Intra-African Trade Fair 2021: Automotive Forum

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The development of the auto regional value chain in the ASEAN region

by

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Today's talk

- Overview of ASEAN regional auto production and integration
- How did ASEAN establish establish a regional network?
- Country policies and outcomes *at end if time allows*

The automotive regional value chain in ASEAN

A producer-driven regional value chain

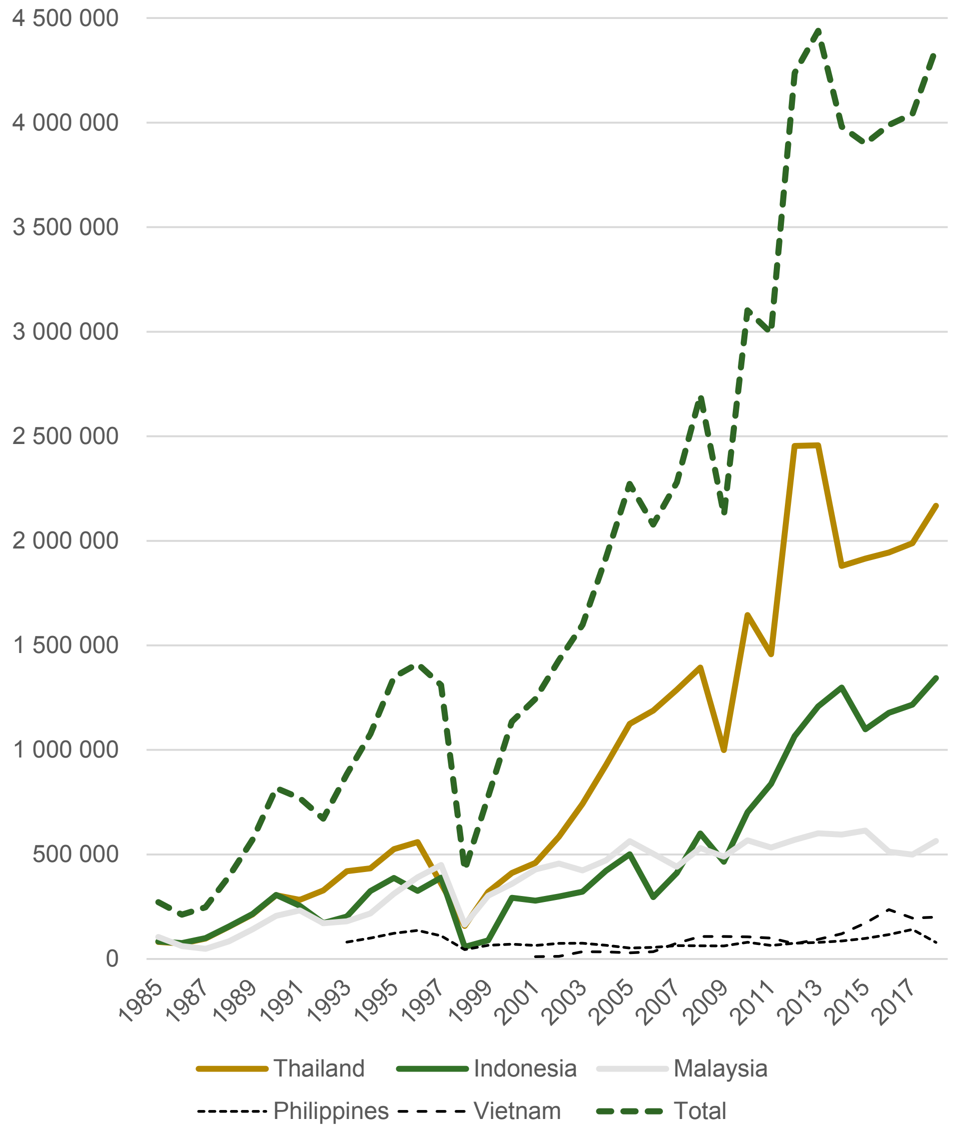
It's also a regional production network

'ASEAN-5' – Thailand, Indonesia, Malaysia, Vietnam and the Philippines – had combined 2018 share of world vehicle production of 4.6%

