



## Investors spooked after Trump's Toyota tweet

### Event

- US President-elect Donald Trump condemned Toyota's plans to build a new assembly plant in Mexico on 5 January 2017 via Twitter. Instead, the plant should be built in the US or get the increased border tax. This was the first-time Trump tweeted to the foreign investor after having made similar threats against American companies such as Ford and GM. So Ford had canceled its plans for a new project in Mexico and promised to build a new factory in the US in the day after. The Japanese newspaper Nikkei's December survey also reveals that more than 40% of investors in China, South Korea, and Japan are worried about Trump's trade policy. The latest twitter tirade is likely to add to their concern.

### Analysis

- **Car production planning around the world may be impacted if auto makers relocate their manufacturing bases to the US.** In planning a car production, most auto makers prefer to rely on factories in a few countries for exporting the cars worldwide, also using the common auto parts in many different models, to gain economy of scales. As a result there's only a small number of key producers of auto parts who manufacture their products in great quantities. But the Trump's policy is likely to curb cars and auto parts imports. If giant automakers such as Toyota comply with the policy, a slowdown and change in investment strategies can be expected. Thailand, an important manufacturing base, will certainly be affected. Take the country's export-led eco cars initiative, for instance. Currently Thailand ships approximately 300,000 eco cars per year, three times more than domestic sales. Among these, 32,000 are dispatched directly to the US.
- **Auto parts manufacturers may benefit in the short term, but should also be ready for change.** The US is currently Thailand's no.1 exports market for auto parts and accessories up to 13% of exports value with strong sales in the internal combustion engine and wire categories, excluding tires. Including the latter, the figure rises to 18%. An import tax levied on Mexico may help boost Thai exports, similar to how Thailand gained benefit from the US anti-dumping measure against Chinese tires. But if manufacturing bases shift to the US, eventually the demand will dry up, so will the number of cars manufactured for export to the US.

### Implication

- **With the potential loss of an export market in mind, EIC recommends Thai auto parts manufacturers to speed up the development of original design manufacturing (ODM) and replacement equipment manufacturing**

(REM) or expand related service businesses. Parts makers should invest in the research and development of ODM in order to boost their global competitiveness. Despite plant relocations, these original parts would still be in demand. Smaller manufacturers may focus on the development of aftermarket parts and accessories (REM) for the domestic or regional market, as well as providing repair and maintenance service.

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