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Increasing Globalization and AFTA in 2003: What are the Prospects for the Philippine Automotive Industry?

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Increasing Globalization and AFTA in 2003: What are the Prospects for the Philippine Automotive Industry?

Rafaelita A.M. Aldaba

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Abstract

This paper traces the government policies that have shaped the development of the Philippine automotive industry. It assesses the performance and industry structure that evolved in response to the changing government policies. It also examines the strategies of firms in anticipation of the liberalized environment brought about by AFTA 2003.

For more than two decades, the automotive industry developed under a system of protection, regulation and promotion through high tariffs, local content scheme, and import restrictions. This resulted in an industry that had one of the highest protection levels in the manufacturing sector. The complex package of assistance, however, failed to promote an efficient industry capable of competing internationally. The industry performed poorly and paled in comparison with assemblers in other Southeast Asian countries. Its high cost structure in the mid 1990s tended to price vehicles assembled in the country out of world markets.

Beginning in 1995, the government implemented a series of liberalization and deregulation policies The reforms resulted in the removal of import restrictions on passenger cars as well as in the reduction of tariff duties on CKD parts and on locally manufactured parts. Almost simultaneously, restrictions on the number of models were removed and entry into previously closed vehicle segments was opened up. The local content program is scheduled to be removed in the year 2000, although the government made an appeal to the WTO to extend it for another five years.

The adoption of the AFTA-CEPT scheme would entail intraregional tariffs ranging from zero to five percent. This low and almost uniform tariff structure will substantially reduce effective protection in the industry. It will also allow the entry of relatively cheaper imports which is expected to heighten competition in the industry. To survive, domestic firms must work doubly hard to strengthen their competitiveness in anticipation of the day when no protection will be in place. This would require substantial improvements in the efficiency and productivity of both domestic assemblers and parts manufacturers, reduction in production costs (particularly for raw materials cost which account for a major percentage of motor vehicle costs), and expansion of market size (by exporting or reducing the number of models and plants serving the domestic market) to achieve economies of scale.

For the parts and components sector that is dominated by SMEs, it is necessary that these small and medium scale firms abandon their mom and pop style of operations. For them to develop and improve their products, their access to capital and technology is crucial. While the lack of capital and technology poses a real problem to the sector, it does not justify the continuation of the local content program which has failed in the past to promote the growth and development of SMEs. Moreover, with or without the local content requirement, domestic assemblers would source their parts and components locally, provided, these are available at prices and quality at par with their imported counterparts.

AFTA and the increasing globalization (which occurs through trade and foreign direct investment) of the industry presents both risks and opportunities for us. The opportunities would come from the bigger market and the effects of liberalization combined with the cost advantages that firms in the country may offer. Some sectors in the industry fear that AFTA would precipitate the industry's total demise as domestic firms would not be able

to compete and would no longer engage in CKD assembly. Definitely, there will be short run adjustment costs as the new liberalized environment will affect firms differently. The efficient ones would prosper while those which remain inefficient would fail.

There are several options that the industry faces:

- continue CKD operations, focus on their biggest selling model and export
- engage in CBU operations, that is, import and engage in vehicle trading activities, although one major drawback in considering this option is what to do with their assembly facilities especially those that were newly constructed
- concentrate in manufacturing components and parts to be sold in both the domestic and foreign markets.
- engage in providing vehicle service and repair

Top executives from the top four automotive firms (Toyota, Honda, Mitsubishi, and Nissan) in the country and from newcomer Ford were interviewed for this paper in order to see how they were gearing up for the accelerated implementation of AFTA. The Japanese firms interviewed are still waiting for specific instructions from their parent companies. The firms are aware of the different options that are available to them. They all want to be able to export CBUs and have a fairly good idea of what their overall strategy would most likely be, although the details would have to come from their parent companies. Ford seemed to eye its Philippine plant to supply the small cars (Ford Lynx/Laser) in the region.

Current export figures indicate that the Philippine automotive industry is not yet globally competitive. To survive the five percent tariff regime, domestic assemblers and components manufacturing firms will have to bring down their production costs in line with the costs and quality of others. It is only by operating at an efficient scale and exporting successfully that the automotive industry may be sustainable in the future.