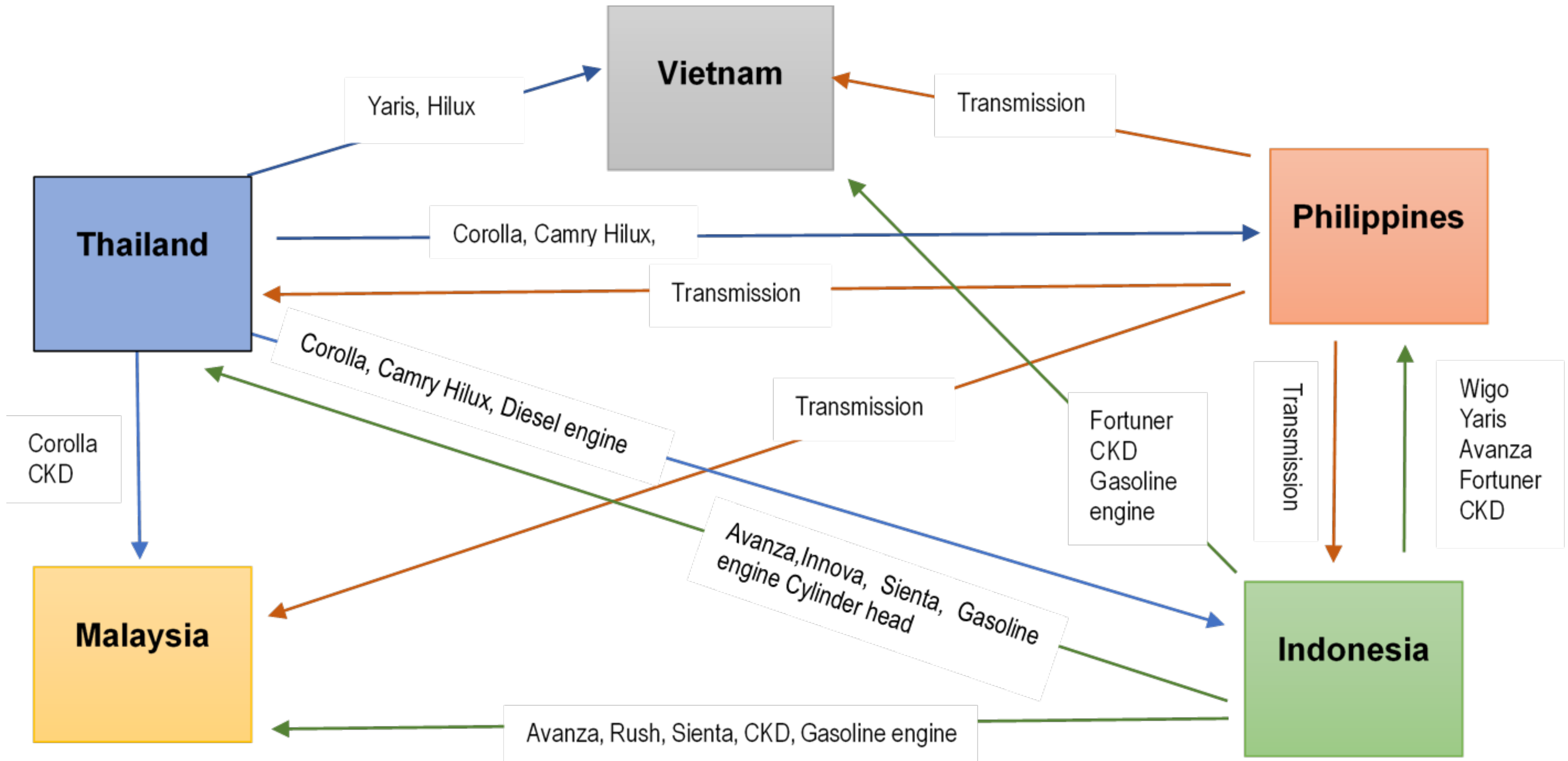
- a little behind Germany's, and larger than that of Mexico

Vehicle Production in ASEAN

Only Thailand and Indonesia are net exporters of vehicles



Toyota’s Complementation Trade in Southeast Asia



Source: Adapted from Fourin (2017:172)

ASEAN regional automotive complementation trade

Regional automotive complementation in ASEAN now conducted under AFTA conditions of tariff-free trade

What were drivers to move towards complementation *before* general trade liberalisation under AFTA?

