LATIN AMERICA AUTOMOTIVE MARKETS OUTLOOK- IMPLICATIONS FOR ASEAN PRODUCERS

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Abstract

Characterized by a remarkable decade of steady growth and economic stability, Latin America has emerged as one of the world's most important and lucrative markets for vehicles and auto parts. To help ASEAN auto companies target this important market, this paper sets out to evaluate current situations at the supply and demand level. The paper will first discuss the production capacity of ASEAN automobile suppliers with a focus on the top three producers (ASEAN-3)-Thailand, Malaysia and Indonesia. The paper will also attempt to outline characteristics and trends in relation to the demands of Latin American auto markets. It concludes that the demand for motor vehicles in Latin America region is strong and will remain robust in the long term. It also concludes that the potential for ASEAN auto suppliers to meet those demands are large and should be further explored.

Key words: automobile, auto suppliers, Latin America, ASEAN-3

1. Introduction

The automotive industry plays a very important role in the economies of Southeast Asian nations (ASEAN). In fact, it is a major driving force behind the manufacturing contribution to national and regional gross domestic product (GDP), employment, innovation, foreign direct investment and cross-border trade.

The ASEAN automotive landscape is currently dominated by the top three producers: Thailand, Malaysia and Indonesia. Among which, Thailand was ranked as the 9th-largest auto manufacturing country for cars and commercial vehicles in 2012, up from 14 in 2008 (OICA, 2012). While the majority of production is for domestic consumption, ASEAN is projected to be the world's 8th largest automotive market by 2015 (Duangjai Asawachintachit, 2012), ASEAN automakers also seek to stimulate overseas sales through enhancing export.

The decline of car sales in Europe, exasperated by the present Eurozone financial crisis and the slow recovery of American consumer confidence, are bringing ASEAN auto manufacturers closer to the Latin America markets. Characterized by a remarkable decade of steady growth and economic stability, Latin America has emerged as one of the world's most important and lucrative markets for vehicles and auto parts.

To help ASEAN auto companies target this important market, this paper sets out to evaluate current situations at the supply and demand level. The paper will first discuss the production capacity of ASEAN automobile suppliers with a focus on the top three producers (ASEAN-3)-Thailand, Malaysia and Indonesia. The paper will also attempt to outline characteristics and trends in relation to the demands of Latin American auto markets. It concludes that the demand for motor vehicles in Latin America region is strong and will remain robust in the long term. It also concludes that the potential for ASEAN auto suppliers to meet those demands are large and should be further explored.

2. Significant impacts of automotive production on the ASEAN's economies

Numerous examples across the global indicate that the automotive sector is tremendously efficient way to boost economic growth, job creation and technology development. It is estimated that the manufacture of vehicles contributes more than USD 430 billion to the governments of 26 countries combined and creates 5 % of global manufacturing jobs (ReportLinker). In the United States (US), the industry generally contributes 3-3.5 % to the overall GDP and engages over 1.7 million people in sectors of designing, engineering, manufacturing, and supplying parts and components to assemble, sell and service new motor vehicles (Hill et al, 2010). For such countries as the United Kingdom, Japan, France, Italy, Sweden, and Germany, the special requirements of automotive mass production have also encouraged technological advances in petroleum refining, steel making, paint and plate-glass manufacturing, and other industrial processes (L3D).

For ASEAN countries, automotive production and export also creates similar effects. In Thailand, the automotive industry is the third-largest sector besides food and tourism. In 2012, the industry employed more than 700,000 people and accounted for 12 % of GDP (BOI, 2012). The supply industry is highly diversified and involves more than 160 production fields, among them steel, plastic, rubber and electronics (Autobiz, 2012).

Likewise, the national automotive industry is not only one of the major industries in Malaysia, but it is also a strong source of national pride. The industry contributed USD 9.7 billion into the country's GDP in the year 2012 and engages an average of more than 300,000 people in the local automotive manufacturing and after-sales sectors. The contribution of the industry into the GDP is expected to increase from 6 to 8 % by 2020 (MAI, 2013).

As the second-largest producer in the ASEAN region, the automotive sector in Indonesia contributed approximately USD 46 billion to the national GDP in 2012 and engages around 93,000 workers in producing motor vehicles, trailers and semi-trailers (BPS, 2012).

