

PASCN Discussion Paper No. 98-14

**APEC Early Voluntary Sectoral
Liberalization of the Automotive Sector**

Rodrigo Romea, Jr. and Jose Godofredo Arturo Carandang



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APEC Early Voluntary Sectoral Liberalization of the Automotive Industry¹

**Rodrigo Romea
Jose Godofredo Arturo Carandang**

Abstract

Early liberalization of the automotive industry within APEC was proposed by the USA. With automobiles comprising approximately 8 percent of global exports in 1995, of which 45 percent originate from the APEC region.² The industry is easily identified as one of the sectors that could greatly benefit from trade-promoting policies among within APEC.

The long-term benefits of the EVSL Program on the automotive industry were evident to all the industry participants who took part in the consultation. They however, unanimously feel that the current pace of liberalization being undertaken in the ASEAN is already quick; and that the setting of even earlier targets for the removal of existing trade barriers will be detrimental to the local industry.

¹ The views expressed herein do not necessarily represent the official views of the Philippine government in general, and/or the WTO/AFTA Advisory Commission in particular. This industry paper was prepared to provide some basic or background information; hence, in no way it is exhaustive. The intent is to offer the initial set of information for discussion and in the process, elicit the ideas that could be helpful in formulating the appropriate strategies in the development of this industry sector.

This industry paper is one of the 15 papers generated under the "APEC Early Voluntary Sectoral Liberalization" project which was jointly funded by the WTO/AFTA Commission and the Philippine APEC Study Center Network (PASCN) in furtherance of the general objective of undertaking consensus building activities and other necessary measures to promote the Philippines as a competitive player in the global economy.

² From the EVSL proposal paper.

APEC Early Voluntary Sectoral Liberalization of the Automotive Industry

Rodrigo A. Romea, Jr. and Jose Godofredo Arturo D. Carandang¹

At the fourth APEC Economic Leaders' Meeting (AELM) in Subic in November 1996, the Economic Leaders instructed their respective Trade Ministers to "identify sectors where early voluntary sectoral liberalization (EVSL) would have a positive impact on trade, investment and economic growth in the individual APEC economies as well as in the region."

In 1997, the APEC Trade Ministers identified 15 sectors for the EVSL, the list of which was endorsed during the fifth AELM in Canada. Nine of the fifteen sectors were scheduled to be finalized in June 1998 with a view for implementation beginning in 1999 while the EVSL of the remaining six sectors, which includes the automotive industry, was to be assessed and reviewed by the Ministers in June 1998 and their findings would be submitted during the AELM in November 1998 in Malaysia.

Objective and Structure of the Paper

The objective of this paper is to define the Philippine position and strategy in the APEC EVSL program to enable the country to maximize the benefits it could get from the EVSL initiative. The position was drawn up through consultations with the representatives of the concerned industry associations.

This paper also tackles an overview of the Philippine Automotive Industry – a brief historical account of relevant developments, its strengths and weaknesses, and the current issues currently hounding it. Finally, the paper gives the recommendations of the authors on the specific measures being proposed under the APEC EVSL program.

Motive for Automotive Industry's Inclusion in the EVSL Program²

Automotive exports account for 11 percent of the APEC region's total exports. In 1995, Global automotive exports totalled over US\$500 B, approximately 8 percent of which was with APEC member economies accounting for US\$228 B, or approximately 45 percent. In the same year, total motor vehicle sales and production in APEC member economies totalled 29.4 million and 31.7 million units respectively, accounting for approximately 57 percent of global sales and 61 percent of global production.

The automotive sector is an important driver in the economic and social development of the Asia Pacific region. However, trade and investment measures in the region continue to foster economic distortions in the sector, including the fragmentation of the region's industry, lack of efficient scales of production and production over-capacity. These and other distortions have led not only to the inefficient use of limited resources but also conflict among APEC economies.

Addressing these issues is in the broad interest of all APEC economies, to enable the automotive sector to become the leader in the continuing economic growth of the region. With the significant backward and forward linkages characteristic of the auto sector as an industrial pillar, trade facilitation and improvement in the efficiency of automotive production in the region as an outcome of this work plan will have a multiplier effect in terms of the beneficial consequences throughout APEC

¹ Industrial Economists of the School of Economics, University of Asia and the Pacific. The authors would like to thank Ms. Lanie Reyes and Ms. Terrie Gutierrez for their assistance.

² From the EVSL Proposal Paper.

economies. The work plan for this sector will also promote greater awareness of the best available safety and environmental technology, thus contributing to the improvement of levels of safety and environmental protection in the APEC region.