- when individual ASEAN economies in 1960-80s (and beyond) were doing import substituting industrialisation, using high tariffs (etc) to protect auto (and other) industries

ASEAN – Association of Southeast Asian Nations

- founded 1967 by Singapore, Malaysia, Thailand, Indonesia, Philippines
- Current members: Singapore, Malaysia, Thailand, Indonesia, Philippines, Brunei, and **later joining members** : Cambodia (1999), Laos(1997), Myanmar(1997) and Vietnam (1995) (**CLMV** countries). Also, Timor-Leste wanting to join.

AFTA - ASEAN Free Trade Area – set up in 1993 to gradually establish tariff-free trade between members by 2010, with the later joining members allowed to postpone tariff-free trade until 2018

- Note: **AFTA rules of origin** : goods must have at least 40% ASEAN content to be free of import duty in intra-ASEAN trade

AEC – ASEAN Economic Community, set up 2015 to supersede/supplement AFTA

- Progressive freeing of movement of factors other than goods, but no common external tariff
- Progressive reduction of non-tariff barriers to trade

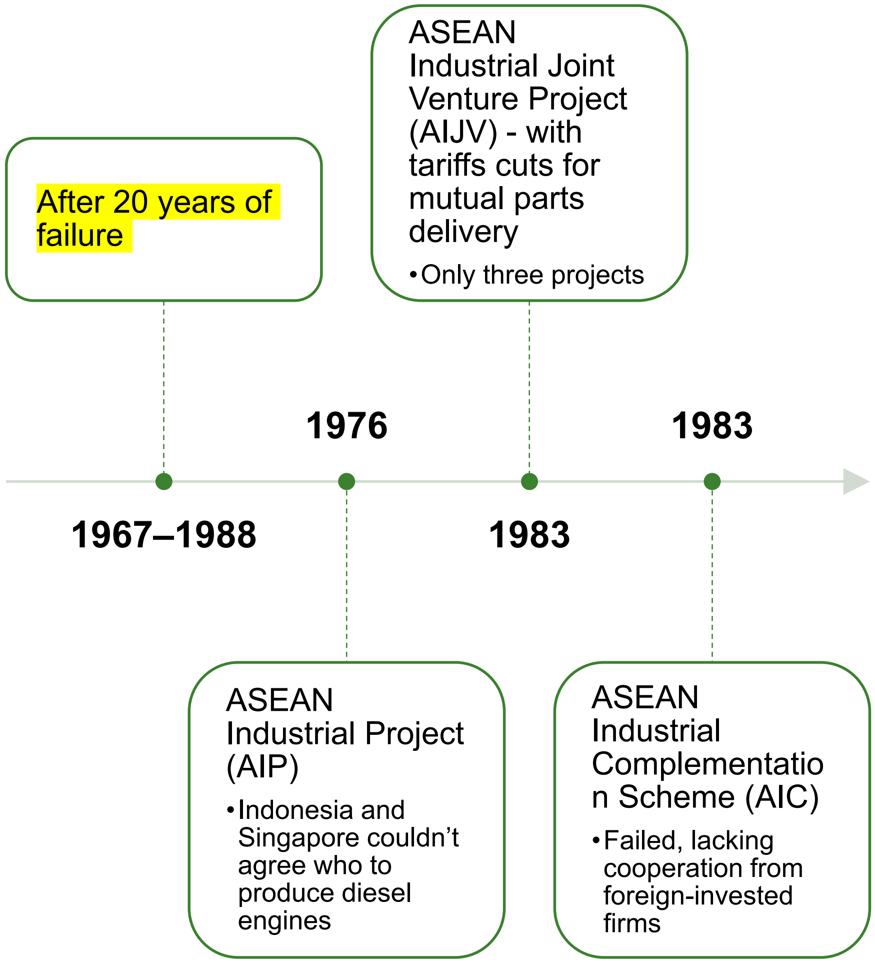
Establishing a regional production network/ complementation in ASEAN