In the last ten years (2001-2012), ASEAN-3 experienced a major expansion in automotive production and export thanks to rapidly rising demand on the global market, increasing export opportunities and continued investments in new factories. The production of cars and commercial vehicles increased 272 % over the same period (from 1.1 million in 2001 to 4.1 million units in 2012) (Figure 1) (OICA, 2012).

Figure 1 Production Vehicles 2001-2012

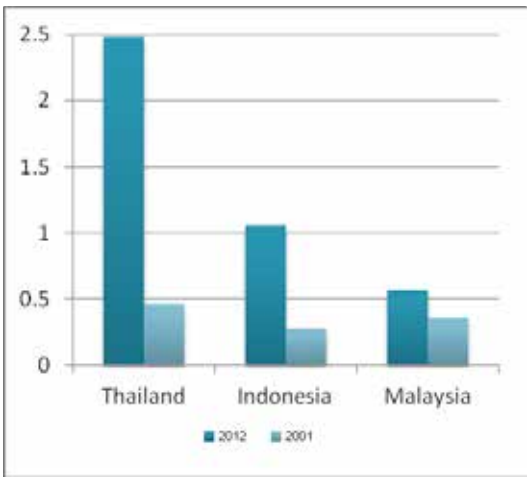
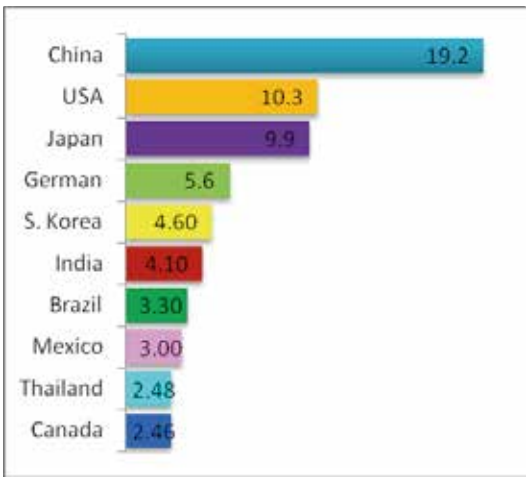
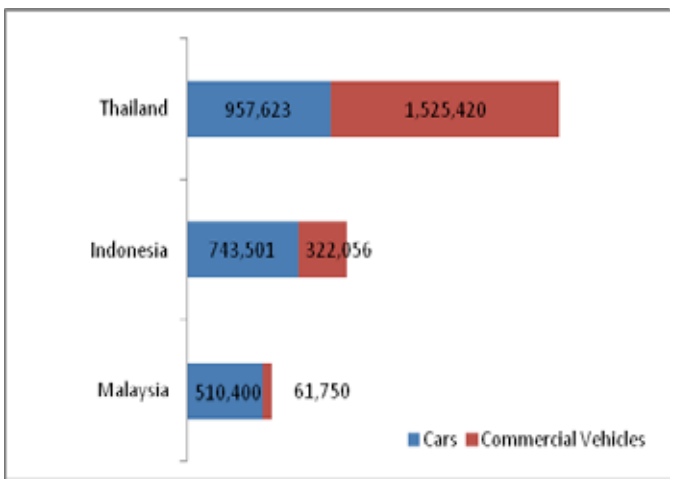


Figure2 Top 10AutomotiveProductionNations



Source: OICA- Organisation Internationale des Constructeurs d'Automobiles (Unit-Millions)

Figure 3 2012 Production Vehicles in ASEAN-3



Source: Combined by authors from various sources

3. Export performance

The massive expansion in the automotive industry of ASEAN-3 has a strong connection with overseas sales. In fact, motor vehicle exports in those countries are essential to maintaining the balance of international trade. In the last ten year period (2001-2012), Thailand and Indonesia saw a vigorous increase in export values of both categories: vehicle units and auto parts and components (see Table 1). In 2012, Indonesia's export of cumulative motor vehicles was more than export total of Thailand and Malaysia together. Meanwhile, Thailand stood right above in auto parts trade with almost USD 6 billion worth in value (UNCOMTRADE, 2012). Globally, Thailand has become the 7th largest car exporters (The Economist, 2013) and the 2nd largest market for the one-ton pickup truck, behind the U.S (ITA, 2011).