Policies Affecting the Philippine Automotive Industry

The first motor vehicle program in the country was the Progressive Motor Vehicle Program (PMVP), created in 1972. The program had three sectors: (1) the Progressive Car Manufacturing Program (PCMP); (2) the Progressive Truck Manufacturing Program (PTMP); and (3) the Progressive Motorcycle Manufacturing Program (PMMP). The PMVP's goal was to develop the local automotive parts manufacturing industry and so to achieve this, the program implemented several anti-importation policies, reasoning that there was a need to protect a then budding industry. Policies implemented were banning of importation of completely-built-up units (CBUs), imposing steep tariffs on automotive parts, limiting the number of motor vehicle assemblers to five, and requiring assemblers to use local parts for their products.

The motor vehicle industry grew and with it, the automotive parts manufacturing industry. While before the program, there were only 32 automotive parts firms, this number ballooned to more than 220 manufacturers supplying the assemblers. When the country was plunged into political chaos in 1983, whatever economic gains achieved in the past were reversed. By 1984 only Mitsubishi and Nissan Motors remained in the program, as Ford, General Motors, and Toyota Delta Motors pulled out of the country.

When President Aquino took office in 1986, the industry was in its death throes. The government replaced the PMVP with the Motor Vehicle Development Program (MVDP), whose thrusts were to develop the motor parts industry, promote technology transfer, generate employment and increase foreign-exchange savings and earnings. The new program automatically replaced PMVP's subsector programs with the Car Development Program (CDP), Commercial Vehicle Development Program (CVDP) and the Motorcycle Development Program (MDP). From 40 motor parts companies, the industry grew to 164 in 1992.

Car Development Program. Pursuant to Executive Order (EO) No. 248, the PCMP was replaced by CDP through Memorandum Order (MO) No. 136. CDP covers the manufacture and assembly of passenger cars with up to 2,800 c.c. engine displacement. This program required all imported passenger cars to be completely-knocked-down (CKD) units and disallowed the importation of new and second-hand CBU units. Assemblers also had to comply with a minimum vehicle local content.

Commercial Vehicle Development Program. With the implementation of Memorandum Order (M.O.) No. 157, the PTMP was replaced by CVDP. The government thought that the economy could be stimulated by better means of transport of goods, services, and persons, and so to achieve this, the commercial vehicle manufacturing industry can play a key role.

The CVDP covered the following vehicle categories: (a) Category I: Asian Utility Vehicles-up to 3,000 kg gross vehicle weight (g.v.w.); (b) Category II: Light Commercial Vehicles - up to 3,000 kg g.v.w; (c) Category III: 3,001 to 6,000 kg g.v.w; (d) Category IV: 6,001 to 18,000 kg g.v.w. and (e) Category V: 18,001 kg and over. The government defined Asian Utility Vehicles (AUVs) as commercial vehicles that are originally Philippine-designed or similarly designed low-cost vehicles with a higher local content than Light Commercial Vehicles (LCVs) and with a gross volume weight (GVW) of up to three tons. The LCV refers to a commercial vehicle other than an AUV that may be

classified as a light truck (e.g. pick-up, delivery van, commuter, etc.) with GVW of up to three tons. Truck refers to a medium or heavy vehicle of more than three tons GVW and used specifically for the transport of goods and services. Bus refers to a vehicle that is generally accepted and specifically designed for the transport of persons.

Motorcycle Development Program. Under EO No. 226 through MO 160, the PMMP was replaced by MDP. MDP covers two-wheeled and three-wheeled motorcycles with no limit to engine displacements. Only existing Board of Investments (BOI)-registered participants of the PMMP are qualified to participate in the MDP under the two categories mentioned above, while new participants may be allowed for three-wheeled motorcycles only.

Memorandum Order 346. In 1996, President Ramos amended the MVDP (M.O. 136, 157, 160) through M.O. 346, under which additional objectives were incorporated. These objectives were to increase exports of automotive parts and components, to support accelerated rural development and to encourage and assist the development of the nonformal automotive industry.