As the international changes continue, the Philippine domestic car industry will have to evolve further if it is to be competitive in a global context. As an initial step, it is necessary to reduce tariff protection and remove the local content program in order to create a competitive domestic market which will put pressure on domestic firms to continue efforts to improve their performance, reduce costs and increase productivity. It is only by doing so that firms will have a chance in competing in a global industry. Delaying the reforms would simply delay the realization of potential benefits. Firms which ask the government to postpone the reforms and retain tariff protection to enable them to compete have very little prospect of exporting successfully. Delaying the reforms is not a guarantee that these firms would become internationally competitive.

Meanwhile, the government must provide stable industry policy so that firms can set their targets and plan their investments in the light of market opportunities. For instance, recent inconsistencies in implementing the rules on SKD importation as well as on excise taxes must be immediately corrected and avoided in the future.

Increasing Globalization and AFTA in 2003: What are the Prospects for the Philippine Automotive Industry?

By

Rafaelita A. M. Aldaba[1]

In response to the increasing globalization of the industry and pressures to improve its competitiveness, the Philippine automotive industry has been undergoing a process of liberalization and deregulation. Beginning in 1990, the industry has been opened up to accommodate new players and introduce new vehicle categories. Towards the mid-1990s, importation of all types of passenger and commercial vehicles was liberalized. Almost simultaneously, restrictions on the number of models were removed and entry into previously closed vehicle segments was opened up. With the implementation of AFTA, tariffs in the industry are scheduled to decline to between 3 to 5 percent by January 2003.

This paper traces the government policies of protection and promotion through tariffs, import bans, and local content scheme which have shaped the development of the industry. It assesses the current performance and the industry structure that evolved in response to the changing government policies. It also examines the strategies of firms in anticipation of the liberalized environment brought about by AFTA 2003.

Section 1: Government Policies on the Philippine Automotive Industry: Protectionism to Liberalization

During the post war period, there was virtually no car industry in the Philippines as all motor vehicles were imported. Local vehicle assembly was encouraged in line with the government's overall implementation of import substitution which governed the country's development strategy during this period. Starting in 1950, the importation of CBU vehicles in commercial scale was prohibited. In 1951, foreign exchange allocation was granted only for the importation of CKD components for assembly. This opened up the assembly phase of the Philippine car industry. Local content was minimal with almost all components imported as part of the KD kit.

In 1960, there were twelve (12) local vehicle firms assembling thirty (30) different brands from Western Europe, the US, Japan, and Australia. In 1968, the number of vehicle assemblers rose to twenty-nine (29) while the number of models increased to sixty (60). However, the relatively small and highly fragmented market did not generate sufficient demand. With an annual demand of about 10,000 units, the automotive assembly industry became increasingly overcrowded. With the dwindling foreign exchange reserves in the late

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1960s, the Central Bank refused to grant foreign exchange reserves to the car industry until a rationalization program was developed. This prompted the Board of Investments (BOI) in 1971 to announce the launching of the country's first Progressive Car Manufacturing Program.

A. Local Content Policies

1973 Progressive Car Manufacturing Program

The country's first motor vehicle manufacturing program was implemented in 1973. This included the Progressive Car Manufacturing Program (PCMP), the Progressive Truck Manufacturing Program (PTMP), and the Progressive Motorcycle Manufacturing Program (PMMP). The motor vehicle program aimed to promote the domestic manufacture of automotive components by requiring assemblers to increase their domestic content from 10 percent in 1973 to 60 percent at the end of 1976. It also aimed to promote horizontal integration in the industry by the creation of new manufacturing activities among small and medium scale enterprises through subcontracting and transfer of technology.

The specific objectives of the program were:

- To achieve foreign currency savings through the domestic manufacture of automotive components
- To establish manufacturing activity in various small and medium sized enterprises for the domestic manufacture of automotive components
- To build up exports of manufactured products in a regional (ASEAN) automotive complementation program.

The program prohibited the importation of completely built up (CBU) vehicles. As an industry rationalization scheme, it limited the number of registered firms allowed to import completely knocked down (CKD) parts to only five assemblers: Francisco/Yutivo/General Motors Philippines, Delta Motor Corporation (Toyota), Ford Philippines Incorporated, Canlubang Automotive Resources Corporation/PAMCOR (Mitsubishi), and DMG, Incorporated/Nissan Motors Philippines.

After five years of operation, the program's failure became evident as its major objectives were only partially fulfilled. Local content remained small and the industry was unable to become a major exporter. The planned horizontal integration never materialized as firms integrated vertically. Car assemblers provided very little support to local parts manufacturers as they engaged in the in-house production of parts or sourced their materials from their affiliated parts and components firms.

