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Current Status, Challenge and Future Prospects of Japanese Companies' Business Development in Thailand

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Table of Content

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Summary

Since the 1960s, Japan has been a significant player in the economic landscape of Southeast Asia, and Thailand and Japan have maintained a robust trade and investment partnership. Japan's foreign direct investment (FDI) in Thailand has comprised 22% of its total investment in Southeast Asia over the past decade, ranking second only to Singapore. The manufacturing sector, which encompasses automotive, machinery, electrical appliances, and electronics, has been the primary focus of investment. Nevertheless, Thailand's appeal to Japanese investors has been diminished by factors such as labor shortages, increasing costs, and competition from China.

The automotive and machinery sectors continue to be the primary recipients of Japanese investment, particularly in the Eastern Economic Corridor (EEC). Nevertheless, Japanese companies redirected their investments from China to Southeast Asia as a result of trade restrictions from 2021 to 2023. By late 2024, approximately 5,550 Japanese companies operated in Thailand, mainly in manufacturing. Nevertheless, the automotive industry has experienced a decline in domestic sales, which has been influenced by economic uncertainty, weak domestic purchasing power, and competition from electric vehicles (EVs), particularly from Chinese manufacturers.

Beyond the automotive sector, Japan has contributed to Thailand’s technological advancement, aligning investments with the Thailand 4.0 initiative and the Green Growth Strategy. However, economic uncertainties, including geopolitical instability and trade fluctuations, continue to pose risks. To remain competitive,

Japanese firms must focus on innovation, sustainability, and digital transformation while adapting to shifting consumer preferences, particularly among younger generations. Long-term success will depend on effective strategic partnerships, enhanced after-sales services, and sustainable product development to navigate Thailand’s evolving economic and regulatory landscape.

1. Introduction

Thailand and Japan have maintained a robust trade and investment partnership for decades. Japan was one of the first foreign investors in Southeast Asia during the 1960s-1980s. The Japanese yen experienced rapid and substantial appreciation after the enactment of the Plaza Accord in 1985, which marked a critical turning point. The competitiveness of Japanese goods on the global market decreased as a result of the change in currency, which increased the cost of goods produced domestically. The strengthened yen, in contrast, allowed Japan to purchase goods, raw materials, and pay wages abroad at a lower cost. These economic dynamics encouraged Japanese companies to establish their production bases in regions other than Japan, with a particular emphasis on Southeast Asia. ASEAN-4 countries, Thailand, Indonesia, Malaysia, and the Philippines, were the primary beneficiaries of this transition[1]. In the last 10 years, Japan's net foreign direct investment (FDI) in Thailand has constituted 22% of its total FDI in Southeast Asia, placing it second after Singapore. Japanese FDI accounts for more than 36% of Thailand's total foreign investment, highlighting its crucial significance in the Thai economy[2].

Initially, Japanese companies invested in Thailand with a focus on the manufacturing sectors of automotive and components, as well as electrical appliances and electronics. This investment established Thailand as a major manufacturing and export hub in the region. Thailand's strategic location as a gateway to ASEAN, low labor costs, robust infrastructure, and rapid economic growth attracted them. Consequently, Thailand was able to attract foreign direct investment (FDI) from Japan. Therefore, Japan is currently a strategic partner and significant investor in Thailand. Thailand functions as an important manufacturing hub for various sectors, including automotive and automotive components,

petrochemicals, chemicals, electrical appliances and electronics.

The bilateral relationship has been further strengthened by agreements such as the Japan-Thailand Economic Partnership Agreement (JTEPA) and initiatives such as the Eastern Economic Corridor (EEC), solidifying Thailand's role in global supply chains and deepening Japan's involvement in key industries. However, labor shortages, rising labor costs, mismatches in workforce skills, changing consumer preferences, and increasing competition from China are currently confronting Thailand with the challenge of maintaining its attractiveness to Japanese investors. To influence the future of economic cooperation between Japan and Thailand, it is essential to understand the current state of Japanese companies in Thailand and address the present challenges.

2. The Position of Japanese Companies in the Thai Economy

2.1 Japanese direct investment pattern in Thai economy

In 2023 (January–December), 1,394 foreign projects submitted applications for investment promotion, representing 60.4% of all projects that submitted applications. The total investment value was 663,239.45 million baht, which is 78.2% of the total investment value of all projects. The investment value increased by 71.7%, while the number of foreign projects applying for investment promotion increased by 38.2% in 2023 compared to 2022. 112 projects, or 8.0% of all foreign projects applying for promotion, were classified as large foreign projects. The total investment value of these projects was 507,070.7 million baht, which represents 76.5% of the total foreign investment value. A total of 305 projects (21.9% of all foreign projects) were in the machinery and automotive sector, representing the majority of foreign projects that applied for investment promotion. The electrical appliances and electronics category was the second largest, with 240 projects (17.2%). The electrical appliances and electronics sector was the main focus of foreign investment, with a total investment of 340,340.1 million baht (51.3% of the total value of foreign investments). Machinery and automotive were the second-largest sector by investment value, with a total investment of 84,710.1 million baht (12.8%)[3].

In a release from the Board of Investment (BOI), the statistics for investment promotion applications from Japan in 2023 indicate a total of 264 projects, which represents 18.9% of all foreign investment projects submitted for promotion. The total investment value was 79,150.9 million baht, which represents 11.9% of the total foreign investment value submitted for promotion. The number of projects submitted by Japanese investors decreased by 6.1% compared to 2022, from 281 projects to 211 projects. However, the total investment value increased by a substantial 60.9%, gaining from 49,187.2 million baht. Most Japanese investment projects were small-scale ventures (valued below 50 million baht), comprising 152 projects or 57.6% of all Japanese projects submitted for investment promotion. The total investment value of these projects was 2,876.6 million baht. On the contrary, the number of large-scale projects (valued at 1,000 million baht or more) was limited to 10 (3.8%), but they represented a substantial 55,046.2 million baht, which accounted for 69.6% of the total value of Japanese investments submitted for promotion.

The machinery and automotive sector comprised the majority of Japanese investment projects submitted for promotion in Thailand, with a total of 90 projects (34.1% of all Japanese projects submitted). The aggregate investment value of these projects was 11,301.4 million baht. The most typical activities were the production of automotive parts (16 projects) and other automotive components (35 projects). With 35 projects (13.3%) and a total investment value of 32,568.2 million baht, the electrical and electronic sectors were the second largest. Primary activities included the production of electronic products and other components (5 projects), electromagnetic products and components (3 projects), and electrical appliances, equipment, and components (3 projects). The chemical and petrochemical sectors were the third most active sectors, with 33 projects (12.5%) and a total investment value of 27,241.4 million baht. Production of plastic products for industrial use and components (18 projects) and production of chemical products for industrial purposes (6 projects) were significant activities in this sector. This distribution underscores the emphasis of Japanese investors on sectors with robust industrial and technological foundations.