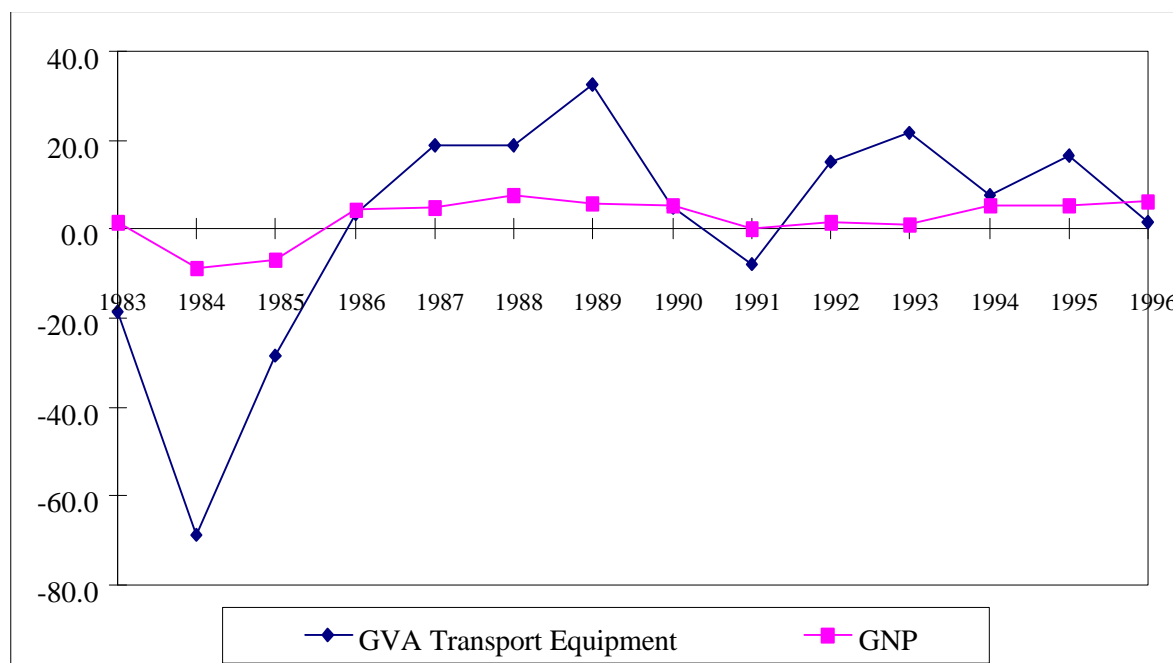
Under MO 346, CBU units were opened to the local LCV and AUV markets. Moreover, participants in categories I and II shall no longer be required to comply with the local content vehicle requirement. By year 2000, this requirement shall be abolished for all categories in line with the Agreement on Trade-Related Aspects of Investment Measures under the General Agreement on Tariff and Trade (GATT).

Prior to the amendment, the automotive industry as a whole was only allowed to import CKD packs for assembly in the country. Most of the CKDs came from Japan and Korea and these consisted of parts and components and sub-assemblies such as bodies and chassises.

Industry Performance

Studies show that the industry is very responsive to movements of income and prices. Based on the figure below, when the Gross National Product (GNP) declined by 1.5 percent in 1983, the gross value-added (GVA) of transport equipment also went down by 18.4 percent. On the other hand, when the GNP went up by 4.6 percent in 1987, GVA shot up by 18.9 percent. For every 1 percent increase in GNP the GVA notches up by more than 2 percent.

Figure 1. GVA Transport Equipment vs. GNP (percent growth)



Source: National Income Accounts (NIA)

Sales Performance. In the last quarter of the century, industry sales managed to grow in double-digit figures despite the boom and bust cycles that characterized the economy. From 1971 to 1996, it grew at an average pace of 11.1 percent and from 1987 to 1996, under the MVDP, it posted an average growth of 39.3 percent, the highest growth registered by the industry. However, the growth slowed down to 28.0 percent from 1992 to 1996 due to the shrinking of the country’s income.

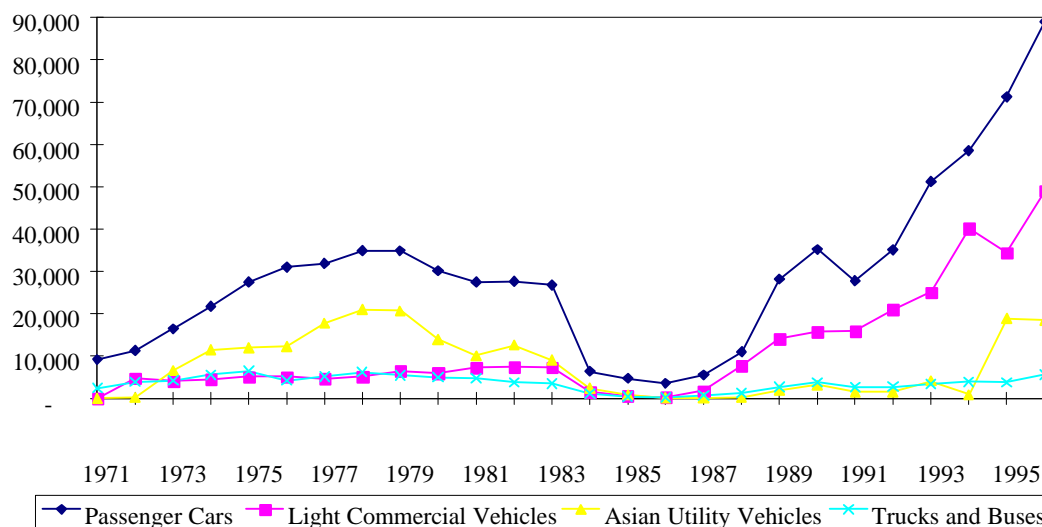
In 1996, industry sales totalled 162,095 units, a growth of 26.5 percent. This was attributed to the exceptional increase in LCV sales, trucks and buses, and passenger cars. Trucks and buses sales skyrocketed by 48.7 percent to 5,583 units, the highest among the product segments in the industry. The next highest registered growth was from LCVs with 42.36 percent followed by passenger cars with 25 percent growth. On the other hand, AUV sales went down by 1.0 percent, a sign of market correction from 1995 when sales leaped by 1973 percent due to the strong demand for AUVs, particularly the Toyota Tamaraw FX, which are used as taxis, and the easy car financing schemes by banks.