Table 1 Export values in USD between 2001 and 2012 (US$-Million)

	Parts and Components		Vehicles	
	2001	**2012**	**2001**	**2012**
Indonesia	255	1,477	1,909	16,235
Malaysia	131	870	57	295
Thailand	490	5,861	25	2,490

Source: Calculated by authors from UNCOMTRADE HS Code 1992
Code 8702, 8703, 8704, 8708

4. Latin America auto markets

The emergence of mega cities, the increase of the middle-class and the continued demands for automation and industrializations all together are creating fertile landscape for the ASEAN automotive industry. In order to make the region's industry globally competitive, expanding the export portfolio becomes essential. In the context that traditional markets such as Europe the US continue to suffer from volatility and slow growth; the rapidly motorizing emerging markets of Latin America have become rather attractive.

Latin America is home to approximately 600 million people. Since the early 2000s, the region has enjoyed remarkable macroeconomic stability and the tide of economic growth is rising faster than most other markets (Wharton School, 2012). Output growth strengthened to an average of 4 % per year in 2003-2012, from less than 2.5 % per year on average in 1980-2002. Between 2003 and 2012, per capita income in real purchasing parity dollars increased by more than 30 % (Werner and Celasun, 2013). Prosperity in the region has resulted in an expansion in its middle class by 50 % in over the past ten years (Jorge Heine, 2013). The region's bright outlook has a psychological impact: consumers are more confident about their futures, and thus more willing to invest in cars -- the second-largest purchase most will make, after houses (Wharton School, 2012) (see Table 2).

Table 2 Consumer Confidence Index vs Motor Vehicles Sales

	Argentina		Brazil		Mexico	
	Consumer Confidence Index	Motor Vehicles Sales	Consumer Confidence Index	Motor Vehicles Sales	Consumer Confidence Index	Motor Vehicles Sales
2012	46	832,026	122	3,802,071	96	987,747
2011	56	883,350	119	3,633,248	92	905,886
2010	48	698,299	118	3,515,064	86	820,406
2009	40	487,142	106	3,141,240	80	754,918
2008	43	611,770	109	2,820,350	92	1,025,520

Source: CEIC Data & OICA

Latin America auto markets can be divided into three large groups of countries: the first group consists of Brazil, the world's fifth biggest automotive market (Joann Muller, 2012). The country produces and imports the largest number of vehicles, compared to other markets in the region. Despite the global economic downturn that depressed passenger vehicle sales in many countries, Brazilian sales of passenger vehicles grew from over 2.8

million in 2008 to more than 3.8 million in 2012 (CECIC Data). In the same period, the import of passenger vehicles rose from 6 million to over 10 million (CECIC Data). The Brazilian market places a unique emphasis on vehicles with engines capable of burning both gasoline and ethanol, known as flex-fuel vehicles (UN-Energy, 2006).

The second group comprises of countries such as Argentina, Colombia, and Mexico, which are also major manufacturers that export part of their output, but which require substantial vehicle imports to meet domestic demand. Mexican new car sales are up a solid 9% year-on-year in 2012 to reach 987,747 new registrations, and the best annual figure since 2008. Brand-wise, Nissan holds onto its pole position with 244,962 sales and 24.8% share. This makes Mexico the only country in the world where Nissan is No.1. Chevrolet and Volkswagen stay No.2 and No.3 while Chrysler passes Ford to rank No.4 (AMIA). Small cars are among preference segments of Mexican imported passenger vehicles. Currently, small cars make up nearly 59 % of passenger vehicles sales in Mexico (David Coffin, 2013). Mexican imports are almost evenly divided between light trucks with gasoline engines; cars, vans, CUVs, and SUVs with 1.5–3 liter gasoline engines; and cars, vans, CUVs, and SUVs with gasoline engines larger than 3 liters (David Coffin, 2013).