The electrical and electronic sector represented the largest proportion of Japanese investment in Thailand, with a total value of 32,568.2 million baht (41.2% of all Japanese investments that were submitted for promotion). Large-scale investments in the production of flexible printed circuit boards and multilayer printed circuit boards, totaling 10,612.47 million baht, represented the majority of this value. Another substantial contribution was made by substantial investments in the production or testing of semiconductor devices and integrated circuits, which were valued at 8,623.5 million baht. Chemical and petrochemical was the second largest sector, with a total investment value of 27,241.4 million baht, representing 34.4% of the total Japanese investment. Two of the most significant contributions were the production of chemical products for industrial purposes (10,158.6 million baht) and the production of specialty polymers, specialty chemicals, and related derivative products in a single project (14,800 million baht). With a total investment value of 11,301.4 million baht, the Machinery and Automotive sector ranked third, accounting for 14.3% of the total Japanese investment. Investments in the production of other automotive components accounted for most of this value, which totaled 4,463.0 million baht.

In 2023, Japanese companies submitted 124 investment promotion projects in the Eastern Economic Corridor (EEC), accounting for a total investment value of 49,3 73.3 million baht. 68 of these projects were in the machinery and automotive sector, which represented the majority. This was followed by the metal and materials sector with 11 projects and the chemical and petrochemical sector with 17 projects. These figures emphasize Japan's ongoing commitment to investing in the strategically significant EEC region of Thailand, with a particular emphasis on industries that are in accordance with the industrial and technological priorities of both countries[4].

However, the BOI has not yet released data on industrial sector investment promotion inquiries from Japanese companies in Thailand for 2024. The only current information available is related to the total number of investment promotion proposals from Japanese companies during the first nine months of 2024. Japanese companies submitted 194 project proposals between January and September 2024, totaling 35.5 billion baht in investment. This ranks Japan as the fifth largest foreign

investor who requests investment promotion, following Singapore, China, Hong Kong, and Taiwan in that order. Furthermore, the majority of investment in foreign-funded projects that were approved for promotion during the first nine months of 2024 was from China, which accounted for 27% of the total value of foreign investment. Most of this capital was allocated to large-scale projects, such as the production of automotive tires, solar cells (or raw materials for solar cells), and long steel products for industrial use, including structural steel, steel bars, wire rods, and steel wires[5].

From 2021 to 2023, the US-China trade conflict forced Japanese companies to shift investments from China to circumvent trade restrictions. Southeast Asia profited from this transition due to its geographical proximity to China and its well-established supply chains. Thailand is no longer a major destination for new Japanese investments. During this period, Vietnam became the second largest recipient of Japanese net investment in Southeast Asia, following Singapore, with net investments increasing by 260 billion yen (+54%), primarily focused on the AI and semiconductor industries, crucial sectors in the global megatrend. On the contrary, net Japanese investments in Thailand increased by merely 80 billion yen (+13%)[6], leading Thailand to the third position as a recipient of Japanese FDI in the region. This decline indicates Thailand's waning competitiveness in securing foreign investment, especially from significant investors such as Japan. Contributing factors include elevated wage levels relative to neighboring countries, an aging demographic that impacts the availability of labor force, and a disparity between workforce skills and industry requirements.

2.2 Japanese Companies and Key Industries in the Thai Economy

Until December 20, 2024, approximately 5,550 Japanese companies in Thailand were registered on the Fact-Link website (Japan-Thailand industrial directory). The number of Japanese companies or companies with Japanese owners holding at least 50% of the shares, as registered in the directory, is ranked in the following manner[7]:

(1) 293 industrial trading companies that specialize in machinery and equipment.
(2) 275 companies are involved in the construction and manufacturing industries.
(3) 247 companies are manufacturers of electrical and electronic components.
(4) 225 companies that manufacture steel raw materials and nonferrous metals.
(5) 212 companies that produce consumer goods that are not food, beverages, or household items.
(6) 194 companies related to production systems and equipment.
(7) 189 companies manufacturing automotive parts.
(8) 177 companies that manufacture chemicals, industrial lubricants, and gas.
(9) 160 companies that manufacture design or manufacture molds.
(10) 150 companies that provide services on computers, network systems, and security systems.

According to data on the number of Japanese companies in the database for 2024, the majority of Japanese companies operating in Thailand are engaged in the manufacturing sector. This includes industries such as automotive parts and components, electrical appliances, and electronic components, and the supply chains that support these two sectors. The structure of Japanese companies in Thailand aligns with statistics reported by the Board of Investment (BOI) in 2023, which indicate that investment promotion applications from Japan are predominantly concentrated in these two industries. Furthermore, both sectors continue to play a crucial role in producing goods for export to the ASEAN region. According to export data from the Ministry of Commerce, Thailand's top export to nine ASEAN countries between January and November 2024 was automobiles, equipment, and parts, with an export value of $7,024.6 million, accounting for approximately 11% of the total export value to these nine ASEAN countries[8]. However, exports of automobiles, equipment, and parts to ASEAN countries have shown a downward trend, falling by 11% compared to the same period last year, despite the recovery of exports after the COVID-19 pandemic.

The Federation of Thai Industries (FTI) has reported statistics on Thailand's automotive production, domestic sales, and exports for the first 11 months of 2024 (January–November). The total production was recorded at 1,364,119 units, representing a decrease from the same period in 2023, which saw 1,708,065 units produced. Regarding domestic sales, the total for the first 11 months of 2024 was 518,659 units, comprising 203,429 passenger cars and 315,230 commercial vehicles.

This marks a decrease compared to the corresponding period in 2023, where domestic sales amounted to 707,454 units, consisting of 266,243 passenger cars and 441,211 commercial vehicles[9].

The decline in domestic automobile sales in 2024 can be attributed to a combination of industry-specific, cyclical, and structural factors that have influenced the market, starting with the global shortage induced by the COVID-19 pandemic in 2020. Consequently, automobile manufacturers in Thailand prioritized the production and sale of pickup trucks, which require fewer semiconductor chips than passenger cars. Furthermore, the recovery of pickup truck sales was further enhanced by the surge in demand from the logistics sector, which was fueled by the rapid growth of electronic commerce during the pandemic. As a result, the recovery in truck sales was more rapid than in passenger car sales from 2020 and 2022. However, the gradual expiration of financial assistance measures since 2023, in conjunction with an uneven economic recovery, has resulted in a significant number of individuals who had taken out loans to purchase vehicles during the previous period experiencing difficulty making their repayments. This led to a substantial number of vehicles being repossessed and shipped to auction yards, particularly pickup trucks, as their primary customers are farmers and self-employed individuals whose income recovery has been slow and unstable. Loss by default (LGD) for financial institutions has increased significantly as a result of the sharp and rapid decline in used car prices. Consequently, financial institutions have become increasingly reluctant to grant auto loans, as evidenced by the decrease in the number of auto loan approvals. Furthermore, financial institutions have been forced to implement more stringent loan approval processes as a result of regulatory measures, including the establishment of maximum interest rate caps for auto hire-purchase contracts and the implementation of responsible lending standards[10].