Table 1. Compounded Annual Growth Rate (percent), Automotive Industry Sales

Category	1987-96	1992-96	1995-96
Passenger Cars	36.1	26.1	25.0
LCV	44.2	23.7	42.3
AUV	70.4	87.2	(1.2)
Trucks and Buses	26.5	18.9	48.7
Total	39.3	28.0	26.5

Source of Basic Data: CAMPI, NIA

Figure 2. Historical Sales Trend by Product Segments



Source: CAMPI

In the first quarter of 1998, passenger car sales plunged by 47.2 percent to 11,084 units. For LCVs, sales dropped by approximately 25 percent, while AUVs fell by about 47 percent. Trucks and buses sales dropped by almost by 50 percent. However, industry players expect that this slowdown is temporary and that the market will perk up once external disturbances (like currency speculations) die down.

Exports. Most automotive parts are still imported while a few are sourced locally. Local parts include windshields, tempered glass, wiring harness, horns, rubber moldings, exhaust systems, tires, magwheels, batteries, upholstery and carpets, radiators, airconditioners, insulations, etc. Their contribution to automotive exports in 1995 and 1996 are given in the following table:

Table 2. Major RP Exports of Automotive Parts/Accessories.
FOB Value in US \$ 000

	1996	percent SHARE	1995	percent SHARE	Growth Rate 1995-96
1. Wiring Harness	469,260	57.07	442,042	58.47	6.16
2. ABS Controls	129,089	15.7	85,360	11.29	51.23
3. Gear Boxes (Transmission)	85,779	10.43	94,807	12.54	-9.52
4. Car Stereos	51,581	6.27	76,955	10.18	-32.97
5. Body Parts/Other Parts/	33,576	4.08	12,954	1.71	159.19
6. Alloy Wheels, Parts/Access	15,492	1.88	11,546	1.53	34.18
7. Car Speakers	14,698	1.79	10,173	1.35	44.48
8. Auto Batteries	8,654	1.05	9,212	1.22	-6.06
9. V-Belts	4,282	0.52	3,728	0.49	14.86
10. Radiators	3,448	0.42	3,191	0.42	8.05
11. Lights & Signals	1,302	0.16	1,150	0.15	13.22
12. Silencer/Exhaust System	1,147	0.14	720	0.1	59.31
13. Parts of Crane Trucks	907	0.11	1,474	0.19	-38.47
14. Oil/Fuel/Air Filters	1,349	0.16	1,748	0.23	-22.83

15. Tires	394	0.05	786	0.1	-49.87
16. Seats	224	0.03	69	0.01	224.64
17. Bumper/Parts	136	0.02	10	0	1260.00
18. Axles/Wheels/Parts	197	0.02	0	0	Na
19. Steering Wheels/Column	81	0.01	0	0	Na
20. Clutches	43	0.01	50	0.01	-14.00
21. Shock Absorbers/Parts	36	0	0	0	Na
22. Safety Glass	38	0	28	0	35.71
23.Others	493	0.06	51	0.01	866.67
TOTAL	822,206	100	756,054	100	8.75

Source: MVPMAP

In 1996, total exports of Road Vehicles (code 78) reached US\$315M, up by 32 percent from the previous year's level of US\$238M. About 85 percent of the total receipts came from parts and accessories amounting to US\$269M or an increase of 29 percent from the previous year's post. Bulk of these products was shipped to Germany (US\$93M) and Thailand (US\$57M). One will notice the discrepancy in these figures with those on the table. This can be attributed to the classification of some major articles like wiring harnesses under another Product Code.

Table 3. Road Vehicle Exports (in FOB Thousand US Dollars)

	1994	1995	1996
Motor Cars & others for Transport of Persons	279.8	2,464.3	230.1
Motor Vehicles for Goods and Special Purpose	453.2	162.7	12.4
Road Motor Vehicles, NES	654.6	2,411.6	2,492.7
Parts & Accessories	165,691.7	208,565.6	269,646.7
Motorcycles & Cycles; Invalid Carriages	12,707.9	24,439.2	38,015.8
Trailers & Semi-trailer; Transport Container	397.4	343.5	4,733.9
Grand Total	180,184.7	238,386.9	315,131.6

Source: Foreign Trade Statistics

Imports. Imported parts for motor vehicle assembly operations include engines, chassis, transmissions, panels, fuel tanks, axles, headlights, break pads, and dashboards from Taiwan, Japan, and Korea. The total import bill reached US\$1.9B in 1996, a growth of 23 percent from 1995's US\$1.5B. A big portion of it came from motor cars and other vehicles for the transport of persons accounting for 42 percent share of the total while the rest share 15 to 16 percent, with exception of trailers and transport container. Almost all of the vehicles and parts were imported in Japan.