Import plays an important role in the automotive development of Argentina with the imported inventories accounting for over 60% of the vehicles it sales (BBVA Research, 2012). Although the car sales and vehicle imports slowed down a bit in 2012 due to foreign exchange restrictions and the slump in exports, Argentina has seen a marked growth in its automobile fleet (including cars, light and heavy utility vehicles), while the age profile has also improved vehicles (BBVA Research, 2012). It recorded that the automobile fleet reached approximately 11.2 million in 2012, a ratio of 3.7 inhabitants per vehicle, at the forefront of the Latin American ratios (BBVA Research, 2012).

Appearing in the similar pattern with Argentina, Colombia also imports the large proportion of its automobile fleet and automotive parts. In 2011, the country imported 211,240 units, amounted to USD 4.4 billion, of which 58% were automobiles, 13% 4x4s, and 29% commercial vehicle (BBVA Research, 2012)s. The latter -mostly pick-up, and articulated and dump trucks- have been gaining market share since 2009, when they accounted for 23% of the total, thanks to greater demand from mining and other cargo activities (BBVA Research, 2012). Imports of automotive parts amounted to USD 4.059 billion, concentrated in the areas of tires (12%), chassis (2%), and filters (2%) (BBVA Research, 2012).

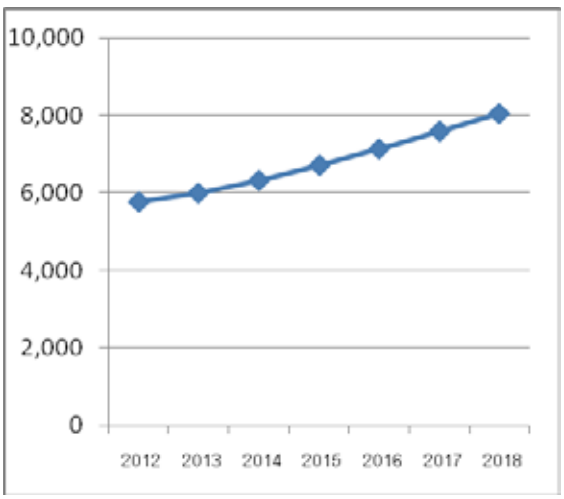
The final group is countries such as Chile and Peru, which import all their vehicles (BBVA Research, 2010). Peru has seen dynamic demand for the acquisition of new cars since 2008. As of December 2012, sales of new cars reached 168,500 units, an 82 % growth against 2008 (OICA, 2012). Compared to the previous year 2011, there has been a significant increase of 38% in sales of light vehicles, while sales of commercial and cargo vehicles rose by 11.5%) (BBVA Research, 2012).

Similarly, Chile has also experienced a rapid growth in the vehicle fleet. According to the National Automotive Association of Chile, 338,826 light vehicles were sold in 2012,1.4% above sales for 2011 (BBVA Research, 2013). Of which, passenger vehicles continued to account for around 55% of the total, SUVs approaching 20%, and vans and commercial vehicles standing at approximately 17% and 9%, respectively. The local market showed a strong preference shifting towards lower value cars (from 5 to 9 million pesos) and second

hand vehicles (BBVA Research, 2013). In 2012, the value of vehicle imports to Chile from ASEAN-3 reached USD 500 million, increase 23 % from 2011 (UNCOMTRADE).

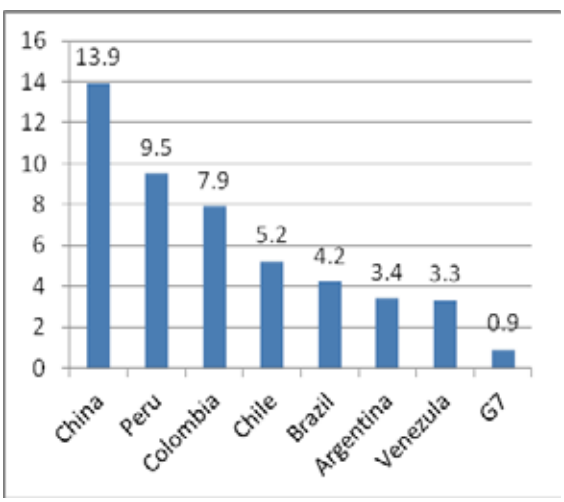
The auto market in Latin America is expected to grow rapidly in the next decade given the high density population and the steady economic growth, accompanied with strong investment, largely in trade, industry and provision of public services. By 2018, the regional nominal GDP will reach USD 8 trillion, rising 39% from USD 5.8 trillion in 2012 (Figure 4) (CECIC Data). Similarly, it is expected that by 2020 more than 100 million people in the region will enter higher income baskets (BBVA Research, 2010). This improvement of economic growth and household income will continue to support the strong performance of the motor vehicle sector. It is anticipated that Peru will lead the region in the total number of vehicles fleet with an annual growth rate of 9.5 % within the period between 2010 and 2020, followed by Colombia and Chile (Figure 5) (BBVA Research, 2012).