With the 1983 economic crisis in the country, foreign exchange regulations were tightened. Since the industry was highly import dependent, this resulted in severe production and integration bottlenecks which led to the near collapse of the industry. By 1984, only two participants remained in the Program as Ford and GM left the country while Toyota's assembler-distributor Delta Motors shut down its operations.

1987 Car Development Program

After the 1983-86 economic recession, the government rationalized the industry and replaced the PCMP with the Car Development Program (CDP). Essentially, the latter was similar to the PCMP; its specific objectives were:

- To develop a viable automotive parts manufacturing industry
- Facilitate technology transfer and development
- Generate employment, make available reasonably priced passenger cars, and earn and save foreign exchange for the country.

The CDP covered the assembly of passenger cars with engine displacement of up to 2,800 cubic centimeters. Assemblers were allowed to import these cars in CKD condition only. The CDP also limited the number of program participants to three: PAMCOR, Nissan, and Toyota Motors. The CDP continued to ban the importation of new and second-hand CBU passenger cars competing with domestic production and to require CDP participants to comply with minimum local content requirement which increased annually.

Table 1: CDP Local Content Requirement, 1988-1990

Year	Local Content Requirement
1988	32.26
1989	36.58
1990	40.00

CDP participants were also expected to earn 50 percent of their foreign exchange requirements for their CKD imports through revenues derived from exports.

Alongside with the CDP, the Commercial Vehicle Development Program (CVDP) was created in 1987 to replace the Progressive Truck Manufacturing Program. The CVDP aimed to promote the local production of commercial vehicles such as Asian Utility Vehicles (AUVs), light commercial vehicles (LCVs), trucks, and replacement parts and components. Its specific objectives were the same as those of the CDP. The CVDP covered the following vehicle categories:

- Category I: AUVs up to 3,000 kilograms gross vehicle weight (GVW)
- Category II: LCVs up to 3000 kilograms GVW
- Category III: Vehicles from 3001 to 6,000 kilograms GVW
- Category IV: Vehicles from 6,001 to 18,000 kilograms GVW.

Asian Utility Vehicles (AUVs) : refer to an originally Philippine-designed or similarly designed low cost light commercial vehicle with a higher local content than LCV and gross weight u to three tons.
Light Commercial Vehicles (LCVs) : refer to a vehicle other than AUV that may be classified as a light truck including pick-up, delivery van, commuter, and four-wheel drive vehicle with gross weight up to three tons.
Trucks: refer to a medium or heavy vehicle of more than three tons gross weight and used specifically for the transport of goods and services.

Buses: refer to vehicles that are designed for the transport of persons.

The CVDP prohibited the importation of CBU vehicles for all the above categories. Category I assemblers were allowed to import AUVs only on a component basis while categories II, III, and IV were allowed to be imported only in a CKD condition. CVDP participants were also required to comply with a minimum vehicle local content as follows:

Table 2: CVDP Local Content Requirement, 1988-1990

CVDP Category	1988	1989	1990
Category I	43.10	51.21	54.86
Category II	35.62	41.69	44.42
Category III	16.83	20.33	21.90
Category IV			
A.6001-9000 kilograms	16.50	19.91	21.44
B.9001-12000 kilograms	17.00	20.64	22.24
C.12001-15000 kilograms	10.69	12.65	13.53
D.15001-18000 kilograms	10.87	12.87	13.77

Participants were required to earn 25 percent of their foreign exchange requirements through generation of export earnings.

1990 People's Car Program

The CDP was amended in 1990 to include the assembly of smaller cars, named as people's car, or passenger cars with gasoline engine displacement of not more than 1200 cc. Initially, the Board of Investments (BOI) imposed a price ceiling of P175,000 on these cars. Towards the last quarter of 1990, this was raised to P220,000, it again went up to P235,400 in the first quarter of 1991, and to P300,000 during the mid-1990s. Like the main CDP participants, PCP assemblers were required to meet the minimum local content usage as follows:

Table 3: PCP Local Content Requirement, 1991-1993

Year	Local Content Requirement
1991	35
1992	30
1993	51

The PCP participants also must earn at least 50 percent of their foreign exchange requirements by exporting automotive and non-automotive products. They should invest at least P200 million and commit to manufacture major components. Participants were allowed to import passenger cars in SKD condition for a period of six months which could be extended for another six months. This was intended to enable the participants to sell low-priced passenger cars while their assembly facilities were being set-up.