The domestic car market in the Philippines is largely import dependent with the local content almost not playing a significant factor in the computation of the value added in the economy's income. Although local content requirement is currently set at 45 percent, this already includes the cost of assembly.

The importation of motor cars used for transporting persons has been growing at an annual average rate of 28.2 percent from the period 1992-96 while 42.5 percent from the period 1987-96.

Table 4. Road Vehicle Imports (CIF Value in Million US Dollars)

	<u>1994</u>	<u>1995</u>	<u>1996</u>
Motor Cars & others for Transport of Persons	541.0	694.9	788.7
Motor Vehicles for Goods and Special Purpose	193.7	251.1	281.7
Road Motor Vehicles, NES	37.7	139.9	293.1
Parts & Accessories	202.9	276.9	296.1
Motorcycles & Cycles; Invalid Carriages	112.6	138.2	182.6
Trailers & Semi-trailer; Transport Container	9.1	15.9	22.2
Grand Total	1,096.9	1,516.9	1,864.4

Source: Foreign Trade Statistics

Table 5. Import Value and Compounded Annual Growth Rate, Motor Vehicles and Parts for the Transport of Persons

	CIF, US\$		CAGR (percent)
1980	71,839,853	1980-96	16.2
1987	32,582,182	1987-96	42.5
1992	291,607,128	1992-96	28.2
1995	694,860,211	1995-96	13.5
1996	788,711,345		

Source: Foreign Trade Statistics

Overall, imports and exports of automotive products have been increasing since 1991 (See Table 6). Trade with APEC countries has been the greater bulk of these figures but it seems that this has been decreasing since 1994 for exports and since 1993 for imports. Their values and the shares of APEC and those of the major trading partners of the Philippines are given in Table 7.

Table 6. Value of RP Automotive Trade in million US\$

	EXPORTS			IMPORTS		
	Total	APEC	non-APEC	Total	APEC	Non-APEC
1991	222.1	215.4	6.7	470.3	421.8	48.5
1992	324.3	310.5	13.8	590.9	543.0	48.0
1993	405.6	392.9	12.7	848.0	793.0	54.9
1994	608.5	564.1	44.5	1,031.2	925.1	106.0
1995	680.4	585.1	95.4	1,413.8	1,243.4	170.3
1996	784.4	654.9	129.4	1,776.3	1,511.9	264.3

Source: Foreign Trade Statistics

Table 7. Share of APEC Countries in RP Automotive Trade in percent

	EXPORTS		IMPORTS	
	APEC	non- APEC	APEC	non-APEC
1991	96.97	3.03	89.69	10.31
1992	95.74	4.26	91.88	8.12
1993	96.87	3.13	93.53	6.47
1994	92.69	7.31	89.71	10.29
1995	85.98	14.02	87.95	12.05
1996	83.50	16.50	85.12	14.88

Source: Foreign Trade Statistics

Table 8. Share of Major Trading Partners in RP Automotive Trade in percent

	EXPORTS			IMPORTS		
	Japan	Thailand	USA	Japan	Korea	USA
1991	44.98	4.37	45.54	76.80	4.77	5.26
1992	36.74	3.29	54.61	86.04	1.66	3.75
1993	26.80	7.30	61.18	86.44	2.19	4.63
1994	22.92	8.52	58.34	81.41	4.23	4.02
1995	29.48	9.66	42.43	76.83	5.95	5.02
1996	35.80	8.05	34.82	69.30	10.60	5.04

Source: Foreign Trade Statistics

Linkages. The motor vehicle industry has extensive linkages with industries such as basic metal, mining and quarrying, motor vehicle parts and accessories, chemicals and chemical products, petroleum, rubber and plastic products, and other transport equipment. Most companies in these support industries are joint ventures between local and Japanese companies and their performance depends much on the growth of the motor vehicle industry.

Assemblers of CKDs have the strongest linkages with the support industries than semi-knocked-down (SKD) and CBU vehicles for two reasons. One, government requires that assembled vehicles contain locally made parts. Two, assemblers buy locally made parts instead of imported ones since local prices are competitive because of tariffs slapped on imports.

Investments. From 1990 to 1997, more than P9.4 billion (B) investments in the automotive industry were registered with the BOI, generating over 14,622 additional jobs. Majority was for motor vehicle parts, accessories, and components. The biggest was for the assembly of transmissions, amounting to P3.5B and generating 331 jobs. The second biggest investment was in the manufacture of wiring harnesses, amounting to P1.7B and creating 5,571 jobs.

