99
exports	41,000	62,000	93,000

※ approximate figures of exports from all Japanese makes in Thailand

2) Increased competitiveness by commonizing products

– The TUV (Toyota Utility Vehicle) is a main product in ASEAN

<data> TUV Sales in ASEAN, etc. (Indonesia, Philippines, Malaysia, Vietnam, Taiwan, South Africa, India)

	96	98	00(projection)
Total units	98,215	39,583	105,000

3) Localization and technology transfer

- a. Localization was previously engaged in to enter a particular market. Due to such factors as WTO, the focus of localization has shifted to localization in order to gain competitiveness
- b. Wide-ranged purchasing under the “Global Optimized Procurement” system

IV. Requests to Government

1) Consistency and transparency in policy

– As an investor, there is a need for policy to be consistent and transparent to make business plans and to plan future investment.

2) Cooperation within ASEAN on intra-regional programs

– Unless there is harmony in the actions taken by ASEAN governments on intra- ASEAN programs such as AFTA and AICO, the effect of these programs will be neutralized. We hope for governments to take harmonized steps on these programs.

3) Gradual, step-by- step liberalization

– At this stage, it is difficult for the ASEAN auto industry to compete with their counterparts in the US, Europe, and Japan on the same playing field. It is imperative to liberalize among ASEAN countries first, and raise competitiveness before liberalization is proceeded with on a greater level. We would like to ask for gradual, step-by-step liberalization by governments.

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