There were seven participants registered under the PCP: Italcar Pilipinas (Fiat), Honda Motors, Asian Carmakers (Daihatsu), Pilipinas Nissan, PAMCOR (Colt), Columbian Autocar (Kia), and Transfarm (Norkis Gurkel). Except for Columbian Autocars, the PCP was not a profitable undertaking for most participants, particularly for yen dependent Japanese car assemblers. Despite their unprofitability, many of the firms entered the program to get into the mainstream market where demand was less elastic. While people's car prices were subject to price ceilings, passenger cars in the main category were not. After one year of operation, PCP participants became eligible to the main category. Out of the seven PCP assemblers, five were able to move to the main category.

1992 Luxury Car Program

In 1992, the CDP was again amended to allow the entry of high end passenger cars defined as passenger cars with engine displacement greater than 2800 cc. During this time, there was only one locally assembled model with engine displacement greater than 2000 cc. With the addition of a new and higher category as well as the introduction of the people's car, the following passenger car categories were defined:

- Category I: with engine displacement of 1,200 cc or below and with a price determined by the BOI
- Category II: with engine displacement greater than 1,200 cc up to 2,800 cc
- Category III: with engine displacement of 2,190 cc or above

Category III participants were required to invest US$ 8 million in the manufacture of motor vehicle parts and components for the export and domestic markets. They were also required to generate 100 percent of their foreign exchange needs for their CKD importation. Like the PCP participants, they were allowed to import passenger cars in SKD condition for a period of six months while their CKD facilities were constructed. This could be extended for another six months. The above CDP amendment allowed the entry of Volvo International of Sweden and Daimler Benz of Germany.

1994 ASEAN Industrial Joint Venture Scheme

In 1994, the CDP was again amended to allow the entry of new assemblers under the ASEAN Industrial Joint Venture (AIJV) Scheme. Proton of Malaysia came under this amendment through a joint venture with Autocorp Group, a Filipino firm. Proton assembles not only Proton Wira, but also European automobiles Volkswagen, Alfa Romeo, and Audi cars.

1996 Deregulation of the Automotive Industry

The signing of Memorandum Order Number 346 in February 1996 paved the way for the liberalization of the automotive industry. Prior to the issuance of MO 346, the government liberalized the importation of all types of passenger cars, commercial vehicles, and motorcycles. MO 346 opened up the closed vehicle categories to new participants and removed restrictions on the number of models and variants. By the year 2000, the foreign exchange and local content requirements under the CDP and CVDP would have been terminated.

1996 Car Development Program

MO 346 opened the previously closed categories I and II to new participants, Filipino-owned and foreign-owned companies, capable of investing US$10 million in the manufacture of motor vehicle parts and components. The following categories were redefined under the 1996 CDP:

- Category I: with engine displacement of 1,200 cc or below and with a price determined by the BOI
- Category II: with engine displacement greater than 1,200 cc but below 2,190 cc
- Category III: with engine displacement of 2,190 cc or above

MO 346 prohibited new CDP participants in Categories I, II, and III intending to sell only in the domestic market from importing SKD units while their assembly facilities were under construction. Only new participants who will export at least 50 percent of their CBU car production (70 percent in the case of foreign companies) would be allowed to import SKD units to be sold locally. MO 346 also allowed the importation of brand-new CBU passenger cars.

CDP participants except those in category III would no longer be required to comply with a vehicle local content higher than 40 percent to remain in the program. However, BOI may grant a foreign exchange award amounting to 50 percent of foreign exchange earned during the previous year to a participant in categories I and II who has attained a weighted local content average of at least 50 percent of all its participating models and variants.

CDP participants in Categories I, II, and III would still be required to earn foreign exchange credits through their export of automotive parts to enable them to import CKDs. The foreign exchange requirement ratios as a percentage of CKD import values are as follows:

Table 4: CDP Local Content Requirement, 1995-2000

Year	CDP Category I (similar to CVDP Categories I and II)	CDP Category II
1995	5	40
1996	6	45
1997	7.5	45
1998	7.5	50
1999	15	50
2000	15	55

Category III and AIJV participants are required to earn 75 percent of their foreign exchange requirements for their CKD imports.

