

## ASEAN Automotive Market Overview

### Four Major Automotive Markets in ASEAN Total Vehicle Sales in Units:

Total Vehicle Sales	2003	2004	2005	2010
Indonesia	357,000	376,000	397,000	530,000
Malaysia	435,000	415,00	505,000	620,000
Philippines	82,000	86,000	93,000	153,000
Thailand	390,000	420,000	468,000	585,000
Total	1,262,000	1,297,000	1,463,000	1,888,000

\*Table Source: Autopolis 2004

### U.S. Imports from ASEAN (in U.S.Dollar Millions)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
\$42,262	\$52,009	\$62,034	\$66,286	\$70,733	\$73,129	\$77,859	\$87,945	\$76,385	\$78,342

Table Source: Department of Commerce

### U.S. Investment Position in ASEAN & China (in U.S.Dollar Millions)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
\$20,517	\$23,603	\$30,517	\$35,601	\$38,836	\$40,423	\$44,306	\$50,409	\$52,447	\$88,463

Table Source: Department of Commerce

### Exports to/from ASEAN

	First Quarter 2002	Second Quarter 2002	Percentage Change
U.S. Exports to ASEAN (in US millions)	\$10,490	\$10692	2
U.S. Imports from ASEAN (in US millions)	\$17,576	\$19,193	9

Table Source: Department of Commerce

### Market Summary

Ten countries currently form the membership of the Association of South East Asian Nations (ASEAN). These countries include Brunei Darussalam, Burma, Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand and Vietnam.

There are five major markets in ASEAN: Thailand, Malaysia, Indonesia, Philippines, Vietnam. Although severely hit by the crisis, Thailand is considered to be the most mature automotive market in ASEAN, and has been chosen by many manufacturers as their “hub” of operations in the region. Since 1995, Vietnam has seen significant investment in automotive production

facilities, although its actual market is limited. Total sales in the ASEAN region have steadily increased since the financial crisis in 1998, and reached a total of 1.5 million in sales for the region in 2003. In 2002, ASEAN represented 10 percent of total Asia-Pacific sales and 2 percent of the world market. The growth forecast percentage change for Gross Domestic Product in 2004 for the region was 3.2 percent, up from 2.8 percent the previous year.

The major markets have bounced back since the crisis and continued to liberalize to promote trade in the region. Thailand is the region's leader in output and export. Malaysia has a large domestic vehicle market, but also has a heavily protected industry with high import tariffs. Indonesia was hardest hit by the financial crisis and its production collapsed. The combination of low sales volume and political instability has been difficult to overcome, and Indonesian sales and production have grown at a slower rate than the other neighboring economies. The Philippines recently modified its automotive laws and opened itself up to greater opportunities for global competition and promotion of its domestic industry. Vietnam has been slower to develop due to governmental control of the industry and harmful legislation.

ASEAN is an investment region and a premier global production base. Member economies are working to enhance ASEAN's industrial edge and maintain its draw to investors by moving to unify into one cohesive market. Auto sector unification is overseen by the ASEAN Automotive Industry Integration plan. Members are liberalizing and facilitating trade in the region creating use of the major automotive growth market. Confidence in the growing market is reflected in the amount of investment made in the region by major car makers. For example, the "Big Three" U.S. manufacturers have all announced planned or recent investments in the region and developed manufacturing and assembling facilities in Thailand, Malaysia, Indonesia, the Philippines, and Vietnam. ASEAN is the U.S.'s third largest overseas export market.

The ASEAN region is dominated by Japanese manufacturers, with over 80 percent market share in most ASEAN markets. U.S. manufacturers began making major investments in the ASEAN region during the 1990's as part of an effort to increase sales in this important region. The Japanese stronghold over the region has been slowly changing, and today both General Motors and Ford have a strong presence.

#### Inter-ASEAN Trade Promotion Initiatives

In 1992, the ASEAN countries agreed to create the ASEAN Free Trade Area (AFTA), under which all internal ASEAN tariffs were lowered to 0-5 percent as applied by the Common Effective Preferential Tariff (CEPT). Under CEPT, the import tariff rate on automotive products with no less than 40 percent ASEAN content is 0-5 percent. Malaysia was granted an extension until 2008 to drop tariffs to 5 percent. Some of the less developed and newer ASEAN members received an extension to lower tariffs. For example, Vietnam is slated to reduce its AFTA tariffs by 2006, Laos and Burma by 2008, and Cambodia by 2010.