Table 9. BOI Registered Investments (P '000), 1990-1997

Production Activity	Project Cost	Employment
Air-conditioning parts & components	405,684	1,468
Aluminum alloy wheels	575,926	1,403
Batteries, plates, electrolyte, separators	232,989	826
Exhaust system	106,589	207
Filters	24,253	97
Iron castings	60,900	273
Leaf spring	462,656	820
Metal pressed parts	190,635	95
Radiators	745,506	262
Recapped & retreated tires	343,789	439
Wiring harness	1,672,653	5,571
Engines, axles, transmission parts	3,547,857	331
Others	1,068,173	2,830

Source: BOI

Since 1993, members of the MVDP, on the other hand, have registered equity investments worth more than P290 million. However, issues like used car import liberalization, currency and political stabilization are still to be addressed before the automotive industry can decide if additional equity investments are needed in the country.

Table 10. Foreign Equity Investments Approved (P000)

Year	Amount (P000)
1992	-
1993	204,331
1994	-
1995	1,239
1996	84,486
Total	290,056

Source: BOI

Summary of Strengths and Weaknesses

Strengths

1. Highly trained manpower. The country's labor force is highly literate, trainable, and still relatively cheaper than those of developed countries and tiger economies in the ASEAN region.
2. Big market potential. Vehicle ownership is still one of the lowest in the ASEAN region. Thailand, which has roughly the same population as the Philippines, sells almost three times as many vehicles.
3. Has a definite niche in the market. Industry participants see the Asian Utility Vehicle (AUV) as a product worth developing as it has great export potential.

Weaknesses

1. No economies of scale at the moment. Automotive manufacturing is a capital-intensive undertaking. It needs a big market to be able to survive but which is not the case in the local market at present.
2. Dependence on financing schemes. A good bulk of purchases of motor vehicles are done through financing since their prices are more expensive than those in other countries. Hence, sales are very vulnerable to high interest rates.
3. Most parts producers are small and medium enterprises (SMEs). Of the approximately 170 producers, 80 percent are considered SMEs, i.e. with a capitalization of less than US\$140,000. These producers do not have the advanced technology to match the quality of parts produced in other countries.
4. Most parts are still imported. Except for the AUV, the percentage of local components is still below 50 percent. This makes the industry very vulnerable to the volatility of the foreign exchange market.

Major Issues of Concern for the Industry

1. Changes in the policy environment. These include recent policy changes in tariffs, excise tax rates, local content requirements, importation of used vehicles, etc. Participants have been revising their plans in response to these policy changes and so have been inhibited from making long term plans.
2. Tariff distortions. Tariffs should be set in such a way that raw materials have the lowest rates, followed by those of CKD parts, and the highest rates should be on CBUs. The adjustment of the tariffs on one group necessitates the adjustment of other tariffs to maintain the ideal tariff differentials.

3. Importation of used cars. The market has severely contracted due to the Asian Financial Crisis. With the present tariff rate on CBUs, locally produced vehicles cannot compete with cheap second hand cars.
4. Extension of Trade Related Aspects of Investments Measures (TRIMS) from 2000 to 2005. The TRIMS agreement under the General Agreement on Tariffs and Trade (GATT) is due to expire by year 2000. This means that the government cannot impose Foreign Exchange Credits and Minimum Local Content after then. The industry would like this agreement extended until 2005.
5. Unequal/Unfair treatment of all Development Program participants. Participants in the Car Development Program are questioning the incentives being offered to the comebacking Ford Motor Company, saying that everyone should be allowed to compete on equal footing. In the same vein, participants of the MDP say that they are at a disadvantage since they can only import under a higher tariff category whereas their non-Program competitors can do so under a lower tariff category.

Likely Impact of EVSL on the Philippine Automotive Industry

The most obvious and most feared consequence of an early liberalization of the automotive industry is an over-crowded market. This is expected as established automotive companies desiring to expand offshore operations will be able to set up shop freely. The positive effect of this heightened competition is that manufacturers will be forced to produce lower priced but high quality products to the advantage of the consumer. On the other hand, this will also have the undesired effect of having some local companies bowing out of the market should they be unable to keep in step with the competition.

The expected benefit of liberalization is likewise the easier access to high quality but low priced raw materials and other inputs from other APEC economies. This could lead to better profit margins, more competitive products, and more sales for the industry as sales seem to be price elastic.

A more liberalized automotive industry will, in the long run, promote better terms of trade with other APEC economies with regard to motor vehicles and vehicle parts. Such terms of trade will undoubtedly bring about technology transfer from more advanced APEC economies such as the US, Japan and South Korea. It should also lead to a rationalization and harmonization of standards on safety and environmental protection.

Proposed EVSL Action Plan for the Automotive Industry

Specific Measures

A. Identification and Liberalization of Trade and Investment Measures

The first things that come to mind when one talks of liberalization is, undoubtedly, tariff reduction and deregulation – the elimination of restrictions for entry. Both are current issues in the Philippine Automotive Industry and will be tackled in the succeeding sections.