The Standard Wealth and SCB Economic Intelligence Center (SCB EIC) monitored vehicle registrations and sales in Thailand for the first nine months of 2024 (January to September) and identified a substantial decrease of 20.5% in vehicle sales compared to the corresponding period of the previous year. This decrease is attributed to the constant weak domestic purchasing power, the residual impact of

the COVID-19 pandemic, and the more stringent lending standards enforced by financial institutions due to the increasing ratios of non-performing loans (NPL). Regarding market share, internal combustion engine (ICE) vehicles comprised 59% of registered vehicles, hybrid engines (HEV/PHEV) constituted 28% and battery electric vehicles (BEV) represented 13%. Toyota retained its status as the market leader with roughly 35% of the market share, succeeding Honda at 18% and Isuzu at 10%. However, an analysis of sales growth over the same nine-month period reveals that nearly all prominent automotive brands experienced substantial declines in sales. For example: Toyota's sales decreased by 16.2%, Honda's by 16.6%, Isuzu's by 45.7%, Mitsubishi's by 23.3%, Mazda's by 47.9%, Nissan's by 43.2%, and Suzuki's by 50.5%. The only exception was the Chinese electric vehicle (EV) brand BYD, which achieved a sales increase of 22.7%[11].

In 2024, there was substantial news regarding the relocation of production bases and the closure of operations by large Japanese factories and companies that had been established in Thailand. Suzuki Motor Thailand and Subaru, two Japanese automobile manufacturers that have been in Thailand for a long time, announced the cessation of all production activities in Thailand in the middle of 2024. Instead, they intend to modify their approach by importing vehicles from Japan for sale. Tan Chong International, the parent company that oversees Subaru operations in Thailand, issued a statement to the Hong Kong Stock Exchange on 24 May 2024, announcing its intention to discontinue its "locally manufactured vehicles" (Complete Knockdown) business model in Thailand, Vietnam, Malaysia, and Cambodia by the end of the year. Suzuki Motor Corporation subsequently announced on 7 June that it would also cease automobile production at its manufacturing plant in Thailand[12]. Furthermore, in July 2024, Honda Automobile (Thailand) announced a new production plan, relocating all automotive manufacturing to its plant in Prachinburi Province. Meanwhile, the Honda plant in Phra Nakhon Si Ayutthaya province will shift its focus to producing automotive parts.

According to the Bank of Thailand (BOT) business survey conducted in the third quarter of 2024, the automotive manufacturing and parts sector demonstrated a

consistent recovery following the COVID-19 pandemic, supported by local and international sales. However, production has been on the decline since Q4 of 2023, primarily as a result of a significant decrease in domestic sales. Export sales have also slowed recently as the economies of the trading partner soften. The substantial decline in domestic sales can be attributed to a negative feedback loop established by a few interconnected factors. First, the sluggish economic recovery and high levels of household debt have resulted in a decrease in consumer purchasing power. The second contributing factor is the price competition from electric vehicles (EVs), which has caused some consumers to postpone their purchases. The third category is the adoption of a more cautious lending approach by financial institutions. Fourth, the value of used cars has experienced a significant decline, which has restricted consumers' ability to sell their vehicles in exchange for down payments on new ones [13].

In addition to adjustments in production plans within the automotive industry, Japanese companies have also faced declines in the electrical appliance and electronics manufacturing sector in 2024. Electronic component exports are still below levels as a result of the high levels of inventory observed between trading partners, which were the result of stockpiling during the pandemic to address supply shortages. However, exports of specific products are beginning to improve as partner inventories gradually decrease. The recovery rate depends on the specific demand factors that affect each product category. The export values of electronic components for data centers, electric vehicles, and machine learning have surpassed those of pre-COVID-19 levels, and demand has been steadily increasing. However, the production of these segments is monopolized by a limited number of significant players. Export values for printed circuit boards (PCBs) and integrated circuits (ICs) are expected to resume growth by the fourth quarter of 2024 as partner orders gradually resume. Furthermore, the sector's recovery is further bolstered in the near term by the relocation of production bases to Thailand by new PCB manufacturers from China and Taiwan, which is being done to mitigate geopolitical risks. Furthermore, the structural challenges of hard disk drives (HDDs) posed by the increasing substitution of HDDs with SSDs make it unlikely that the export values of HDDs will revert to pre-COVID-19 levels. However, the enterprise sector has

experienced a resurgence in demand, which is primarily driven by cloud and data storage businesses. This has resulted in an increase in exports during the latter half of 2024. These trends suggest that the recovery of various categories of electronic components is uneven, with some segments showing significant growth potential and others encountering structural challenges.

Japanese producers encountered the competitive pressure of Chinese and South Korean brands for domestic markets in Thailand's electrical appliance manufacturing sector, as well as the consequences of the global economic downturn. Funai (Thailand) Co., Ltd. in Nakhon Ratchasima was closed in November 2024 as a consequence of the bankruptcy declaration of the parent company in Japan[14]. The company, which specialized in the production of duplicators, audio and video recorders, and radios, was forced to suspend operations and terminate its entire workforce.

Furthermore, an analysis of data from the past decade reveals that several large Japanese electrical appliance manufacturers have ceased their production operations in Thailand, relocating either back to Japan or to other countries such as China and Vietnam. Notable examples of major Japanese electrical appliance and electronics manufacturers that have shifted their production bases out of Thailand include: JVCKENWOOD Electronics (Thailand) Co., Ltd., which produced televisions, electrical appliances, audio equipment, closed-circuit television cameras, video cameras, and various imaging devices, and Panasonic Appliances Refrigeration Devices (Thailand) Co., Ltd., which manufactured components for refrigeration equipment. This trend can be attributed to several factors, including the intense competition of South Korean and Chinese electrical and electronic manufacturers. These competitors have been able to penetrate the market by offering products at significantly lower prices, even if their quality is not as good as that of Japanese products. Furthermore, advances and changes in technology have further influenced this shift.

In addition to the automotive and automotive component industries, as well as manufacturers of electronic parts and electrical appliances, there are other Japanese companies that continue to operate in Thailand, particularly in the trade and service

sectors. Among these include a variety of restaurant chains, Uniqlo, and Muji. Product quality, production standards, quality assurance, after-sales service, and safety continue to dominate Thai views of Japanese companies and products. Although Japanese companies have been the subject of some negative news in the past one to two years, the effect on Thai consumer confidence has been relatively slight. This is due to the fact that there have been more severe and frequent negative reports regarding safety and product standards in comparison to Chinese products, such as cases involving electric vehicle battery explosions. As a result, most Thai consumers continue to admire and value the "Japanese soul" that is evident in Japanese goods and services.

