

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

# ASIAN AUTOMOTIVE NEWSLETTER

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## CONTENTS

INTRODUCTION .....	1
CHINA .....	1
INDIA .....	3
INDONESIA .....	3
JAPAN .....	3
KOREA .....	4
MALAYSIA .....	5
PHILIPPINES .....	5
TAIWAN .....	5
THAILAND .....	6

## INTRODUCTION

We hope you find the *Asian Automotive Newsletter* informative.

BDA is a corporate finance advisory firm that assists multinational clients in identifying and executing acquisitions, JVs and divestments in Asia. We have focused on the automotive sector since our founding in 1996 and are well placed to assist companies from our Asian offices in Tokyo, Shanghai, Hong Kong and Singapore. Contact details for these offices as well as those of our New York and London offices are on the back page of this newsletter.

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Charles Maynard  
Managing Director

## CHINA

**Aisin AW Co**, Japanese **Toyota** affiliate, will supply automatic transmissions to **Ford Motor Co's** Chinese car production JV due to start production in 2003. Previously, Aisin had only supplied **Volvo** among Ford group companies. Deliveries to Ford in China will begin Q4 2002 at the rate of 20,000 units per year. The transmissions, designed for subcompacts, will be manufactured by Aisin AW's Okazaki factory in Japan. Aisin will increase automatic transmission production by 10% in 2002 to 4 million units. (July 15, 2002)

Singapore-based **APL Logistics** has formed a JV, **CMWAL Co**, with three local companies to create an automotive logistics operation in China. The Chinese partners include **Changan Automobile Liability Corp**, a leading auto manufacturer in China; **Minsheng Industrial Co**, the largest privately owned shipping group in China; and the **Wanyou Group (Southwest)**, one of southwest China's leading development companies. CMWAL Co will focus on supply chain management and finished vehicle distribution throughout China from its base in Chongqing, initially serving **Ford** and **Suzuki**. CMWAL will also be Changan Automobile Group's lead logistics provider. Changan produces more than 200,000 vehicles annually. (July 15, 2002)

German-US automaker **DaimlerChrysler** and **Beijing Automotive Industry Co. (BAIC)** of China have extended their cooperation with a 30-year agreement for their Chinese JV, **Beijing Jeep Corporation**. Beijing Jeep was the first automotive JV in China when it was created in May 1983. Beijing Jeep currently produces the *Jeep Grand Cherokee*, the *BJC Cherokee*, and the utility vehicle *BJ2020*. It will start production of another two new models by 2004. The JV has made significant savings during the past six months through DaimlerChrysler's

global alliance strategy, particularly in the development of tooling, stamping and engines for the future models. DaimlerChrysler will hold a 42% stake in the JV while BAIC retains 58%. (June 5, 2002)

**Federal-Mogul Corporation** of the US has opened a sales and marketing office in Shanghai, China. The office will support the business operations of five Federal-Mogul plants in China, including a wholly owned factory in Guangzhou and majority-owned factories in Wuhan, Qingdao, Shanghai and Nanchang. The Guangzhou plant manufactures spark plugs and other aftermarket products, Nanchang produces gaskets, Shanghai manufactures engine bearings, bushings and thrust washers, Wuhan makes brake pads and shoes and Qingdao manufactures pistons. Federal-Mogul will coordinate and standardize all OE and aftermarket brand marketing, new business development and customer support in China through the Shanghai office. Federal-Mogul's range of aftermarket brands include: Champion spark plugs, Ferodo friction products, Payen gaskets and AE engine products. (July 22, 2002)

**Ford** of the US will build a passenger car in China based on its *Fiesta* compact, due out in Q2 2003. Construction on the main factory in the western city of Chongqing is complete and machinery is now being installed. Ford invested US\$49m in 2001 in a 50% stake in a JV with local producer **Chang'An Auto Group** with an aim to produce 50,000 cars per year for sale at a benchmark price of RMB100,000 (US\$12,000). Ford had made more than 200 changes to the *Fiesta* to adapt it for Chinese conditions, including the adoption of an automatic transmission. Engine capacity will range between 1,000cc and 1,500cc. Eventually Ford intends to produce 150,000 units annually at the Chongqing plant. (June 5, 2002)