Tariff Reduction

Parts and components producers are one in saying that tariffs on their products should not be reduced earlier than what is stipulated in the Tariff Reduction Program (TRP). In fact, they are battling

for an even slower tariff reduction program, saying that our tariffs are already low compared with our ASEAN neighbors so that a further reduction is a step backward in levelling the playing field.

Another reason for the clamor is the imbalance that such a tariff reduction can create. Parts and components producers cited a recent policy of the government (EO no. 264) reducing tariffs on completely knocked down (CKD) packs from 20 percent to 30 percent. Since the tariffs on their raw materials remained at 10 percent to 30 percent, this put them at a disadvantage against their foreign competitors. The compromise done was to bring this up to 7 percent through EO no. 465, but this, they say, is still low compared to the tariffs they pay for their raw materials.

Some of the parts and components producers actually suggested accelerated tariff reduction on some raw materials not locally produced. For example, the Tire Manufacturers Association of the Philippines (TMAP) is proposing that tariffs on synthetic rubber, natural rubber, nylon cord, beadwire, steelcord, Resorcinol/Rosnic, Phenylethylamine, Benzothiazole, Rosin, tar, rubber accelerator, compound stabilizer, plasticizer, non-plasticized cellulose, clay, and paraffin wax be reduced to 0 percent right away since there are no local producers of these raw materials.

Contrary to the parts and components producers, assemblers of motor vehicles are against the lowering of tariffs on completely built up units (CBUs) relative to CKD tariffs. They say that they need a difference of at least 37 percentage points between CKD and CBU tariffs to be able to remain in business as assemblers. Otherwise, it would be much cheaper to import assembled cars, thus killing also the local parts producers.

The only automotive items recommended for earlier liberalization are CKD engine parts for motorcycles, as there are no current nor prospective local suppliers of these parts and the tariffs on CBU motorcycles of an engine displacement of 1,000 cc or higher, since there are no assemblers of these bigger motorcycles. However, the participants of the Motorcycle Development Program think that they may not be able to avail of the lower tariff on engine parts if it is only allowed under HS Code 8407 yet they are constrained to import under HS Code 8711. The participants again, however, are wary that setting a lower tariff for these products alone could be abused and pave the way for misdeclared items.

Elimination of Non-Tariff Measures (NTMs)

Local content requirements. Parts producers are clamoring for a gradual increase in the local content requirement of all vehicles. They say they will even work for an exemption from our WTO commitment to abolish this NTM by 2004. They think this is vital to the survival of the Parts and Components industry that may not still be globally competitive by 2004. They are proposing the following schedule:

Table 11. Proposed Schedule of Local Content Requirement (percent)

YEAR	CARS	AUV
1998	45	60
1999	48	60
2000	50	70
2001	52	70
2002	55	80
2003	58	80
2004	60	80
2005	62	80

Source: MVPMAP

After year 2005, the MVPMAP is uncertain whether they will be asking for another extension of the local content requirement.

Foreign Exchange Credits. Assemblers are required to generate, through exports, a percentage of their foreign exchange requirements for the importation of CKD parts. Parts producers would like this NTM moderately increasing as assemblers will be constrained to consider making use of more locally sourced parts or to increase their foreign exchange credits. They are proposing the following:

Table 12. Proposed Schedule of Foreign Exchange Earnings (FEE) in percent

YEAR	Required FEE
1998	50
1999	55
2000	60
2001	65
2002	67
2003	70
2004	72
2005	74

Source: MVPMAP

Limits on Number of Program Participants. Assemblers are against the opening of the programs to more participants citing the lack of economies of scale at the moment as the main reason. Parts and components producers, on the other hand, welcome the addition of more manufacturers for as long as these will target mainly the export market. This is because they think that the export potential of local parts is good especially if these are made through joint ventures with Original Equipment Manufacturers (OEMs).

Ban on importation of used cars and trucks. All participants would also like this NTM retained until they are able to achieve economies of scale, as locally produced vehicles cannot compete with cheaper second hand cars. The local second hand market is already eating up a share of the automotive market and so allowing imported second hand cars will only worsen the situation. At present, the only items that may be imported as used vehicles are trucks (commercial vehicles of over 6 tons gross vehicle weight).

Ban on right-hand drive vehicles. Participants are also against the lifting of this NTM. Aside from competing with locally produced vehicles, these pose a hazard on the safety of motorists as our road systems and traffic regulations are not suited to these vehicles.

B. Programs to be Implemented by the Government and the Industry

By the Government

Greater Transparency and Unity in the Formulation of Policies. It cannot be denied that the government has been sensitive to the needs of the automotive industry, holding consultations with the participants regarding important policy issues. However, it seems that the policy objective that guides the government’s program for developing the industry is not very clear to them – that is why they perceive that the policy environment is constantly changing. Aside from this, there is also a need for the government to get its act together. The different units like the DOF, NEDA, DTI-BOI, TRM, etc. should send signals to the industry consistent with the unified stand of the government on the issues.