Subsequently, Japanese organizations encounter specific weaknesses. These include higher prices in comparison to competitors, marketing strategies that are ineffective in reaching a new generation of customers, and enhancements in the after-sales services provided by competitors. This phenomenon is particularly apparent in the electrical appliance industry, where competitors now offer product leasing services that are combined with after-sales care or long-term after-sales support. Furthermore, the waning of domestic purchasing power has resulted in Thai consumers who lack a strong brand loyalty to Japanese products transitioning to brands from other countries that provide more affordable alternatives.

2.3 Japanese companies allocated resources to technology in Thailand

Japanese companies have been crucial in driving technological advancements in Thailand by investing in high-tech industries and promoting innovation in various sectors. These investments align with Thailand’s strategic goals, including its Thailand 4.0 initiative, which emphasizes the transition from traditional industries to knowledge- and technology-driven economies. Japan anticipates synchronizing its investments in Thailand with the Green Growth Strategy, targeting carbon neutrality by 2050. The industries projected for growth include the bio-circular-green (BCG) sectors, renewable energy, automation, and digital technologies. Japan has indicated a desire to invest in significant projects, including the Eastern Economic Corridor of Innovation (EECi), the U-Tapao International Airport (UTP),

genomic medicine, and the EEC Livable & Smart City initiative. In addition, the major Japanese firm Mitsubishi Electric, as an expert in factory automation, has actively supported the development of a skilled workforce in advanced manufacturing technologies, particularly in robotics and automation, through initiatives like the "EEC Automation Park" network along with the concept of the Kaizen level of e-F@ctory & SMKL-Smart Manufacturing. This collaboration aims to equip Thai personnel with the knowledge and expertise required to operate and innovate within smart factories. By fostering human resource development in automation and robotics, Japan contributes to strengthening Thailand's industrial capabilities and competitiveness in the global market while also aligning with the goals of the Eastern Economic Corridor (EEC) to promote technological advancement and economic sustainability.

3. Challenges Faced by Japanese Companies in Thailand

3.1 Economic and Regulatory Barriers

3.1.1 Thai Economic Situation in 2024-2025

The Office of the National Economic and Social Development Board (NESDB) forecasts that the Thai economy will grow by 2.6% year-on-year (YoY) in 2024, an increase from 1.9% in the previous quarter (QoQ). The Thai economy is expected to grow between 2.3% and 3.3% in 2025 (the midpoint is 2.8% YoY). Key supporting factors comprise: (1) the increase in government consumption and investment; (2) the escalation of domestic private demand; (3) the ongoing recovery of the tourism sector; and (4) the persistent expansion of exports. Private consumption and investment are projected to increase by 3.0% and 2.8%, respectively. The export value of goods in US dollars is anticipated to increase by 2.6 percent[15]. Headline inflation is expected to range from 0.3% to 1.3%, while the current account is expected to achieve a surplus of 2.6% of GDP. Furthermore, the annual average consumer price index (CPI) for 2024 increased by 0.4% compared to 2023 (YoY). This increase was mainly driven by higher prices in the food and beverage category, particularly for ready-to-eat meals, fresh fruits and nonalcoholic beverages. However, key items saw price reductions due to government cost-of-living support measures, including electricity tariffs and diesel fuel[16].

The Bank of Thailand (BOT) projects a year-on-year growth of 2.7% for the Thai economy in 2024, aligning closely with Thailand's potential growth rate. This optimistic perspective is fueled by robust performance in the tourism and services industries, alongside enhancements in electronics and machinery exports, which are gaining from the technology product cycle and the growth of domestic data center enterprises. The Thai economy is expected to expand by 2.9% in 2025, although uncertainties persist regarding US economic policies, especially import tariff regulations, necessitating vigilant observation in the near future. Further challenges include the possibility of decreased economic growth in China, geopolitical turmoil in the Middle East, and the persistent Russia-Ukraine conflict[17].

In 2024, the rate of expansion for large corporate loans is expected to be reduced. The tourism and services sectors are expected to experience a decrease in loan growth as a consequence of increased debt repayments and increased revenues. The automotive, electronics, and petrochemical sectors are experiencing a decline in competitiveness, which will be reflected in the decrease in business loans. The continued decline in business loans for small and medium companies (SMEs) is a sign of the deterioration of the competitiveness of borrowers and the increasing risk of credit. Auto hire-purchase loans and credit card loans are expected to contract due to increased credit risks and specific factors that influence borrowers. Similarly, household loans are expected to expand at a slower pace. Furthermore, the capacity to service debt is decreasing, as evidenced by the rising proportion of nonperforming loans (NPL), particularly among small and medium enterprises (SMEs).

3.1.2 Economic and regulatory challenges for Japanese companies in Thailand

During the third quarter of 2024 (July–September), the Bank of Thailand (BOT) collected data on the perspectives of the business sector on the Thai economy. The results suggested that the businesses experienced a slight increase in economic growth compared to the same period last year, which was mainly driven by tourism and export-oriented production in response to the demand from the trading partners. However, the business sector faced substantial obstacles, including a slow recovery

of consumer purchasing power and intense competition. Year-over-year, the manufacturing sector's revenue experienced modest growth, which was bolstered by an increase in demand from trading partners. However, certain products were subject to competition from China and a lack of purchasing power among domestic consumers. In contrast, revenue in the trade sector decreased compared to the same period last year, particularly in regional trade businesses. This decline was associated with the gradual restoration of consumer purchasing power, particularly among the low- and middle-income groups, who have become more prudent in their spending habits as a result of their elevated levels of household debt. The performance of the business was significantly impeded by weak domestic market demand, which was one of the primary obstacles to business operations. Furthermore, profitability was further affected by the increasing costs of business, which was a result of the increase in the prices of raw materials, labor costs, and electricity tariffs. The market's intense competition and sluggish purchasing power restricted the ability to pass on these increased costs to selling prices[18].

Although the Thai economy in 2025 is expected to grow at a rate similar to 2024, driven primarily by the expansion of the tourism sector, exports, and government spending, it faces significant challenges from intensifying external competition and increasing uncertainties in the future. These uncertainties are particularly related to the policy directions of major economies such as the United States and China. Meanwhile, domestic inflation is projected to remain consistently low. The following economic and regulatory factors will possibly challenge Japanese companies in Thailand in 2025:

(1) The Challenges for Japanese Auto Companies in Thailand

The global automotive market has been shrinking for several consecutive years and may already have reached saturation. The signs of contraction in the global automobile market began in 2018 and continued through 2019, particularly in the passenger car segment. This occurred in the context of a technological transition towards electric vehicles (EVs) in major markets such as China and Europe. In 2020, the global automobile market is projected to shrink by more than 20% due to the

COVID-19 pandemic, which has reduced consumer purchasing power. In the future, even if the COVID-19 situation subsides, the market may not return to its previous growth levels due to major trends in technology and the changing behavior of car use. This shift impacts Thailand's automobile industry, which is currently ranked 11th in the world, employs more than 750,000 people, and relies on exports for more than half of its total production.