Figure 4 GDP Projection for the period 2012-2018 (US$-Billion)



Source: CECIC Data

Figure 5 Average annual growth of vehicle fleet for the 2010/2020 decade.



Source: BBVA Research, 2012

The bright outlook of the Latin automotive markets is offering a number of useful insights for ASEAN producers and manufactures. The increase in employment and household income will promote a greater demand for household cars with comfort-related features. At the same time, the high density population and the high price of gasoline will shift the consumption preference into subcompact/mini cars and eco cars. The Brazilian market, for example, places a unique emphasis on vehicles with engines capable of burning both gasoline and ethanol, known as flex-fuel vehicles (David Coffin, 2013). This information on market segment preference fits well with the recent automotive policies initiated by ASEAN-3. The ASEAN-3 governments have introduced various investment promotion measures for producing low cost eco cars and low cost subcompact/mini cars. Low cost subcompact/mini cars for the new emerging middle class will be priced in the USD 7,000-10,000 (Haijime Yamamoto, 2012) while low cost eco cars will cost from USD 9,500 to 14,500 (Nils J. Wright, 2011). The price range is in line with the increase in real wages in the years to come. Some models of these kinds are produced in Thailand and Indonesia such as March Micra by Nissan,Swift and Global small by Suzuki, Mirage by Mitsubishi, and Brio by Honda (Table 3) (Haijime Yamamoto, 2012).

Table 3 Low cost subcompact/mini cars produced in ASEAN

OEM	Nameplate/Platform	Thailand	Indonesia
Hyundai	Brio / GSP	71,000	17,000
Mitsubishi	Mirage	148,000	
Nissan	March (Micra) / A Platform	107,000	19,000
Suzuki	Swift	48,000	
	Global Small	72,000	
Toyota	Etios/ EFC		66,000
	Small Low	108,000	
Ford	Ke/ B2 platform	16,000	

Source: Haijime Yamamoto, 2012

Demands for vehicles will not be restricted to private consumption only but also include freight and commercial vehicles, for example, the pick-up truck, to which Thailand is the world second largest producer. The strong investment in trade, industry and provision of public services will encourage significant demand for passenger and cargo transport. For the case of Peru, substantial demand for cargo transport is expected to continue due to the execution of large mining investment projects over the next five years, as well as the sustained dynamic mood in the construction, industrial and commerce sectors (BBVA Research, 2012). Likewise, in Colombia, commercial vehicles such as vans, utility vehicles, and cargo and passenger vehicles is connected to the dynamism of the mining industry, with high demand for transport equipment for domestic and foreign trade (BBVA Research, 2012). The mass construction and services in Brazil for major upcoming events such as World Cup in 2014 and the Olympics Games in 2016 will increase the automobile fleet stock in the years to come. With the projection of average annual production growth of 5.8 % (Haijime Yamamoto, 2012), ASEAN for sure will meet this dynamic demand of the Latin America auto markets.

5. Conclusion

To sum up, the automotive industry is a key for the economic development of ASEAN nations. In order to achieve the significant economic scale for the industry, boosting oversea sales through export appears equally important as domestic sales. While traditional auto markets such as Europe and US have not shown any positive signal for a strong recovery, Latin America appears much more attractive. The demand for vehicles in the region has grown continuously since 2008 and is projected to rise considerably by 2020 given a number of positive factors including the steady economic growth and the new middle classes. These will bring major opportunities for ASEAN producers and manufactures.

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