Table 5 : List of Car Development Program Participants

CDP Category	Car Models
Category I:People's Car --below 1200 cc	
1. Asian Carmakers Corporation	Daihatsu Charade
2. Columbian Autocar Corporation	Kia Pride
3. Honda Cars Philippines	Honda Civic
4. Italcar Pilipinas Inc.	Fiat Uno
5. Proton Pilipinas Corporation	
6. Transfarm & Co., Inc	Daewoo Racer, Espero
Category II: Main Category –1200 cc to 2800 cc	
1. Columbian Autocar Corporation	Mazda
2. Asian Carmakers Corporation	BMW
3. Honda Cars Philippines. Inc.	Honda Civic, Accord, City
4. Italcar Pilipinas Inc.	Hyundai Excel
5. Nissan Motor Philippines Corporation	Cefiro, Sentra
6. Mitsubishi Motors Philippines Corporation	Galant, Lancer
7. Proton Pilipinas Corporation	Wira, Audi, Volkswagen Polo
8. Toyota Motors Corporation	Camry, Corolla, Corona
9. Transfarm & Co., Inc.	Chrysler
10. Ford Motors Co. Philippines, Inc.	Lynx
Category III: Luxury Cars – 2190 cc and above	
1. Asian Carmakers Corporation	BMW
2. Commercial Motors Corporation	Mercedes Benz
3. Nissan Motor Philippines Corporation	Altima
4. Proton Pilipinas Corporation	
5. Scandinavian Motors Corporation	Volvo

1996 Commercial Vehicle Development Program

MO 346 opened the previously closed Category II to investors and introduced Category V to cover trucks with gross vehicle weight greater than 18 tons and special-purpose vehicles like fire trucks. New participants must invest PUS 8 million in the manufacture of motor vehicle parts and components. MO 346 also liberalized the importation of brand new CBU trucks and buses, brand new CBU light commercial vehicles and Asian utility vehicles.

CVDP participants in Categories I and II would no longer be required to comply with a vehicle local content higher than 45 percent to remain in the program. However, BOI may grant a foreign exchange award amounting to 50 percent of foreign exchange earned during the previous year to a participant who has attained a weighted local content average of at least 55 percent of all its participating models and variants.

Participants under Categories III and IV would continue to comply with their minimum local content requirement. Category V participants would comply with the minimum local content specified for the truck unit to be assembled based on its GVW. The

local content of trucks greater than 18 tons GVW would be the same as the local content of CVDP Category IV-D.

Table 6 : List of Commercial Vehicle Development Program Participants

Commercial Vehicle Category	Commercial Vehicle Model
Category I: AUV up to 3000kilograms GVW	
1. Columbian Motors Corporation	Jeepney
2. Francisco Motors Corporation	Anfra, Jeepney
3. Isuzu Philippines Corporation	Highlander
4. Mitsubishi Motors Philippines Corporation	Adventure
5. Nissan Motor Philippines Corporation	Bida
6. Pilipinas Transport Industries, Inc.	Bayan Cab
7. Porta Coeli Industrial Co., Inc.	MPC Suzuki
8. Toyota Motors Corporation	Tamaraw FX (Revo)
9. Universal Motors Corporation	
Category II: LCV up to 3000kilograms GVW	
1. Columbian Motors Corporation	Daihatsu, Hi-jet, Ferosa, Kia Ceres
2. Commercial Motors Corporation	Mercedes Benz
3. Ford Motors Co. Philippines	Econovan
4. Francisco Motors Corporation	Mazda Pick-up
5. Honda Cars Philippines, Inc.	CRV
6. Isuzu Philippines Corporation	Trooper
7. Mitsubishi Motors Philippines Corporation	Pajero, L200, L300
8. Nissan Motor Philippines Corporation	Samurai
9. Pilipinas Transport Industries, Inc.	Vitara, Super Carry
10. Transfarm & Co., Inc.	Dodge
11. Toyota Motors Corporation	Van
12. Universal Motors Corporation	Nissan Patrol, Safari, Terrano, Caravan
Category III: 3001 kilograms to 6000 kilograms GVW	
1. Commercial Motors Corporation	
2. Francisco Motors Corporation	Trucks
3. Isuzu Philippines Corporation	Light truck
4. Mitsubishi Motors Philippines Corporation	Rosa; small bus, Canter; small truck
5. Nissan Motor Philippines Corporation	Cabstar, Ad-Resort pick-up truck, Vanette
6. Pilipinas Hino, Inc.	Light truck and buses
7. Universal Motors Corporation	Trucks, buses

