

Supplier Selection in the Thai Automotive Industry

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Abstract

This paper uses agglomeration theory to analyze the impact of Thai government policies on the development of the Thai automotive industry and cluster formation in Central and Eastern Thailand. Using logit models and cross-section data on 162 auto-parts suppliers from the Thailand Automotive Directory 2003-2004, the paper examines the effects of economies of scale, technology, distance between suppliers and assembler plants, and nationality on the likelihood of a supplier being selected as a subcontractor. Furthermore, the paper compares the role of these factors for different types of assemblers – Japanese and American, automobile and motorcycle. The findings suggest that scale of production is a dominant factor while there is no significant preference for suppliers of the same nationality as the assembler. In addition, assemblers are more likely to choose parts makers located in close proximity as their subcontractors, as the agglomeration theory suggests. Finally, the comparison of supplier selection criteria for different types of assemblers shows that there exists commonalities in valuing economies of scale while the automobile assemblers is the group that mostly concern technological level of suppliers.