**Honda Motor Co** of Japan will establish a second car plant in China to make small cars for sale in Asia and Europe. Production is scheduled to begin in 2004, with initial annual output of 50,000 units. This will be the first car plant in China dedicated to export business. The plant will produce a deluxe 1.3-litre model based on the *Fit* subcompact. Capacity at Honda's existing plant, which builds *Accord* passenger cars and *Odyssey* minivans, will

be doubled in 2003 from the current 60,000 units a year to 120,000 units to accommodate production of subcompacts. In addition, Chinese components will be used in the locally made *Civic* to cut costs. (July 16, 2002)

**Mazda** of Japan will produce a version of the *Familia* (323), its mainstream subcompact, in China for sale under its own brand, rather than that of its local production partner, **FAW Hainan Motor Co**. Until now the 1.8-litre China version of the new *Familia* has been sold as the *Haima*. Production will begin in Q3 2002. FAW Hainan has been assembling *Familias* since 1994 on a KD basis and began production of Mazda's *Premacy* compact MPV in 2001, boosting output volume to 10,000 units. (June 5, 2002)

**Mitsubishi Motors Corp (MMC)** of Japan has signed a technical licensing agreement with **Beijing Jeep Corp**, the Chinese JV of its parent company, **DaimlerChrysler**. The agreement covers the full set of documentation and patents for the production of the *Pajero Sport* SUVs which will initially be imported in CBU form from Japan. Sales will begin in China in Q4 2002 and local production by Beijing Jeep will begin in Q1 2003 under the Mitsubishi brand. Beijing Jeep and Mitsubishi have jointly engineered the Chinese version of the *Pajero Sport* to meet local conditions, making more than 100 changes. The *Pajero Sport* will be the first locally manufactured product of Mitsubishi branded under its name in China. (June 6, 2002)

**NTN Corp** of Japan will set up a subsidiary in China to manufacture constant-velocity joint components for use in passenger cars. **Shanghai NTN Corp**, 95% owned by NTN and five percent by **Okaya & Co**, a Japanese trading firm, will start with a capital base of ¥2bn (US\$20m). NTN will also invest ¥600m (US\$5m) for the construction of a factory to be operated by Shanghai NTN, which is expecting sales to reach ¥3bn (US\$26m) in 2005. (July 15, 2002)

**ThyssenKrupp** of Germany and **ANSC Angang New Steel Co** of Korea have established a hot-dip galvanizing line designed to serve the Chinese automotive industry by Q2 2003. The US\$180m high-tech facility called Tagal, will be managed by ThyssenKrupp and employ local workers. Based in the port city of Dalian, 450km north-east of

Beijing, the new line will be the first of its kind in northern China. Tagal is designed to produce 400,000 tpa of hot-dip galvanized sheet meeting very high surface requirements. (June 24, 2002)

**Tianfa Investment Holding Co**, a Chinese financial and manufacturing firm based in Wuhan, will invest RMB2bn (US\$242mn) to build an automotive park in Beijing's Tongzhou district, called the Beijing World Automobile Center. The park would also house up to 40 franchised dealerships and an automotive exhibition center covering 100,000 sqm, making it larger than the China International Exhibition Center. Tianfa estimates that Beijing accounts for 10% of total new vehicle sales in China with 12,000 units sold per month through the first four months of 2002. Tianfa's business portfolio includes vehicle trading, oil product trading, agricultural processing and securities investment. (June 30, 2002)

**Tianjin Automotive Industry Corp (TAIC)** and **First Automotive Works (FAW)**, both of China, have agreed to merge. TAIC will transfer to FAW a 51% stake in its key listed unit **Tianjin Automotive Xiali** and its entire 75% share in mini-vehicle maker **Tianjin Huali Auto**. As part of the agreement, TAIC will decrease its workforce of 60,000 by 45,000 employees. (June 19, 2002)