Category IV: 6001 kilograms to 18000 kilograms GVW	
1. Columbian Motors Corporation	Nissan Diesel Bus
2. Commercial Motors Corporation	Trucks, buses
3. Filipinas Daewoo Industries	Bus Chassis
4. Francisco Motors Corporation (IVd)	Trucks, buses
5. Isuzu Philippines Corporation	Bus
6. MAN Automotive Concessionaires	Bus
7. Mitsubishi Motors Philippines Corporation	FUSO, trucks
8. Pilipinas Hino, Inc.	Heavy-duty trucks and buses
Category V: above 18000 kilograms & special purpose vehicles	
1. Columbian Motors Corporation	Large trucks
2. Filipinas Daewoo Industries	Trucks
3. Pilipinas Daeyang Heavy Industries Corp	Booster Trucks
4. Pilipinas Hino, Inc.	Trucks

B. Tariff and Non-tariff Policies

Alongside with the local content program which aimed to promote the motor vehicle parts and components industry, the government imposed very high tariffs combined with import restrictions to protect the local vehicle assembly industry. With the implementation of the first PCMP in the early 70s, the importation of CBU passenger cars was officially banned. Between 1973 to 1980, a tariff of 100 percent was levied on CBU vehicles. This was reduced to 70 percent in 1981, to 50 percent in 1982, and to 40 percent in 1993. This would further decline to 20 percent in 2000 up to 2002 and to 5 percent in 2003.

Table 7: Tariff Structure of the Automotive Industry, 1981-1987

Motor Vehicle Type	1981	1982 to 1987
Public-transport type passenger motor vehicles With compression-ignition internal combustion piston engine		
• Buses	30	30
• Other	70	50
Motor cars and other motor vehicles principally designed for the transport of persons including station wagons & racing cars	70	50
Components, parts &/or accessories imported from one or more countries for assembly in any progressive motor vehicle program upon prior authorization of BOI		
• Trucks	20	20
• Passenger Cars	30	30
Trucks	30	30

Between 1981 to 1992, CKD packs for motor vehicles had a tariff rate of 30 percent. This declined to 20 percent in 1993 and 1994, dropped to 10 percent in 1995 and further to 3 percent during the years 1996-1997. As a result of this tariff reduction, the average tariff duties levied on parts and components became higher than CKD imports. During this period, tariffs on locally produced parts and components ranged from 10 to 35 percent (except for carpet whose tariff rate was 50%) while CKD imports were levied a much lower tariff of only 3 percent. Given this tariff structure, domestic parts and components manufacturers complained that it was cheaper to import parts than to procure them locally. With the relaxation of local content rules, assemblers were free to choose the parts to be locally purchased. Hence, there was a real possibility that they would choose to import some items. The parts and components sector feared that this might result in the elimination of some small and medium manufacturers.

The government responded by increasing the tariff rate on CKD packs for passenger vehicles to 7 percent in 1998 and to 10 percent in 1999. This is scheduled to decline to 7 percent in 2000 up to 2002 and to decline back to 3 percent by 2003.

For buses and trucks, a tariff rate of 30 percent was imposed during the years 1981 to 1987. Beginning in 1988, tariff changes were introduced based on the vehicle's gross weight (see Table 8). Buses with gross vehicle weight of 6 but not exceeding 20 tonnes (except refrigerated vans) maintained a tariff rate of 30 percent between 1988 to 1992. This increased to 55 percent in 1993, but was reduced to 45 percent in 1994 and to 35 percent in 1995. This went up to 40 percent between 1996 to 1999. This is scheduled to decline to 20 percent in 2000 up to 2002 and to 5 percent in 2003. Refrigerated vans with gross vehicle weight of not exceeding 20 tonnes had a tariff rate of 50 percent between 1988 to 1991. This went down to 30 percent in 1992, but increased again to 55 percent in 1993. This declined to 45 percent in 1994, to 35 percent in 1995, and dropped to 3 percent beginning in 1996.

For other motor vehicles designed for the transport of ten or more persons, the tariff rate was 50 percent from 1988 to 1992. This increased to 65 percent in 1993 and declined to 55 percent in 1994, 45 percent in 1995, and to 30 percent in 1996. This is scheduled to fall to 20 percent in 2000 up to 2002 and to drop to 5 percent by 2003.

