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Emerging markets set to dominate global automotive production: Responsible Research

(26 July, 2011, Singapore): Responsible Research, the foremost provider of environmental, social and governance (ESG) research and integration solutions for institutional investors in Asia, today released a report indicating that Asia is set to be the growth engine for the automotive industry over the next two decades and that Asian carmakers see electric vehicles as a means to rival their entrenched global peers.

The report, produced for Responsible Research subscribers as part of an ongoing manufacturing and commodities series, predicts the potentially “mind boggling” number of vehicles on Asian roads by the mid 2030s will be tempered by sustainability macro trends related to oil, climate change and congestion.

“While Asian automakers continue to set sights on developed and other emerging markets, the ones that first get their Asian market strategies right are better positioned to benefit,” said report author Jaideep Singh Panwar. “Issues like fuel security and environmental concerns will set the tone for a more complex industry, with more players in the value chain – all of this in the context of many more automakers vying for global standing. This may see some existing global giants of the car industry unable to keep up with the pace of change, and their place at the top being taken instead by emergent auto companies from Asia’s growth regions.”

Opportunities for Asian carmakers – and their investors – include a focus on fuel efficiency, an area in which local companies such as India’s Maruti Suzuki have already established leadership in smaller segments.

Rising oil prices and looming carbon emission restrictions have led China and South Korea to the head of the global pack in supporting development of electric vehicles. However, investors should consider that electric vehicle take-up is predicted to be slow due to range and infrastructure concerns, and that given the Chinese and Indian grids will continue to be dominated by fossil fuels, the carbon saving potential of electric cars is limited over the medium term.

Interestingly for investors in this sector, electric buses may represent a potentially attractive growth story. Fixed routes, travel distances and the possibility of developing shared charging infrastructure mean that electric buses are less subject to the constraints on electric cars.

Investors should watch the human resource constraints carefully in this sector in Asia. Lack of trained talent and rising incidences of union strikes are both risk factors for Asian automakers, as is wage inflation. The industries in China, South Korea and India are each at different potential points of inflection in terms of union management.

In terms of company-level disclosure on ESG factors in the auto sector, as measured by Responsible Research’s proprietary annual benchmark, the Asian Sustainability Rating™ (ASR™), South Korean and Indian companies head the group. The highest rankers – Kia Motors and Mahindra – are in fact among the highest scorers on the ASR™ overall. The scores of the leading automotive companies in Asia were comparable with those of their global counterparts.

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Responsible Research is an independent provider of environment, social and governance (ESG) solutions for global institutional investors. Since 2008 the firm has provided sectoral and thematic research, tools and services for investors who look to analysis of ESG and sustainability both to identify risks to earnings and discover new opportunities. More recently, the firm has expanded its offering to include ESG research at the company level. Analysis focuses on material ESG factors, which change according to industry and market. Responsible Research provides knowledge of important regulatory landscapes in Asia, along with a fresh perspective on operational and sectoral issues.

The Asian Sustainability Rating™

The Asian Sustainability Rating (ASR™) is Responsible Research's market-leading proprietary benchmarking tool. It ranks a universe of over 750 (and climbing) listed Asian companies across 30 sectors according to their levels of ESG disclosure on an annual basis.

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