**Volkswagen AG (VW)** intends to build an inexpensive car in China, compatible with its local brand, *Polo*, for less than RMB100,000 (US\$12,090). Sales of cars costing less than RMB100,000 (US\$12,090) in China grew by 73% in Q1 2002. VW's locally built *Polo*, introduced in Q2 2002, starts at RMB127,500 (US\$15,900). VW's two main car plants in Changchun (a JV with **First Auto Works** of China) and Shanghai (a JV with **Shanghai Automotive Industry Group** of China) are running at 70% of capacity utilization. VW has also established a finance company to help promote private car sales in China. (June 16, 2002)

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## INDIA

**Toyota Motor Corp (TMC)**, through the Japanese automaker's local subsidiary **Toyota Kirloskar Motor (TKM)**, will invest a minimum of US\$400m in

India to build an inexpensive small car on a new platform by 2006. Work on the new platform is at an early stage and will not be ready for production for at least three years. The new car will be available in a range of engines (1,000cc - 1,600cc), including diesel option. TKM will also install production lines for engine and transmission systems at TKM's Bidadi plant on the outskirts of Bangalore. TKM has already announced the construction of an automatic transmission factory with a projected investment of US\$15m to US\$22m. On the first year of production in 2004, the company aims to produce at least 50,000 units. Currently TKM imports *Camrys* and *Landcruiser Prados* for the high-end market. (July 15, 2002)

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## INDONESIA

**Honda Motor Co** of Japan has established a new parts manufacturing subsidiary, **PT Honda Precision Parts Manufacturing**, in Bukit Indah Industrial Park, 70km from Jakarta. Scheduled to start production in Q3 2003, the subsidiary will produce components such as automatic transmissions for 2.0-litre four-cylinder engines, continuously variable transmissions (CVT) and engine valves. Annual transmission capacity will reach 250,000 units when production of CVTs for small vehicles will be added in 2004. Honda Precision Parts will supply Honda plants in ASEAN and in the UK. Honda will invest ¥8bn (US\$66m) in the subsidiary. (July 16, 2002)

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## JAPAN

**Mitsubishi Motors Corp (MMC)** will dissolve of its cooperative suppliers organization, known as the **Kashiwa-Kai**, thereby officially ending closed-shop relations with suppliers. MMC will take over direct responsibility for providing suppliers with information in a faster, more efficient manner. The new structure will enable MMC to focus more on bringing suppliers into line with its needs and future strategies through three specific actions. MMC establish annual suppliers' meetings to explain procurement strategies and implementation measures, recognize quality through VE (Valuable Engineering) awards

and provide information on its new car programs. These annual meets will be augmented by a series of small supplier meetings and as well as an exclusive Internet site designed to provide suppliers with up-to-the minute information in detail. Under its three-year business plan through March 2004, MMC aims to cut material and component procurement costs by 15%, or ¥380bn (US\$3bn). (June 12, 2002)

**Mitsubishi Motors Corp (MMC)** of Japan and parent company, German-US automaker **DaimlerChrysler**, will consolidate their small truck production worldwide. DaimlerChrysler will end small truck production (payload of up to two tons), relying instead on Mitsubishi's *Canter* series. MMC will specialize in small and medium-duty trucks while DaimlerChrysler's **Mercedes-Benz** operation will focus on heavy-duty vehicles. DaimlerChrysler will sell *Canter* branded vehicles under the Mitsubishi name. Mitsubishi plans to spin off its commercial vehicle division and convert it into a JV that will be 30% owned by DaimlerChrysler. DaimlerChrysler's small truck output reached only 16,000 units in 2001 versus the 80,000 *Canters* produced by MMC. (June 17, 2002)

