INTERNATIONAL TRADE ADMINISTRATION

2016 Top Markets Report Automotive Parts
Country Case Study

Thailand

Type: Large Market; Small Share

Thailand ranks 21st for U.S. exports of automotive parts, and it is also a global production hub for the major automotive companies throughout Southeast Asia.

Original Equipment Rank	Aftermarket Rank
27	20

Overview of the Automotive Parts Market in Thailand

In 2015, Thailand went through a downturn in the automotive sector with domestic auto sales decreasing 37 percent. As the primary hub for exports throughout the Association of Southeast Asian Nations (ASEAN), Thai passenger car exports grew by 23 percent in the first 9 months of 2015. U.S. automotive parts exports to Thailand have continued to grow, chiefly because of the need to service existing vehicles and trucks as well as supplying parts for export from Thailand to other ASEAN markets.

The majority of Thailand's automotive parts imports are from Japan, which supplies Thailand with over half of its auto parts. China is Thailand's second largest supplier. The United States is in sixth place.

Challenges and Barriers to U.S. Automotive Parts Exports

Domestic sales of vehicles decreased sharply in 2014 and 2015 because of political strife, and some automakers and suppliers are adopting a "wait and see" attitude towards additional investment until the situation subsides. On the other hand, Thai passenger car exports increased 23 percent the first 9 months of 2015. Both Mercedes and Nissan have recently started local production.

U.S. automotive manufacturers currently control a very small share of the market, less than 2 percent. With the downturn in Thailand's economy and domestic vehicle sales, Ford and GM's sales declined over 45 percent in 2015. Most households and businesses have put their spending on hold while they seek clarity on the political situation. Commercial vehicles have also taken a hit because of the drop in tourism numbers. The outlook for the domestic market is projected to remain flat to a slight increase.

High tariffs in the automotive sector remain an impediment to accessing the Thai auto market. Ad valorem tariffs can be as high as 80 percent for imports that compete with domestically produced automobiles and parts. In addition, excise taxes on automobiles in Thailand are based on various vehicle characteristics, such as engine size, weight and wheelbase. The tax calculation remains complex and

Figure 1: 2015 Thailand Automotive Market

Sales (units)	750,000
U.S. Auto Parts Exports to Thailand	$337,484,183
Total Thai Auto Parts Imports	$10,477,259,064
Total Domestic Vehicle Production	1,938,542
Vehicles in Operation	16,096,755
U.S. Auto Parts Export Growth 2009-2015	+284%

heavily favors domestically manufactured vehicles. Excise taxes on passenger vehicles range from 30 to 50 percent, while pickup trucks, mostly produced in Thailand, are taxed at a rate of 3 percent. Small passenger cars using E-20 gasoline and "eco" cars face reduced excise taxes of 25 percent and 17 percent, respectively.

Opportunities for U.S. Companies

Despite the recent decrease in domestic vehicle sales, Thailand is still an export hub in Southeast Asia with the most advanced production facilities in all of Southeast Asia. Thai exports of automotive components will do well for two major reasons: 1) a weakening of the Thai baht has increased competitiveness of auto component exports, and 2) auto component manufacturers still rely on Thailand as an optimal base for manufacturing in the region because of the high skill level of the workforce and available technology. However, Japanese automakers are well entrenched in Southeast Asia, which will impact U.S. automotive parts suppliers hoping to increase market share in Thailand.

Thailand's auto component industry will remain a bright spot for the auto sector as exports of components to regional markets will continue to grow. With 2,400 auto suppliers, there are significant economies of scale. For the first nine months of 2014, the value of auto component exports from Thailand grew 11 percent year-on-year to $12.9 billion.

As the ASEAN Economic Community (AEC) moved towards implementation in 2015, we saw a greater potential for free trade in the region. While Japan already has an Economic Partnership Agreement with ASEAN, which removes most duties in the auto sector trade between them, the AEC will allow its member countries to negotiate effectively as a trading block with other trading partners to lower tariffs and boost trade in key sectors such as automotive.

Furthermore, the onset of AEC will see inter-country tariffs between ASEAN countries removed, which would then allow automakers to take advantage of several markets from one hub. This trend would further attract auto sector investment in Thailand because new investment will benefit from the strengths of the country and because of the clustering effects of nearby markets.

In 2007, Thailand announced an investment promotion scheme for Eco-Car manufacturing, whereby maximum incentives were offered for integrated car assembly and key parts manufacturing projects. Under the incentive program, projects, which must have a minimum investment value of approximately $144 million, were offered a corporate income tax exemption of eight years, regardless of the projects' location in the country, along with duty-free importation of machinery. Ten automakers have applied for the second phase of the eco-car scheme: Toyota, Suzuki, Honda, Nissan, Mitsubishi, Ford, Mazda, General Motor Company, Volkswagen and MG.

A new excise tax effective January 2016 will greatly affect domestic demand. All new cars will have to pay a tax based on carbon emissions. This tax will help strengthen Thailand as a center for the manufacturing and exporting of eco cars.

Thailand's aim is to eventually increase car production to 3 million units and further strengthen its presence in ASEAN. It hopes to rival North America and Europe in the production of eco-cars.

Companies are also looking to Thailand as a hub for their vehicle maintenance network in Southeast Asia. For example, Toyota has been working with affiliate companies, Denso and Aisin Seiki, to open auto repair shops in Thailand and Indonesia since 2014. Both countries have large domestic vehicle fleets (20 million for Indonesia and 15 million for Thailand), which make the after-sales market very attractive. These vehicles will require regular servicing and maintenance. There are other vehicle-servicing opportunities in the frontier markets, such as Burma and Cambodia.

The presence of more than 690 Tier 1 and 1,700 Tier 2 and 3 suppliers lends support to vehicle production and further encourages investment from other component manufacturers, which enjoy lower costs for being close to their suppliers and customers. Furthermore, a greater number of recent auto industry investments have been gravitating towards higher value-added projects. As Thailand slowly moves up the value-chain of production, more high-tech investments are expected.

Automotive Electronics

Innovation in electronic systems is driving the automotive parts industry in Asia. Most of the automotive electronics used in cars produced in Thailand are imported from Malaysia and Japan. Because of the current limited number of automotive electronics producers in Thailand, there are a number of good opportunities for U.S. suppliers. These include electronic fuel injection systems, substrates for catalytic converters, CVTs, electronic stability controls and regenerative braking systems, among numerous other products. Makers of high-technology auto parts can locate anywhere and still receive maximum incentives and tax breaks.

NGV Vehicles

The Ministry of Energy supports fuel-efficient transportation through a natural gas vehicle (NGV) initiative. This initiative includes the introduction of over 10,000 natural gas-powered taxicabs, natural gas subsidization through PTT Public Company Ltd., a reduced import duty on NGV tanks from 17 percent to 10 percent, and a reduced import duty on NGV control system parts and components from 35 to 10 percent.

Eco-Car Parts

Eco-car parts continue to receive incentives to promote the growth of the eco-car market locally and abroad. The incentives will be applied exclusively to materials that cannot be produced locally. Opportunities exist especially in electric vehicle batteries.

E85

The Ministry of Finance is offering three-year exemptions on import duties of foreign auto parts used to make vehicles E85-ready (85 percent ethanol, 15 percent gasoline). The Ministry has also reduced the excise tax on cars using E85 to 22, 27 and 32 percent, depending on engine size.