The COVID-19 crisis and the cyclical nature of vehicle replacement have both had an impact on the Thai automobile market, which has already reached its peak demand. The average vehicle replacement cycle for Thai car owners is approximately 74 months, or approximately 6 years, according to KKP Research. This cycle is gradually shortening. Furthermore, Thailand's new car market may not achieve annual sales exceeding 1 million units in the next decade. The Thai car market has experienced substantial growth in the past decade, which has been facilitated by a competitive lending environment, increased access to credit, and an economic recovery that followed the global financial crisis. This growth has been facilitated by financial institutions, leasing companies, and captive finance firms. In the past decade, these factors have resulted in an average annual new car sales volume of approximately 970,000 units, with sales exceeding 1 million units in 2012-2013 and 2018-2019. On the contrary, KKP Research anticipates that Thailand's annual new car sales will not exceed one million units this decade. This is the result of a combination of factors, such as a declining working-age population, a tightening of the level of household debt, and a reduced potential for economic growth. Compared to other Asian countries, BRIC nations, and Mexico, Thailand's new car sales are expected to average between 660,000 and 870,000 units per year over the next decade[19].

The declining working age population in Thailand is the result of a consistently declining birth rate, which is influenced by economic conditions and structural social issues within the country. The Department of Provincial Administration's statistics over the past decade indicate a consistent decrease in the number of births nationwide, from 770,000 in 2014 to 510,000 in 2023. In the interim, Thailand is expected to surpass 13 million elderly individuals by 2024, establishing itself as an

aging society. This demographic shift will have a significant impact, such as a long-term decrease in demand for new cars and an exacerbation of labor shortages in automotive manufacturing factories. At present, automotive companies are faced with a mismatch between the skills of their workforce and the demands of the industry, as well as labor shortages. However, the introduction of products that cater to older adults may not adequately address the needs of Thailand, as only a small proportion of the workforce is enrolled in retirement benefits systems. Furthermore, the economic structure of the nation has resulted in the majority of Thais "aging before becoming wealthy."

The automobile market is not only experiencing a recession in 2024, but it is also experiencing volatility due to a number of factors. These include a price war that affects both new and used cars, the aggressive entry into the Chinese market for China’s electric vehicles (EV), and intense competition. Furthermore, the market has also been further affected by the tightening of lending practices by financial institutions in response to the growing issue of nonperforming loans. Since 2023, an oversupply issue has been apparent in the used car market. This is the result of a combination of factors, such as a continuous decline in prices, an increase in repossessed vehicles, and a market contraction. The current oversupply situation is the result of the large number of vehicles entering the market and the competitive pricing adjustments in the new EV car market, which are both factors that contribute to the price decline[20].

In 2025, domestic car sales are expected to experience a slight recovery, despite the obstacles they face. As electric vehicle production increases under the EV 3.0 and 3.5 initiatives, there are still risks, particularly from the intensification of price competition. Slightly reduced demand from trading partners, particularly within ASEAN markets, is expected to result in a slight decrease in export value for 2024. However, exports are expected to return to growth in 2025 and begin to recover in Q4 of 2024. In 2025, the implementation of Australia's National Vehicle Emission Standards regulations is another critical risk that must be monitored. This regulation could result in approximately half of the passenger car models manufactured in Thailand being declared non-compliant. Therefore, Australia is currently seeking

public input on potential exemptions for specific vehicle models[21].

In 2025, automobile manufacturers will face persistent challenges such as competition from the used car market and pricing pressures from Chinese electric vehicles (EVs). Currently, more than five Chinese and international electric vehicle manufacturers have established manufacturing operations in Thailand. Five Chinese electric vehicle manufacturers are currently investing in the development of production facilities in Thailand, with total investments exceeding 85 billion baht and an aggregate production capacity exceeding 400,000 vehicles per year. In 2023, the Japanese automotive manufacturer Honda began its foray into electric vehicles. Five Chinese electric vehicle (EV) manufacturers are following mentioned[22]:

1) SAIC: An investment of 30 billion baht to establish a fully integrated manufacturing facility, aiming at an annual production capacity of 100,000 vehicles. Operations began in November 2023.

2) GWM (Great Wall Motors): An investment of 22.3 billion baht to establish a fully integrated factory, aiming at an annual production capacity of 120,000 vehicles. Operations are scheduled to begin in January 2024.

3) BYD: An investment of 17.9 billion baht to establish a fully integrated manufacturing facility with the aim of achieving an annual production capacity of 150,000 vehicles. Operations are scheduled to begin in June 2024.

4) GAC AION: An investment of 6 billion baht to establish a fully integrated manufacturing facility, aiming at an annual production capacity of 20,000 vehicles. The factory is currently under construction and is expected to start operating in 2024.

5) CHANGAN: An investment of 8.8 billion baht to establish a fully integrated manufacturing facility, with the aim of achieving an annual production capacity of 100,000 vehicles. The factory is currently under construction and is expected to start operating in 2025.

The electric vehicle (EV) and components sector is classified as one of the five high-potential industries (First S-Curve). The Thai government's roadmap establishes a target for 2030 to produce zero-emission vehicles (ZEV) at a rate of 30% of total vehicle production, equivalent to approximately 725,000 units of passenger cars and pickup trucks, from an estimated total production of 2.5 million vehicles. The Board

of Investment (BOI) has instituted investment promotion initiatives as a strategic mechanism to achieve the production objectives established by the government. These measures seek to conform to national policies that encourage the adoption of electric vehicles (EVs), encompassing their production systems and supply chains. This initiative addresses the rapid global changes in the automotive sector and establishes Thailand as a major manufacturing center for EV components.

Since 2017, the BOI has provided investment incentives to the electric vehicle industry, continually updating and refining these initiatives. These incentives include various sectors, including the manufacturing of bicycles, boats, and battery electric vehicle (BEV) platforms. Additionally, BOI advocates investments in essential electric vehicle components, electric vehicle charging infrastructure, battery swapping facilities, and fuel cell electric vehicles (FCEVs) and fuel cell systems. These sophisticated clean energy technologies are expected to achieve extensive adoption in the future. The Ministry of Finance (MOF) has implemented non-fiscal and fiscal policies to promote domestic electric vehicle adoption. Battery manufacturing qualifies corporate income tax exemptions lasting between 5 and 8 years, depending on the production volume. These policies seek to lower the prices of battery electric vehicles (BEVs), including cars and motorcycles, to levels comparable to those of internal combustion engine (ICE) vehicles. The anticipated price reduction is expected to catalyze a considerable transformation in Thailand's automotive sector, resulting in increased demand for electric vehicles, significant investment, job creation, and technology transfer within the EV manufacturing industry.