Strict Enforcement of MVDP Guidelines. The Association of Consolidated Automotive Parts Producers of the Philippines, Inc. (ACAPP) says that the latest audit conducted for the Local Content Requirement was for 1994 and that new comers in the People's Car category were allowed to import their CKD needs without fulfilling the requirement. This gives the wrong signal to the participants about the seriousness of government's efforts to help the industry.

By the Industry

Greater Participation in the Consultation Processes. Because they perceive that consultations are mere formalities preceding a done deal, some industry participants hesitate to air out their concerns during meetings. Government needs their inputs, especially in negotiations with other countries on programs that encompass a regional trade bloc such as AFTA and APEC.

Greater Cooperation among Participants. The industry, like the government, should get its act together. Companies should try to pool their resources for some programs that could benefit the entire industry. As in other industries, they could set up an Industry Development Fund or training and testing facilities that would otherwise be very expensive for one or two participants to initiate and maintain. Noteworthy in this regard is the effort of the Motorcycle Development Program Participants Assn., Inc. to consolidate their marketing thrusts to be able to better develop particular segments of their market.

C. Facilitation Measures

Harmonization of Standards and Regulations

In the area of harmonization of automotive standards, two positions were forwarded. ACAPP says that they are not in a position to participate in that initiative because "parts producers are subservient to the standards and regulations established by its OEM customers³." The Philippine Automotive Federation, Inc. (PAFI) on the other hand, says that it is acceptable in principle. However, it sets the condition that the activities in this regard be synchronized with on-going activities of the APEC Transportation Working Group (TPT-WG) and that the setting up of any new body of standards should consider the activities of existing organizations and working groups.

Philippine industry representatives realize that they have to participate in the harmonization of standards sooner or later if they are really serious about targeting the export market. As such, they have been discussing harmonization of Emission and Safety Standards as part of AFTA. It would be to the best interest of all if these were taken into account before any new agreements with a larger trading bloc such as APEC are entered into.

Harmonization of Customs Procedures

In the area of harmonization of customs procedures, everyone subscribed to the idea that it would be to the best interest of the industry to participate in this initiative as the improvement and modernization of customs procedures will help create an environment conducive to investments in the industry. These measures, however, should also respect the present efforts being done in this regard under the AFTA framework since discussion at the Working Group level is already on going.

³ ACAPP position regarding the EVSL Program of APEC. 16 April 1998.

D. Economic and Technical Measures (Ecotech)

Possible Ecotech measures in the automotive industry include the development and implementation of new education and training programs with the aim of improving automotive safety and emissions standards and regulations, traffic control measures, and customs procedures.

As in the case of trade facilitation measures, economic and technical measures should be worked out first within the ASEAN framework before any APEC sponsored initiatives are pursued. An example of such an initiative, the Asean Industrial Cooperation (AICO) Project has not been very promising, as only one local firm has been admitted into the program after almost two years of implementation. Four automotive products manufacturers are still waiting to be accredited despite having been admitted to the Brand-to-Brand Complementation Program of the Asean Industrial Joint Venture Program (AIJV), the AICO's predecessor.

Industry participants, however, welcomed the initiative of having an APEC sponsored consulting firm that could help the different manufacturers meet the requirements of some international quality assurance standards such as ISO 9000. They find the cost of an ISO certificate too expensive, but may be able to afford a special group package, if this can be set.

In the area of technology transfer, the participants welcomed the idea of a technology upgrading program between APEC member countries especially if these come from the advanced automobile producing countries such as Japan. They cited a similar program of the government called the Annual Technology Upgrade Program which does a lot of good to small and medium sized automotive parts suppliers.

Parts and components producers would like to see more measures that would encourage OEMs to tie up with local participants to come up with higher quality parts and components that could eventually compete globally.

In the area of possible training programs, only the SME parts manufacturers could possibly benefit from these, as all the major assemblers are able to avail of manpower training from their mother companies in Japan. This is possibly why some parts producers are for the re-entry of Ford Motor Co. with the promise of developing the parts manufacturing industry.

Summary

The assemblers of motor vehicles and the manufacturers of automotive parts and components that comprise the Philippine Automotive Industry recognize the benefits of an open trade regime. The APEC EVSL program is admittedly a step in this direction. They, however, feel that they should be given more time to improve the quality of their products before being exposed to competition within the APEC region. This is the reason have resisted all proposals for an accelerated reduction of tariffs on their products.

Though not being able to push very specific trade facilitation and Ecotech measures, they also welcome initiatives from other APEC countries in these areas provided that they do not pre-empt similar ongoing initiatives in the ASEAN region.

The current tariff schedules on automotive products and the corresponding tariff reduction schedules follow in the Annex.