AFTA was initiated to eliminate non-tariff measures and quantitative restrictions, harmonize

customs valuation and procedures, and develop harmonized standards regulations. ASEAN has additionally created a framework agreement for intra-regional trade liberalization to encourage investment in the region. AFTA liberalization has worked to stimulate the auto industry growth in the region.

The trade scheme in ASEAN, which had the largest impact on automotive trade within the region is the AICO (ASEAN Industrial Cooperation Scheme). The AICO was created to work on enhancing the region's industrial competitive edge and maintain its appeal for investors as a premier global production base. The Scheme promotes intra-ASEAN industrial activity between manufacturing companies in the region. The AICO, abolishes the localization schemes in each country, as well as the import tariff exemptions and local capital requirements. The AICO provides significant benefits for member economies, and is the tentative measure designed to lead up to the implementation of the CEPT scheme. Under the AICO scheme (established in November 1996), approved companies primarily benefit by being given an immediate head-start to the eventual AFTA 0-5 percent preferential tariff rate for sales of all industrial products. (In the automotive sector this applies to completed vehicles, parts, half-finished goods and material.)

### ASEAN Auto Integration

ASEAN is working toward one market, rationalizing production and its distribution processes, increasing prospect for economies of scale, and reinforcing the economic growth of member economies as announced by the ASEAN leaders in October of 2003. However, due to the relatively small size of the individual markets in the ASEAN region, ASEAN members are taking steps to fully integrate. In order to accomplish this members are working to complete the AFTA integration, and beginning to concentrate in other key automotive areas. The focus of the ASEAN automotive integration plan is on seven areas - intra-ASEAN tariffs, a common external tariff, automotive standards harmonization, automotive taxes, customs valuation and other procedures, investment and an improved rule of origin. Advancement in these areas will help the existing automotive manufacturers succeed, and will also help draw in new automotive investment.

The ASEAN Auto Integration plan has proposed a work schedule, broken down by working group, to endorse future progress over a two year period. To work towards their goals, specific countries have been assigned to chair each working group. While Indonesia is the overall chair of the ASEAN Auto Industry Integration, Malaysia, for example, will lead the AICO and CEPT implementation working group. The ASEAN Secretariat runs the groups on dispute settlement and common fiscal measures. Most ASEAN members are responsible for an Auto Integration working group.

### Trade Growth and Linkages to Auto Industries among Countries

The creation of the AFTA has allowed automotive manufacturers to fulfill their need to produce in large volume and maintain economies of scale. Not only are individual ASEAN markets too

small to sustain domestic automotive manufacturing, but the single countries are not large enough to compete for Foreign Direct Investment (FDI) in the context of exponential growth occurring elsewhere in Asia. Without the full unification of ASEAN member economies into one cohesive market, the Southeast Asian region could face stiff competition from China (or other growing markets like India) and experience market decline.

Nonetheless, the future of the ASEAN auto market is highly dependent upon trade with China and other potential large markets. There are possibly two ways to discern the future of the ASEAN auto market and its competition. One way to create greater competition is by the development of the local industry manufacturing base in the region. This could be done by becoming major parts supplier for non-regional developing markets in order to withstand potential down sizing of investment by foreign manufacturers in the ASEAN region. The second way is to try to maintain market size by creating an attractive environment for foreign investors. Attracting investment can be accomplished by the removal of tariffs, harmonizing standards and taxes, and ensuring that customs procedures transpire in an open and transparent manner.

Either way, the removal of the tariff walls between the members of ASEAN is probably the most important step in unifying the member-countries into a single market. Operating under the AFTA Agreement, ASEAN is well on the way to achieving success in this key area, particularly among the major automotive producing countries in ASEAN.

First and foremost, the major automotive markets must fully complete the tariff phase down, bringing all automotive tariffs (for both vehicles and parts) down to the zero to five percent range. This process should be completed without the addition of any new non-tariff barriers put in place to protect the markets.

Secondly, the ASEAN region can work on enticing FDI by adhering to the AFTA framework and continuing to build one market, a market that is stable and transparent for investors. One possible way to encourage investment is by developing harmonized systems of automotive technical regulations and standards. The members of ASEAN should try to agree to use one system of automotive standards, choosing from among the systems already in place in the global market place.

As matters currently stand, ASEAN members apply a wide variety of taxation methods to the automotive industry, producing a wide range of tax burdens and methodologies. These systems could be harmonized throughout the region.

Lastly, recognizing that the creation of a single market out of many countries is reliant on trade, it is important to ensure the smooth and efficient operation of national customs bureaus.