In line with the implementation of AFTA, tariffs on buses with gross vehicle weight of 6 to 18 tonnes are scheduled to decline from 20 percent in 1999 to 15 percent in 2000 up to 2002 and further to 5 percent in 2003. For buses with gross vehicle weight of above 18 tonnes as well as for other motor vehicles for the transport of ten or more persons (including AUVs and LCVs), tariffs are scheduled to fall from 30 percent in 1999 to 20 percent in 2000 up to 2002 and to 5 percent in 2003. Tariffs on trucks are also scheduled to decline to 5 percent by the year 2003.

CKD packs for buses and trucks had a tariff rate of 20 percent between 1981 to 1992. This declined to 10 percent during the years 1993 to 1994. In 1995, the tariff rate fell to 3 percent and this is scheduled to be maintained up to the year 2003.

Table 8: Tariff Structure of the Automotive Industry, 1988-2003

Tariff Heading	Description	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000*	2001	2002	2003
87.02	Motor vehicles for the transport of 10 or more persons, including the driver																
8702.10	with compression-ignition internal combustion piston engine (diesel or semi-diesel)																
8702.10.10	CKD buses with GVW of 6 tonnes to 18 tonnes	30	30	30	10	10	10	10	10	3	3	3	3	3	3	3	3
8702.10.20	Buses with GVW of 6 tonnes to 18 tonnes	30	30	30	20	20	35	30	25	25	20	20	20	15	15	15	5
8702.10.30	Buses with GVW of above 18 tonnes	30	30	30	50	50	55	45	35	30	30	30	30	20	20	20	5
8702.10.90	Other	50	50	50	50	50	65	55	45	30	30	30	30	20	20	20	5
8702.90	Other																
8702.90.10	Components, parts &/or accessories imported from one or more countries for assembly of vehicles by participants in the CVDP	20	20	20	20	20	10	10	10	3	3	3	3	3	3	3	3
8702.90.90	Other	50	50	50	50	50	65	55	45	30	30	30	30	20	20	20	5
87.03	Motor cars and other motor vehicles principally designed for the transport of persons including station wagons and racing cars																
8703.10.00	Vehicles specially designed for travelling on snow, golf cars and similar vehicles	50	50	50	50	50	40	40	30	40	40	40	40	20	20	20	5
	Other vehicles, with spark-ignition internal combustion reciprocating piston engine																
8703.21.00	Of a cylinder capacity not exceeding 1000 cc	50	50	50	50	50	40	40	30	40	40	40	40	20	20	20	5
8703.22.00	Of a cylinder capacity exceeding 1000 cc but not exceeding 1500 cc	50	50	50	50	50	40	40	30	40	40	40	40	20	20	20	5
8703.23.00	Of a cylinder capacity exceeding 1500 cc but not exceeding 3000 cc	50	50	50	50	50	40	40	30	40	40	40	40	20	20	20	5
8703.24.00	Of a cylinder capacity exceeding 3000 cc	50	50	50	50	50	40	40	30	40	40	40	40	20	20	20	5
	Other vehicles, with compression-ignition internal combustion piston engine																
8703.31.00	Of a cylinder capacity not exceeding 1000 cc	50	50	50	50	50	40	40	30	40	40	40	40	20	20	20	5
8703.32.00	Of a cylinder capacity exceeding 1500 cc but not exceeding 2500 cc	50	50	50	50	50	40	40	30	40	40	40	40	20	20	20	5
8703.33.00	Of a cylinder capacity exceeding 2500 cc	50	50	50	50	50	40	40	30	40	40	40	40	20	20	20	5
8703.90	Other																
8703.90.10	Components, parts &/or accessories imported from one or more countries for assembly of vehicles by participants in the MVDP	30	30	30	30	30	20	20	10	3	3	7	10	7	7	7	3
8703.90.90	Other	50	50	50	50	50	40	40	30	40	40	40	40	20	20	20	5