In 2023, Thailand's electric vehicle (EV) sector has seen significant expansion in market demand. This is apparent from the substantial increase in electric vehicle registrations. The number of newly registered four-wheeler BEVs increased from 2,006 units in 2021 to 9,614 units in 2022 and subsequently increased to 43,259 units in the initial eight months of 2023. The anticipated growth trend is fueled by significant government policies designed to establish Thailand as the leading production hub for electric vehicles and essential components in the region. The government has taken measures to create vital infrastructure and established a

National Electric Vehicle Policy Committee to formulate and oversee a comprehensive roadmap for the development of the EV industry in the short, medium, and long term. Furthermore, current automotive component manufacturers in Thailand can obtain new contracts, which allows them to enhance their technology and production capacities. This transition will enable manufacturers to align with the increasing demand in the electric vehicle market, generating further growth opportunities for Thailand's industrial sector.

However, the introduction of electric vehicles (EVs) from China has caused changes in the changes in the market structure as a result of price wars in numerous countries, including Thailand. Multiple price adjustments have been implemented for Chinese electric vehicles (EVs) since 2023.The influx of electric vehicles (EVs) that exceed demand in China is causing dissatisfaction among previous customers who had purchased them at higher prices. These EVs are being sold at significant discounts in Thailand. To satisfy the eligibility criteria for assistance under the Thai government's incentive programs, Chinese manufacturers are currently constructing assembly plants in Thailand[23]. The utilization of Thailand as a production base is not simply compliance with the government's EV promotion measures, including EV 3.0 and EV 3.5, which require local assembly to balance imports. Another reason is that it functions as a backup plan for Chinese brands in the event of severe trade barriers, such as substantial tariff hikes imposed by the United States and Europe, which would require the establishment of alternative export bases outside of China[24].

In 2024, the electric vehicle (EV) market encountered a deceleration, influenced by a pricing war that prompted consumers to postpone acquiring new vehicles and diminished consumer spending power. This was exacerbated by domestic household debt and non-performing loan challenges. Nissan was the first electric vehicle brand to debut in Thailand, launching the Nissan Leaf model, which gained initial popularity in 2019. The industry had considerable growth in 2023, driven by government initiatives designed to encourage the adoption of electric vehicles among Thai consumers. The measures included direct consumer incentives, support

for electric car production, and a national goal for electric vehicle usage to comprise 30% of overall vehicle utilization by 2030, called the goal of “30 @ 30”. Despite these efforts, the electric vehicle industry in 2024 did not expand as projected. The Electric Vehicle Association of Thailand (EVAT) reported a total of 56 electric vehicle sub models available on the Thai market that year. The registration data for electric vehicles in the key market segment, passenger vehicles that accommodate up to seven occupants, indicated only 68,000 units, in contrast to approximately 120,000-130,000 units delivered in 2023[25].

Competition from the used car market in Thailand poses a considerable challenge for Japanese automotive companies. In 2023, financial institutions repossessed approximately 250,000-300,000 vehicles, nearly double the previous year's total of 150,000-180,000 units. All repossessed vehicles were dispatched to multiple auction yards, leading to approximately 300,000 cars entering auction lots in 2023. This resulted in an oversaturation of the used car market, forcing dealers to reduce their selling prices. Certain dealers were forced to incur losses to preserve liquidity and sustain their operations. Financial institutions have intensified their lending standards for self-employed clients due to challenges in income verification. This has markedly reduced the pool of prospective buyers for pickup trucks, resulting in a faster depreciation of pickup truck prices relative to other vehicle categories. At the same time, used car dealers have decreased their purchases of pickup trucks and decreased the percentage of pickups in their sales inventories. On the contrary, multipurpose vehicles (SUVs and MPVs) are increasingly favored for their large interiors, suitableness for family excursions, and relatively streamlined loan approval procedures.

The most searched used car brands in Thailand are mainly Japanese. Toyota dominates with 25.6% of searches, followed by Honda at 16.5% and Isuzu at 7.2%. German brands like BMW and Mercedes-Benz enjoy considerable popularity in Thailand. Specifically, pre-owned vehicles from these two brands are highly sought after, with average monthly inquiries surpassing 54,000. In the first half of 2024, nine of the ten most popular car models in Thailand were from Japanese manufacturers, with the sole exception the Ford Ranger from the United States. The

Isuzu D-Max led the rankings with approximately 163,000 searches, succeeded by the Honda Civic and Toyota Hilux Revo in second and third positions, with 148,000 and 130,000 searches, respectively. Pickup trucks, high performance vehicles such as the Honda CR-V and Toyota Fortuner, and spacious sedans such as the Honda Civic and Honda Accord are the most desired by consumers. These models are preferred because of their size and capacity to meet transportation requirements efficiently. Since late 2023, financial institutions have intensified their lending policies, complicating the process for pickup truck purchasers to secure loans due to difficulties in income verification. Consequently, the percentage of pre-owned pickup trucks sold in the first half of 2024 declined by 7%, representing merely 19% of total listings, in contrast to the corresponding period last year[26].

(2) The influx of low-priced Chinese goods into Thailand

The 101 World reported that the influx of Chinese products has given consumers more economical choices; however, this phenomenon may jeopardize Thai enterprises, the economy, and society in the long term. Chinese goods are progressively replacing Thai products on both domestic and export markets. Thai companies manufacturing goods comparable to those dominated by China are experiencing decreased sales due to this influx. The critical industries in which Thailand faces a trade deficit with China encompass electronics, machinery, computers, electrical appliances, automotive components, steel, aluminum, plastics, and chemicals[27].

Chinese entrepreneurs and capital are inundating Thailand, introducing their products and progressively displacing Thai companies throughout practically every phase of the manufacturing and trade supply chain. This includes positions such as intermediates for transportation, distribution, and wholesale and retail establishments. Significantly, Chinese and other foreign investments currently dominate in almost all online marketplaces. These platforms function as essential infrastructure for the economy. If China assumes control of them, it may further accelerate the substitution of Thai products with Chinese goods, thereby reducing the advantages for Thais in trading with China. Thai entrepreneurs, especially small

and medium enterprises (SMEs), face increasing challenges in their survival and growth. Domestic employment and investment are diminishing, and even when investments occur, there is a substantial fraction of capital in the country. This circumstance adversely affects the income of all individuals in Thailand, as a significant portion of economic value is diverted from the domestic economy.

In the context of China's economic slowdown, particularly following the COVID-19 crisis and the real estate crisis, Chinese consumers have reduced their spending. As a result, Chinese manufacturers are faced with an oversupply of goods that need to be exported, including to countries such as Thailand. China can produce goods at lower costs because of economies of scale, allowing them to flood international markets with cheap products.