**NSK Corp** and **NTN Corp**, Japan's number one and number three bearing manufacturers respectively, are to merge their large-bearing operations. The two companies will establish a 50/50 JV to jointly procure materials and sell products while the manufacturing divisions will be merged into the new company within two years. The JV expects annual revenues to be ¥30bn (US\$234m) in 2004. (June 20, 2002)

**Ring Techs Co**, a subsidiary of **Sumitomo Metal Industries Ltd**, the major French tire maker **Michelin SA** and leading US autoparts maker, **ArvinMeritor Inc**, will create a technological alliance for steel wheels for automobiles. The companies will establish a business structure that enables them to offer wheel products and technical services based on uniform specifications in Asia, Europe and the US in order to facilitate the growing trend of automakers increasingly procuring parts on a global basis. Ring Techs has two factories in Japan and is the number three player in the Japanese market, with 25% market share. Michelin's wheel division operates plants mainly in

France and Germany and claims 28% of the European Union market. ArvinMeritor manufactures wheels in Mexico and Brazil, accounting for 18% of the North American market and 58% of the South American market. When these resources are combined, the companies will have an annual capacity of 47 million units, accounting for one quarter of total sales worldwide. Such scale would place the allies at number three globally behind **Hayes Lemmerz International** and the combined resources of **Topy Industries** of Japan and **Fergat SpA** of Italy, which signed an alliance in 2001. (June 1, 2002)

US investment company **Ripplewood Holdings** is expected to acquire major Japanese mould manufacturer **Ogihara Corp**. The deal value range is between ¥5bn – ¥10bn (US\$43m – US\$86m). Ogihara supplies press moulds to domestic and overseas automakers and has been commissioned to produce vehicle bodies for German-US automaker **DaimlerChrysler** and French automaker **PSA Peugeot Citroen**. Ogihara posted consolidated turnover of ¥65bn (US\$560m) in FY2002 with a modest profit. Ripplewood had also acquired **Niles Parts Co**, a Nissan affiliate. (June 5, 2002)

**Sumitomo Metal Industries** of Japan will supply high-tension steel sheets to US carmaker **General Motors' (GM)** Swedish unit **Saab AB** and its Australian unit, **Holden**. Sumitomo Metal shipped 50,000-60,000 tons of hi-tech steel to GM group in 2001. Sumitomo Metal has completed development work on a high-tension steel with a tensile strength of 50kg, compared with 35kg for conventional products. Saab will use the steel in doors and frames of cars for release in 2003, while Holden will use the steel in the next version of its top-selling *Commodore*, due to arrive in 2006. Sumitomo claims that extensive use of its advanced steel could lower a car's weight by 15% and production costs by 10%. (June 5, 2002)

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## KOREA

**Hella-Behr Fahrzeugsysteme** of Germany has formed a 50/50 JV for the development and production of front-end modules with **Samlip Industrial** of Korea. The JV has already received

orders for over half a million front-end modules per year from Korean automakers **Hyundai** and **Kia** beginning in 2004. Three new factories will be built in Korea to meet production requirements. Front-end modules developed by the JV will be fully assembled units that integrate lighting, engine cooling, cross members and crash boxes as well as air ducts and bumper systems. The JV will also provide development work and supplier sourcing for Hyundai and Kia. Hella-Behr Fahrzeugsysteme was created in 1999 as a 50/50 JV between **Hella KG Hueck & Co** and **Behr GmbH & Co**, both of Germany. Sales in FY2001 were US\$240m. Samlip specializes in components and parts for lighting, chassis systems, steering systems and doors with sales of US\$160m. (July 4, 2002)

**Hyundai Motor** of Korea has given **Delphi Corporation** of the US a letter of intent to purchase US\$400m worth of complete engine management systems (EMS) for the its new V6 engine. Delphi will invest US\$20m in three EMS facilities in Korea and North America to support the contract. Delphi will provide Hyundai with an EMS that features a powertrain control module and a complete engine control system. The latter includes an integrated air-fuel module, cam-phasers, injection system and sensors. Delphi has one wholly owned operation in Korea and six JVs: **Korea Delphi Automotive Components Co**, **Shin Sung Packard Co**, **KDS Co**, **Delkor Corp**, **Daesung Electric Co** and **Delphi Diesel Systems Korea**. (June 24, 2002)