Needed trade liberalization on vehicles and components

Policies must affect decisions of automotive multinational companies (MNCs), eg on location of production of components

- Japanese automotive MNCs already well-established in the region when some individual country trade liberalisation started in 1990s. Now control about 80% of vehicle production in ASEAN (Toyota alone: 23%)
- Japanese multinationals were already keen on establishing regional production networks within ASEAN under various schemes, well before AFTA trade liberalisation (fully established in 2010; and 2018 for late-joiners)

How did ASEAN achieve regional automotive integration?



- **Successful Integration was driven by Japanese automotive MNCs**
- **1988 Brand to Brand Complementation (BBC) scheme initiated by Mitsubishi, in proposal to ASEAN,**
  - then direct negotiations with ASEAN governments
  - for auto assembly companies, with tariff reductions,
  - Consolidate assembly companies’ parts production into particular countries
  - Later joined by six more auto MNCs, including Toyota, Nissan and Honda
- **Active role of Japanese Government**
  - Indonesia joined BBC scheme after discussions with Japanese Ministry of International Trade and Industry to increase Japanese foreign direct investment (FDI) in Indonesia
- **BBC replaced by ASEAN Industrial Cooperation Scheme (AICO) 1996**, with wider coverage (eg to component mega-suppliers, and to electronics) and much bigger tariff cuts – to form **bridge between BBC and AFTA**

Some thoughts on ASEAN regional integration in 1990s relative to Africa today

ASEAN 1990 and Africa today

In constant 2017 PPP US$ indicating real purchasing power

- Morocco similar to Thailand ($6916: $7102)
- Ghana similar to Philippines and Indonesia ($5319: $4232 and $4543)
- South Africa slightly more than Malaysia ($12701: $10306)

- ASEAN vehicle output 1990 probably only slightly more than Africa 2019 (ASEAN1.4 million; Africa, including north Africa, possibly at least a million)

- **Data** from World Bank *World Development Indicators* and OICA.net
- **PPP** (purchasing power parity) indicates how much a US dollar can purchase in different countries

Regional production complementation in ASEAN already underway by 1990, driven by Japanese MNCs

- **with support of Japanese government, and before general tariff-free trade under AFTA in 2000s**

Compare ASEAN in 1990s with Africa today

- **Similarities in real income levels per person between key countries in Africa and ASEAN**
- **Similarities in vehicle production level**

But…

- individual companies in ASEAN each had assembly and some component production in several ASEAN countries already
- Geographical proximity of ASEAN member countries
- Probably better transport links between ASEAN countries than in Africa

Regional Integration: Conclusions on ASEAN

The present extensive ASEAN regional auto value chain/production network :

- Was preceded by successful policies to attract FDI in assembly and components by individual countries -> **highly protected auto industries in each country**
- But partial trade liberalization under complementation schemes started before general ASEAN trade liberalisation under AFTA in 2000s
  - Strongly driven within ASEAN before AFTA by existing companies, mainly Japanese, backed by Japanese government
  - But only after 20 years of prior failure by ASEAN!
  - General trade liberalisation via AFTA facilitated extending the network
- Other countries later drawn into network (eg Cambodia – wiring harnesses for Thailand)
- Some very tentative moves towards electric vehicle production

Industrial Policies and Outcomes in ASEAN-4

Broadly common policies

- **1960s** import-substitution, with high tariff protection, and some import bans, attracting assembly FDI
- **1970s** developing local component supply with Local Content Requirements (LCRs), etc
- **1980s and 1990s** strengthening component localization, FDI attracted
  - **1990s** also some domestic trade liberalisation
- **2000s onwards** trade liberalisation accelerated by WTO ban on LCRs etc, by AFTA/AEC , and Free Trade Agreements

***ASEAN-4**: ASEAN-5 except Vietnam*

So why different outcomes?