The primary cause of the current flood of Chinese products is that they may not be competing fairly. A significant concern among stakeholders is that Chinese goods are cheaper than those produced in other countries because the Chinese government provides subsidies to cover production costs, transportation, and other expenses. This enables manufacturers to export products at prices below their actual production costs. Additionally, the Chinese government may not employ subsidizing measures to support its manufacturers. Chinese manufacturers also engage in "market dumping," a strategy in which they sell products at a loss to capture customers from competitors. Large companies capable of sustaining losses for extended periods can drive smaller competitors out of the market, eventually becoming dominant players. This approach unfairly eliminates competition, rather than competing by improving products and production efficiency, as should be the case. The unfair competition also arises from Thailand's own policies and their enforcement. Products valued at 1,500 baht or less can be imported without paying import duties. The government has allowed many Chinese companies to bypass or exploit legal loopholes, operate without registration, avoid corporate taxes, and do not adhere to regulations or oversight. These businesses can sell products without paying VAT and without going through quality standard assessments, allowing their costs to be lower than Thai businesses that must comply with these requirements.

(3) The depreciation of the Japanese yen

A weaker yen makes Japanese goods, such as automobiles, electronics, and machinery, more affordable for Thai consumers and businesses. This can lower production costs for industries in Thailand that rely on Japanese machinery or components. A depreciating yen may encourage Japanese companies to invest more in Thailand. As the yen weakens, Japanese firms may seek to reduce production costs by expanding operations abroad, including in Thailand, which has long been a major destination for Japanese foreign direct investment (FDI).

However, the Japanese yen's depreciation has resulted in a substantial price divergence between Japanese products sold in Thailand and those sold domestically in Japan. Consequently, Thai consumers are increasingly choosing not to purchase Japanese products from officially authorized distributors in Thailand. Rather, they opt to purchase products directly from Japan or place pre-orders with unregistered small-scale retailers who offer lower prices than official importers. The sales performance of officially imported Japanese products in Thailand, particularly non-durable consumer goods such as food, cosmetics, and household items, has been adversely affected by this trend. Despite the widespread popularity of numerous Japanese products among Thai consumers, their actual sales performance frequently fails to meet expectations upon official importation.

(4) Adjustment of Minimum Wage Rates in 2025

The Ministry of Labor proposed increasing the minimum wage rates for 2025, in accordance with the conclusion of the 22nd pay committee dated December 23, 2024. The plan entails a 7 to 55 baht increase in the daily minimum wage, establishing new rates between 337 and 400 baht per day, in contrast to the prior rates of 330 to 370 baht per day. A pilot project will provide a daily minimum wage of 400 baht in four provinces, Phuket, Chachoengsao, Chonburi, and in Rayong, and one district, Koh Samui in Surat Thani province. Other provinces will progressively implement the revised rates according to a strategy that the Ministry of Labor will elaborate further. This modification will be implemented on January 1, 2025[28].

Although the minimum wage increase is uneven across provinces and delayed, failing to meet the timeline promised during the election campaign by the ruling party, the adjustment, ranging from 7 to 55 baht per day, will slightly raise production costs from the perspective of producers. This may also result in an increase in the cost of living in certain provinces, as the higher labor costs are passed on to other industries and services. Furthermore, raising the minimum wage could disadvantage Thailand in attracting foreign investment when competing with other countries in the region, including Vietnam, Cambodia, or Myanmar, in wage levels. However, aligning the minimum wage with the current cost of living is reasonable. However, the Thai government should support worker upskilling and reskilling initiatives to enable workers to achieve income levels above the minimum wage while fostering new competencies for Thailand that go beyond the dependency on low wages to attract foreign direct investment.

(5) Changes in Thai Consumers

Thai consumers perceive Japanese brands as sincere and honest, providing high-quality and durable products with long life expectancy, high safety standards, and remarkable after-sales services at a premium price point that is still affordable. Automotive, electrical appliances, electronics, household items, clothing, and food are among the categories in which these characteristics are most apparent. This positive image is the result of the distinctive characteristics of each Japanese brand. As a result, the primary consumer target in Thailand for Japanese products has been made up of adults of working age and those with moderate to high incomes over the past several decades. However, the landscape has started to change due to the entry of South Korean and Chinese brands into the market, which provide a diverse range of items and compete in price with Japanese brands. Due to this, numerous Japanese organizations have modified their business strategies in Thailand. These modifications include outsourcing after-sales services to local companies in Thailand, the introduction of products with a diverse range of price points to the domestic market, and the modification of product models to more closely align with the unique requirements of each region.

In addition to competition for market share with products from China and South Korea, rapid technological changes have resulted in a change in Thai consumer behavior, with a greater number of people choosing to shop online rather than visiting physical stores. In addition, this has led to a change in the spending habits of the younger generation, particularly those of Generation Z, compared to previous generations. Generation Z's consumer behavior indicates a strong preference for purchasing products through online channels. Due to their familiarity with technology, more than half of Gen Z consumers prefer e-Commerce platforms. This demographic is inclined to conduct independent online searches for information on products and services and favors e-Commerce over other consumer groups. As a result, it is imperative that businesses guarantee that their websites are user-friendly and offer comprehensive product information, including images, sizes, colors, and prices. Additionally, organizations consistently improve their online purchasing systems, including streamlining the payment process, as these factors have a substantial impact on the purchasing decisions of Gen Z consumers. Generation Z tends to distrust conventional advertising methods, which is why traditional marketing strategies are less effective. Generation Z consumers prioritize product quality as one of their most distinctive attributes. They meticulously evaluate products before making purchasing decisions, as they have easy access to a wealth of online product information. High-quality products are distinguished and have a substantial impact on consumers' purchasing decisions.

Furthermore, the emergence of a new generation of the working-age population and the deterioration of the purchasing power of Thai citizens are significant factors that influence changes in Thai consumer behavior. This has become a significant constraint on their ability to purchase goods and services. Automotive brands with the highest levels of customer satisfaction after-sales service were identified in a survey conducted earlier this year by Differential, a prominent consulting and market research firm recognized for its expertise in the development of customer experience (CX). Toyota, Isuzu, Ford, Honda, Mitsubishi, Mazda, Suzuki, MG, and Nissan comprise these brands. Brands such as BYD, NETA, and Great Wall Motor were emphasized in the context of electric vehicles. Consumers are currently faced with an abundance of information, particularly online. There is a tendency for

algorithms to repeatedly display the same content to users based on their interests, thus restricting their exposure to alternative brands. However, market research can offer consumers more impartial and unbiased information, improving their ability to make well-informed decisions when selecting automotive brands. The replacement cycle of Thai consumers is extended from an average of 7 years to 9 years, as they postpone the purchase of new cars. The primary reasons for vehicle replacement are as follows. Vehicle breakdowns that made their vehicles unusable were cited by 38% of the respondents. 17% of the respondents mentioned changes in lifestyle or vehicle usage requirements. According to 16% of the respondents, the expenses associated with maintenance were excessive. 16% of the respondents indicated that their vehicles had exceeded their designated lifespans. 9% of the respondents said that the design or functionality of other vehicles was more appealing than their current ones. Reaching the vehicle's designated mileage threshold was cited by 4% of respondents [29-30].

