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Lifting The Barriers of Trade in AEC for Automotive

ABC Forum 2014
8th September 2014
### ASEAN region rivals BRIC countries in market size and growth rates

#### GLOBAL SALES

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Sales 2013</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>China</td>
<td>21.9</td>
</tr>
<tr>
<td>2</td>
<td>USA</td>
<td>15.6</td>
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<tr>
<td>3</td>
<td>Japan</td>
<td>5.3</td>
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<tr>
<td>4</td>
<td>Brazil</td>
<td>3.6</td>
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<td>5</td>
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<td>3.5</td>
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<td>6</td>
<td>Germany</td>
<td>3.2</td>
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<tr>
<td>7</td>
<td>India</td>
<td>2.9</td>
</tr>
<tr>
<td>8</td>
<td>Russia</td>
<td>2.8</td>
</tr>
<tr>
<td>9</td>
<td>UK</td>
<td>2.5</td>
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<tr>
<td>10</td>
<td>France</td>
<td>2.2</td>
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#### GLOBAL PRODUCTION

<table>
<thead>
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<th>Rank</th>
<th>Country</th>
<th>Production 2013</th>
</tr>
</thead>
<tbody>
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<tr>
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<td>USA</td>
<td>11.0</td>
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<tr>
<td>3</td>
<td>Japan</td>
<td>9.6</td>
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<td>4</td>
<td>Germany</td>
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<td>5</td>
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<td>3.7</td>
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<tr>
<td>9</td>
<td>Mexico</td>
<td>3.1</td>
</tr>
<tr>
<td>10</td>
<td>Canada</td>
<td>2.4</td>
</tr>
</tbody>
</table>

Figures in million units

Double digit growth rates make the ASEAN region extremely attractive for both investors and automakers, as they look for better returns on their investment.
However, all member countries are at different stages of evolution, that poses a challenge for lifting the barriers.

**Position of ASEAN Countries on Growth Curve**

- **Per Capita GDP (USD)**
  - USD 3K
  - USD 7K
  - USD 10K
  - USD 50K

- **Penetration of Motor Vehicles (Units)**
  - 0
  - 50
  - 100
  - 150
  - 200
  - 250
  - 300
  - 350
  - 400

**Countries**
- Singapore
- Brunei
- Malaysia
- Thailand
- Philippines
- Indonesia
- Vietnam, Laos, Cambodia & Myanmar

**Markets**
- Nearing Stagnation
- Steady Growth
- High Growth
- Markets for tomorrow

**Source:** Frost & Sullivan analysis
The framework comprises 4 key areas of integration:

### Single Market & Production Base
- Free flow of goods
- Free flow of services
- Free flow of investment
- Free flow of capital
- Free flow of skilled labour

### Competitive Economic Region
- Competition Policy
- Consumer Protection
- Intellectual Property Rights
- Infrastructure Development
- Taxation
- E-Commerce

### Equitable Economic Development
- SME Development
- Initiative for ASEAN integration to ensure technical and development cooperation along with integration

### Integration with the Global Economy
- Coherent approach and “ASEAN Centrality” in external economic relations
- Enhanced participation in global supply networks
AEC to Mission: From developing trade to inculcate skills

**Trade**
- Increasing Intra-ASEAN Trade and Investment
  - Custom Cooperation
  - Improvement of Rules of Origin
  - Standards and Conformance
  - Future Investment

**Technology**
- Increasing Technological Capabilities
  - Enhancing ASEAN Car Manufacturing Capability

**Skills**
- Improving Human Resources Capability
  - Training and Skill Certification System

Increasing level of complexity, gestation period and risk
AEC Implementation filled with challenges and multiple scenarios

<table>
<thead>
<tr>
<th>ISSUES</th>
<th>SCENARIOS</th>
<th>COMPLETION</th>
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</thead>
<tbody>
<tr>
<td>Removal of Tariff Barriers</td>
<td>A</td>
<td>Status quo</td>
</tr>
<tr>
<td>Mutual Recognition of Certification</td>
<td>B</td>
<td></td>
</tr>
<tr>
<td>Harmonization of Technical Standards</td>
<td>C</td>
<td>Best case</td>
</tr>
<tr>
<td>Harmonization of Local content Certification &amp; Application of Rules of Origin</td>
<td>D</td>
<td></td>
</tr>
<tr>
<td>Streamlining of Customs Procedure</td>
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<td></td>
</tr>
</tbody>
</table>

While Scenario A is the “worst-case” scenario reflecting status quo, Scenario D defines the most optimistic situation with all issues resolved and complete integration of the regional automotive sector a reality.

SOURCE: Frost & Sullivan Analysis
The interaction between these variables is likely to shape the automotive sector’s future in ASEAN.
However, there are significant challenges along the way, accentuated by the sheer scope and complexities of various outstanding issues ...

- **Existential threat to the local industry culminating in backlash from ‘nationalistic’ agendas**
  - Heavy capital investment made over time
  - Strong linkages to other industries and supply eco-system, and
  - Significant employment ‘impact’

- **The Non Tariff Barriers (NTBs) with significant protectionist effects**
  - Import quotas; anti dumping actions; technical, administrative, health and safety regulations
  - Difficulties in identifying and compiling non-tariff measures
  - Considerable variation between countries

- **Wide Development gap within ASEAN and lack of a supra-national authority**
  - Non-uniform progress and differences in pace of adoption
  - Resource crunch
  - Legal inadequacies
As efforts to integrate progress further, a few key questions merit debate ... 

1. To what extent will member countries be able to set aside Protectionist policies and overcome domestic political agenda in their efforts to promote free trade?

2. Given each country is at different stages of economic development, how effective will be the integration of automotive sector across ASEAN? How is polarization of issues likely to be resolved?

3. With Indonesia and Thailand taking centre stage as producers and markets, what is the future for local manufacturing in Malaysia, Vietnam and the Philippines?

4. With AEC's 2015 implementation timeline closing in, how are key non-tariff barriers likely to get resolved?
Integration of the Automotive Sector under AEC and the Barriers to Trade

Q & A
THANK YOU