What's Driving Economic Integration in Southeast Asia?

Impact on the Automotive Industry

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19 May 2002

Presentation Outline

1. Recent Developments in AFTA
2. AFTA on Automotive Industry
3. Issues and Challenges
4. Research Agenda

Recent Developments in AFTA

1. Tariff Reduction

- Y2002: 0-5% on 42,377 tariff lines (96% of Inclusion List) of ASEAN6
- Y2003: 0-5% on 100% in IL of ASEAN6
  - Y2006: Vietnam
  - Y2008: Laos and Myanmar
  - Y2010: Cambodia
- Y2010: removal of all import duties, including items in SL, for ASEAN6
  - Y2015: new ASEAN members

Recent Developments in AFTA

2. Trade Facilitation

- Harmonization of tariff nomenclature
  - 8-digit level; to be implemented in 2002

- Compatibility of product standards
  - MRA on cosmetics, pharmaceuticals, electrical & electronics eqpt, telecom eqpt

- Streamlining of customs procedures
  - Adoption of WTO Customs Valuation in ASEAN5
  - Full implementation of post clearance audit by 2003

Recent Developments in AFTA

3. ASEAN Investment Area

- Opening up of all industries for investment by 2003 to ASEAN investors; national treatment of ASEAN investors

4. Infrastructure links

- Road networks; telecom interconnection; trans-ASEAN gas pipeline

Importance of AFTA to Automotive Industry

1. Pre-AFTA economic cooperation schemes
   - Brand-to-brand complementation (1988)
   - ASEAN Industrial Cooperation (1996)
     - 66 of 75 approved agreements

2. ASEAN as a regional market and production base

- 500 million population
- Low vehicle to population ratio
  - Average: 136 vehicle per 1,000 persons of driving age
- Potential market: 2.2 million annually

Importance of AFTA to Automotive Industry

3. Threat from China

- 1.2 billion population

- Lower ownership ratio: 15 vehicles per 1,000

- 2x production capacity of ASEAN

- Perception of more rapid pace of reform in China than in ASEAN

Status of AFTA in Automotive Industry

- Average CEPT rate (2002)
  - All goods: 3.2%
  - Auto parts: 5.3%
  - Vehicles: 8.4%

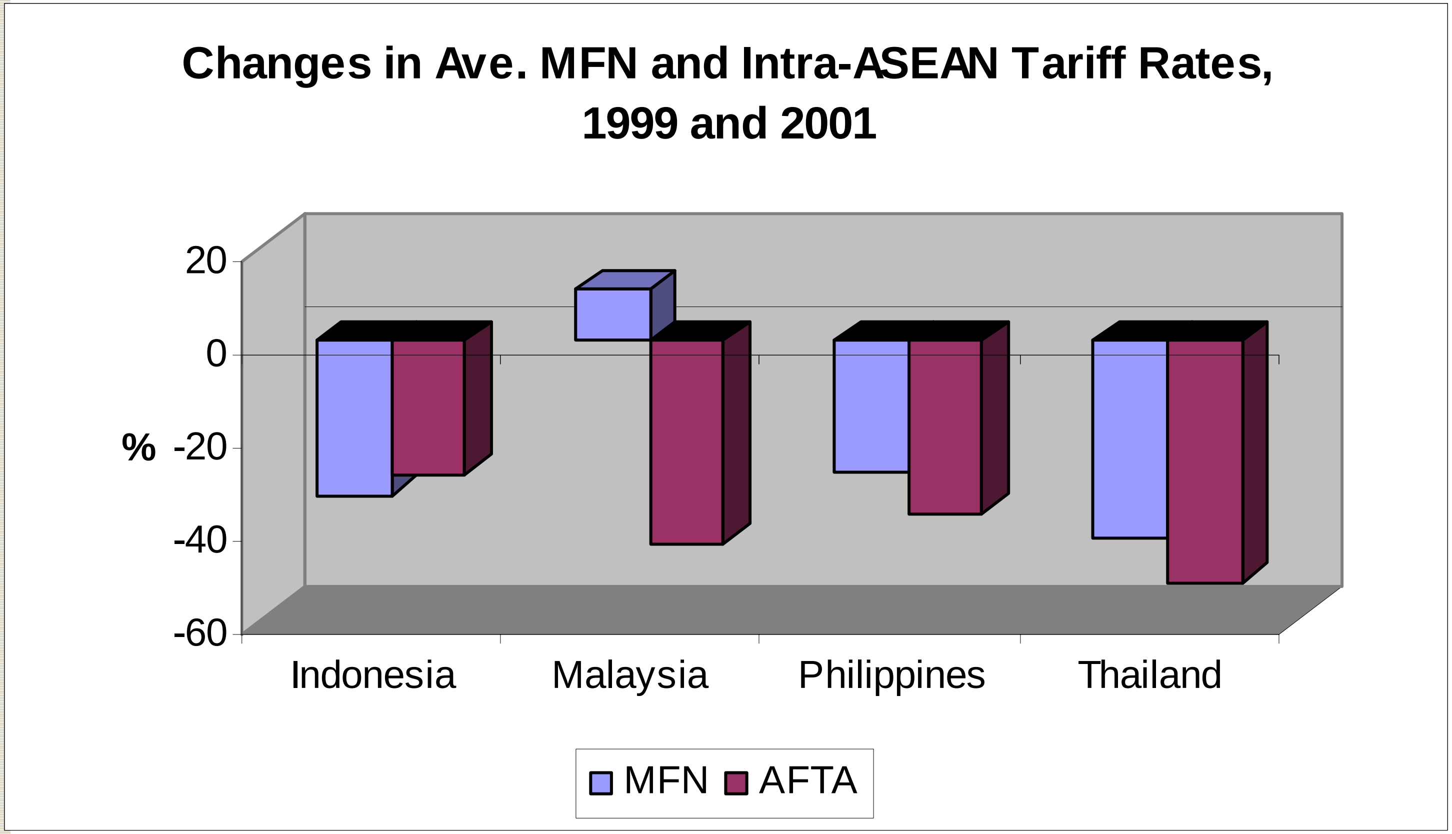
- Y2002: 0-5% duties on 73% of auto items in IL

- Y2003: 0-5% duties on 100% of auto items in IL

- 218 auto items of Malaysia remain in TEL until 2005

Impact of AFTA on Automotive Industry

1. MFN rates fell along with intra-regional tariffs.



Impact of AFTA on Automotive Industry

2. Changing stance on ownership of industrial assets
   - Perodua now under the wing of MNC

3. Restructuring of production $\rightarrow$ inc. efficiency
   - Ford's restructuring

4. Tariff restructuring to remove escalation
   - Elimination of CKD tariff line

Issues and Challenges

1. Malaysia's foot dragging
   - 2005 or 2008?

2. Back-tracking on MFN rates

3. Competing interests of Global manufacturers
   - Common external tariffs vs. acceleration of AFTA

4. Nontariff barriers
   - Local taxes
   - Vehicle and emission standards

Issues and Challenges

5. Expanded AFTA
   - ASEAN-China
   - ASEAN-East Asia
   - ASEAN-CER

6. Bilateral trade agreements
   - Thailand-CER

7. Skepticisms on the benefits of AFTA
   - Low intra-ASEAN trade despite tariff reduction

Research Agenda

1. Compensation Formula
2. Measuring Nontariff Barriers
3. Impact of Bilateral trade agreements on AFTA
4. Establishing the Existence of Trade Complementarities