However, an analysis of consumer behavior among car owners showed that 48% of those who had previously used Japanese automotive brands expressed loyalty to the same brand, indicating a substantial level of brand loyalty. On the contrary, 46% of the respondents were uncertain and only 5% expressed a desire to switch to a different brand. 28% of Chinese automotive brand users expressed loyalty to their current brand, 63% were uncertain, and 9% expressed an intention to switch brands. Furthermore, Thai consumers' motivations for purchasing automobiles have evolved. It is worth noting that "safety" has become one of the top five factors. The following are the primary factors that influence car purchases: The exterior design and aesthetics were prioritized by 59% of the respondents considering the interior design. 51% of the respondents prioritized the brand. 49% of the respondents. 47% of the respondents evaluated vehicle performance, including engine efficiency and fuel economy. 45% of the safety features were prioritized. The most significant factor that respondents emphasized when asked about the main reasons for adopting electric vehicles (EV) was cost savings. This includes the environmentally friendly benefits of electric vehicles, reduced maintenance costs, and the lower price of electric vehicles compared to European or Japanese brands. In addition, energy costs are reduced.

In summary, Thai consumers continue to prioritize the "unique Japanese value," with a reasonable price particularly in the context of durable goods, where it continues to be a critical factor in their purchasing decisions. Although it may help to sustain sales in the short term by competing in price with Chinese brands, it could be detrimental to Japanese companies in the medium to long term. Consumers may be discouraged from making purchasing decisions due to the fear of overpaying if they act too quickly during prolonged price-cutting battles. Furthermore, it will be essential to implement effective marketing strategies that will allow young Thai consumers who have a high purchasing power to identify and value the "unique Japanese value" of products and services in order to achieve long-term success.

4. Future Prospects for Japanese Companies' Business Development in Thailand

4.1 Opportunities for Growth and Expansion

Japanese companies in Thailand are at a pivotal juncture, poised to capitalize on evolving market trends and Thailand's strategic priorities. Several factors present opportunities for growth:

- Electric Vehicles and Sustainability Initiatives: Although consumer behavior surveys in Thailand suggest that the primary factor influencing the decision to purchase electric vehicles (EVs) is lower pricing, a substantial number of consumers also prioritize energy efficiency and environmental sustainability. However, the exorbitant cost of replacing electric batteries, which can rival the cost of a new electric vehicle, is a significant issue for Chinese electric vehicles. This presents a strategic opportunity for Japanese companies to enhance their market presence, in conjunction with government initiatives to establish Thailand as a regional hub for electric vehicles and the global transition to sustainable mobility. Japanese companies can improve their involvement in sustainable mobility by aligning with Thailand's EV production objectives, particularly under the EV 3.0 and EV 3.5 initiatives, as Thailand strives to establish itself as a regional hub for EVs. To preserve market leadership, it will be imperative to invest in electric vehicle technology and collaborate with Thai authorities to establish electric vehicle infrastructure, including battery production and charging stations. Furthermore, rather than engaging in a price war, Japanese companies should concentrate on their core

strengths, including comprehensive after-sales services and safety standards for EV batteries, both of which are hallmarks of the Japanese brand. For example, the introduction of extended battery warranties to alleviate the primary problem of battery replacement costs could significantly increase brand loyalty among Thai consumers. Japanese companies can establish a strong and distinctive presence in the Thai electric vehicle market by prioritizing safety, reliability, and long-term value.

- Green Growth and BCG Industries: The Thai-promoted bio circular green economic model promoted by Thailand offers a fertile ground for Japanese companies to take advantage of their technological expertise. By investing in renewable energy, advanced manufacturing, and sustainable technologies, Japanese companies can contribute to Thailand's goals of carbon neutrality and foster long-term partnerships.

- Digital Transformation and Industry 4.0: Japan's strong emphasis on robotics, automation, and digital technologies aligns with Thailand's vision of Thailand 4.0. Initiatives such as Mitsubishi Electric's participation in the EEC Automation Park highlight the potential of Japanese companies to drive innovation, train local talent, and create smart manufacturing hubs.

- Strategic Partnerships: The collaboration between Japanese automotive giants, Honda, Nissan and Mitsubishi, Indicates a trend toward consolidation to counter global competition. The establishment of joint ventures in Thailand can improve competitiveness while sharing resources and expertise.

- Healthcare and Aging Society Solutions: As Thailand transitions to an aging society, Japanese companies that specialize in healthcare, medical devices, and eldercare technologies can meet the growing market demands.

4.2 Overcoming Challenges

Although there are opportunities, Japanese companies must navigate several challenges to sustain and expand their operations in Thailand.

- Adapting to Consumer Shifts The rapid rise of e-Commerce and the distinct preferences of Generation Z demand greater digital engagement. Japanese brands must focus on

creating user-friendly online platforms and implementing innovative marketing strategies that resonate with younger, tech-savvy consumers.

- Stiff Competition from Chinese and South Korean Firms: Japanese companies must differentiate themselves through superior quality, after-sales service, and brand trust to maintain their competitive edge. Exploring cost-effective production methods and diversifying product portfolios can also help counteract aggressive price competition.

- Workforce development: Addressing labor shortages and skill mismatches will require greater collaboration with Thai educational institutions to develop a skilled workforce, particularly in high-tech industries such as electric vehicles, automation, and digital manufacturing.

- Economic and Regulatory Environment: Rising minimum wages and competition from neighboring countries such as Vietnam can affect Japan’s cost competitiveness. Strategic investment in value-added sectors and alignment with Thai economic policies will be crucial.

5. Conclusion

From 2023 to 2024, Japanese companies in Thailand faced substantial obstacles in a variety of industries, with the automotive sector being particularly challenging. The influx of competitively priced Chinese products that sparked price wars, the heightened competition from foreign brands entering the Thai market, and weak consumer purchasing power were the causes of these difficulties. It is anticipated that these pressures on Japanese product sales will persist, as Thailand's domestic consumer purchasing power isn't expected to recover significantly in 2025.

Japanese companies should adopt a mid-to-long-term strategy that prioritizes the preservation of their brand's core values in order to adjust to this daunting environment. Japanese craftsmanship and reliability are characterized by a dedication to innovation, exceptional after-sales services, rigorous safety standards, and superior product quality. In addition, it will be imperative to employ digital marketing to more effectively engage with Thai consumers, particularly those who are younger and more tech-savvy, in order to cultivate brand loyalty and expand the

market.

Furthermore, it is imperative that Japanese organizations refrain from participating in price wars, as they have the potential to diminish profitability and brand value. As an alternative, they should concentrate on distinguishing themselves by implementing customized marketing strategies and premium offerings that align with the changing preferences of Thai consumers. Japanese companies can fortify their market position in Thailand and continue to compete in a rapidly evolving market by investing in sustainable product development and improving their value proposition.

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