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## MALAYSIA

**Renault Vehicule Industrie (RVI)** of France will introduce the *Midlum* medium-range truck (7.5-16 tons) to Malaysia in Q1 2003. RVI aims to become the third largest brand in the HCV segment by 2005. Currently, RVI has shipped 20 samples of the *Kerax*

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to Malaysia, all of them 350ps vehicles in 6x6 configuration for logging applications. Imported as CKDs, the *Kerax*s are being assembled at the Inokom plant in Kulim, Malaysia. RVI entered the Malaysian market in 1995. (June 17, 2002)

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## PHILIPPINES

**Honda Motor Co** of Japan will invest about ¥2bn (US\$17m) in an existing unit in the Philippines, **Honda Parts Manufacturing Corp**, which currently produces aftermarket items. The subsidiary will begin production of manual transmissions Q2 2002, with a production target of 10,000 units for the first 12 months for shipment to factories around South East Asia. (July 16, 2002)

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## TAIWAN

**Honda Motor Corp** of Japan has purchased **Subaru's** car assembly plant in Taiwan from **Ta Ching Motors Co**, a JV between **Fuji Heavy Industries** of Japan and **Taiwan Vespa Co** of Taiwan. The factory has an annual capacity of 30,000 units but has been underutilized. Total output in 2001 amounted to 1,713 units, equivalent to about 10% of peak production. Honda intends to build 20,000-30,000 cars at the factory by 2004. Subaru will set up a new subsidiary to handle sales and marketing, operating in Taiwan as a pure importer. In light of this purchase, Honda will terminate its current assembly agreement with local producer **San Yang Industry Co**, which expires at the end of June 2002. San Yang has been building 1.5-litre *Citys*, 1.7-litre *Civics*, 2.0-litre *Accords* and *CR-Vs* from CKD kits. Aggregate production over the first three months of 2002 was 3,265 units, down 42%. San Yang may now seek a partnership with Korean automaker **Hyundai Motor**. (June 11, 2002)

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## THAILAND

**Isuzu Motors** of Japan will double its pickup production capacity in Thailand to 10,000 units per

month at the end of Q2 2002 fueled by increased demand for the new *D-MAX* pickup truck, jointly developed with US parent **General Motors**. In the six weeks since its release, Isuzu has sold nearly 8,000 *D-MAX* models, 20% better than the initial target. To meet the order backlog of 14,000 customers, Isuzu will increase capacity and has revised its pickup production plan for 2002 from 50,000 to 70,000 units. Isuzu aims to increase its local market share from 40% to 50%. Pick-up trucks account for half of all new vehicle sales Thailand. (July 16, 2002)

**Toyota Motor Corp (TMC)** of Japan will outsource SUV production in Thailand to **Toyota Auto Body Co**, one of its domestic group assembly affiliates. This is the first time Toyota will use an outside firm to build cars overseas. Toyota Auto Body will build the *Hilux* sport-utility in Thailand beginning Q4 2003

and use production lines at **Thai Auto Works Co**, a local JV in which TMC and Toyota Auto Body both hold equity stakes. TMC subsidiary **Toyota Motor Thailand (TMT)** currently builds the *Corolla* and *Hilux* pickup locally. By shifting all pickup production from Japan to Thailand, TMT's annual output will rise from 77,000 units in 2001 to 300,000 units by Q4 2004. (July 3, 2002)

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## **ABOUT BDA**

Business Development Asia is a corporate finance advisory firm which assists multinational companies in expanding their businesses in Asia through JVs, acquisitions and divestments. BDA helps clients to find local business and has senior advisors in Bangkok, Jakarta, Kuala Lumpur, Manila, Seoul, Shanghai, Taipei and Tokyo. For further information on BDA's services or on any of the articles in this newsletter, please contact the offices below.

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