Thailand

- Largest domestic market in ASEAN
- *Product champion* policies from 2000s (pick-up trucks, Eco-cars, EVs)
- Encouraging clustering

Indonesia

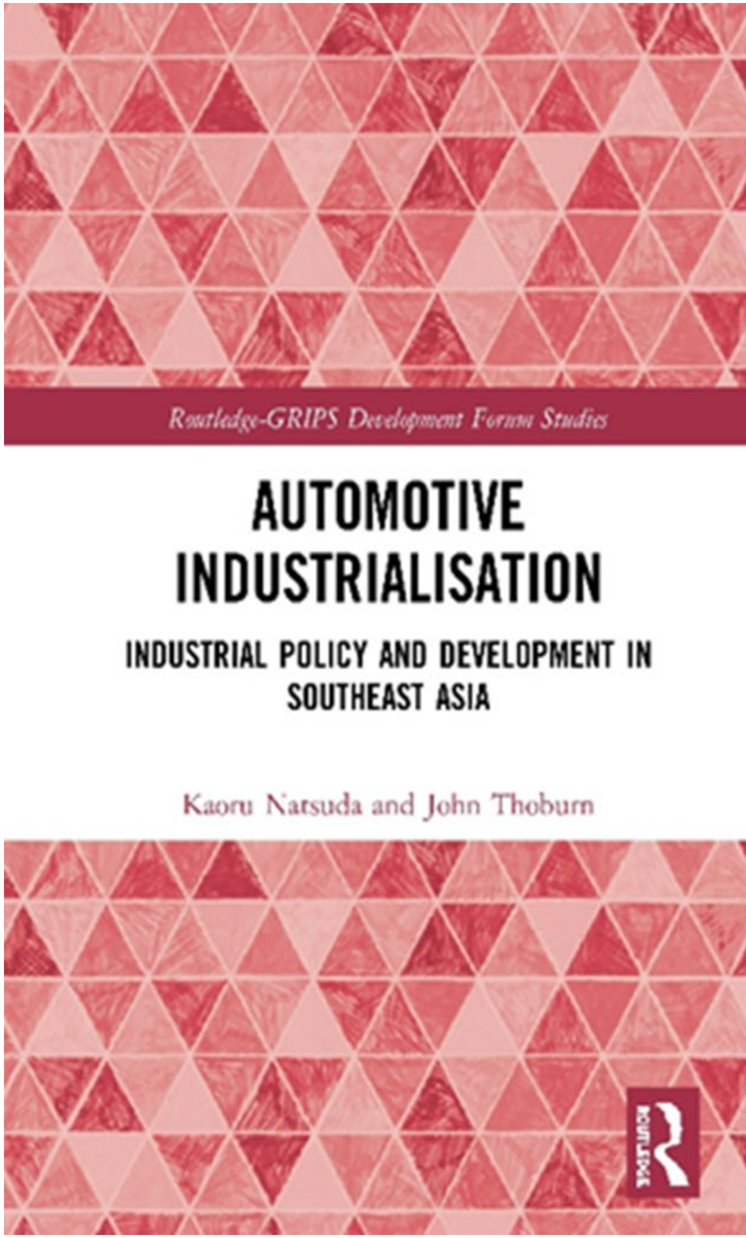
- Rapid market growth from 2000s as $3000 per head threshold reached
- Copying *production champion* idea with Low-Cost-Green-Car

Malaysia

- National car, Proton, problems - positive discrimination policies with no conditions required for protection. 2017 taken over by China's Geely.

Philippines

- Market growth met by imports
- Missed *product champion* opportunity for its Asian Utility Vehicle
- Loser from AFTA trade liberalisation



Main source of information for this talk was recent co-authored book

Automotive Industrialisation: Industrial Policy and Development in Southeast Asia

(Routledge, London, 2021)

by

Kaoru Natsuda and John Thoburn

https://www.routledge.com/Automotive-Industrialisation-Industrial-Policy-and-Development-in-Southeast/Natsuda-Thoburn/p/book/9781138334410