Tariff Heading	Description	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000*	2001	2002	2003
87.04	Motor vehicles for the transport of goods																
8704.10.00	Dumpers designed for off-highway use	30	30	30	30	30	30	20	20	20	20	3	3	3			
	Other, with compression-ignition internal combustion piston engine																
8704.21	GVW not exceeding 5 tonnes																
8704.21.10	Refrigerated vans	50	50	50	50	30	55	45	35	3	3	3	3	3	3	3	3
8704.21.90	Other	30	30	30	30	30	55	45	35	40	40	40	40	20	20	20	5
8704.22	GVW exceeding 5 tonnes but not exceeding 20 tonnes																
8704.22.10	Up to 6 tonnes																
8704.22.11	Refrigerated vans	50	50	50	50	30	55	45	35	3	3	3	3	3	3	3	3
8704.22.19	Other	30	30	30	30	30	55	45	35	40	40	40	40	20	20	20	5
8704.22.90	Other																
8704.22.91	Refrigerated vans	50	50	50	50	30	55	45	35	3	3	3	3	3	3	3	3
8704.22.99	Other	30	30	30	30	30	55	45	35	40	40	40	40	20	20	20	5
8704.23.00	GVW exceeding 20 tonnes																
8704.23.10	Refrigerated vans	50	50	50	50	30	55	45	35	3	3	3	3	3	3	3	3
8704.23.90	Other	30	30	30	30	30	55	45	35	30	30	30	20	20	20	20	5
	Other, with spark-ignition internal combustion piston engine																
8704.31	GVW not exceeding 5 tonnes																
8704.31.10	Refrigerated vans	50	50	50	50	30	55	45	35	3	3	3	3	3	3	3	3
8704.31.90	Other	30	30	30	30	30	55	45	35	40	40	40	40	20	20	20	5
8704.32	GVW exceeding 5 tonnes																
8704.32.10	Up to 6 tonnes																
8704.32.11	Refrigerated vans	30	50	50	50	30	55	45	35	3	3	3	3	3	3	3	3
8704.32.19	Other	30	30	30	30	30	55	45	35	40	40	40	40	20	20	20	5
8704.32.90	Other																
8704.32.91	Refrigerated vans	30	30	30	30	30	55	45	35	3	3	3	3	3	3	3	3
8704.32.99	Other	30	30	30	30	30	55	45	35	30	30	20	20	20	20	20	5
8704.90	Other																
9704.90.10	Components, parts &/or accessories imported from one or more countries for assembly of trucks by participants in the MVDP	20	20	20	20	20	20	20	10	3	3	3	3	3	3	3	3
8704.90.90	Other	30	30	30	30	30	55	45	35	40	40	40	40	20	20	20	5

*Tariff rates from 2000 to 2003 are based on Executive Order No. 234 signed on 17 April 2000. These rates apply to ASEAN CEPT Scheme effective 1 January 2000.

Sources: Tariff and Customs Code, various years.

C. Taxes Imposed on the Industry

A 10 per cent value added tax is imposed on cars. In addition, imported and domestically assembled cars are subject to a 15-100 per cent excise tax, depending on the car's engine displacement. Excise taxes are internal taxes levied on the manufacture, sale or consumption of a commodity within the country. Section 149 of the National Internal Revenue Code provides that an ad valorem tax shall be levied, assessed and collected on automobiles based on the manufacturer's or importer's selling price, net of excise and value added tax. The excise tax schedule for the automotive industry is described below (in cc):

Table 9: Structure of Excise Taxes

Gasoline	Diesel	Tax Rate (in percent)
up to 1600	up to 1800	15
1601 to 2000	1801 to 2300	35
2001 to 2700	2301 to 3000	50
2701 and over	3001 and over	100

Source: National Internal Revenue Code, Chapter VI, Title VI

Asian Utility Vehicles (AUVs), pick-ups, vans, Sport Utility Vehicles (SUVs) as well as trucks and buses are exempted from excise taxes. The regulation exempts all vehicles designed for the transport of goods as well as those with seating capacity of more than nine passengers (including driver). Since 1997, this regulation has been a much-contested issue in the industry. Large SUVs, like the Mitsubishi Pajero, which carry more than nine passengers were exempted from excise taxes while small SUVs, like the Honda CR-V, were subject to excise taxes based on their engine classification. There have also been complaints against increasingly higher-priced AUVs, pick-ups, vans and trucks enjoying excise tax exemptions. In view of these issues, the government decided to impose excise taxes on full-sized SUVs and AUVs. Effective February 2000, all SUVs, which are defined as 4-wheel drive vehicles regardless of seating capacity, are already taxable. Meanwhile, 4x2 large SUVs continue to be tax exempt. Some assemblers reacted to this new tax policy by introducing 4x2 variants of their SUVs and pick-ups in order to continue receiving the tax breaks.

Beginning in August 2000, the government announced that it would impose excise taxes on AUVs. According to the Bureau of Internal Revenue, while it upholds the exemption of vehicles based on the seating capacity rule, it does not consider rear cargo or luggage compartment that seats four or more people, as in the case of AUVs, as passenger seats. Therefore, AUVs are no longer exempted from excise taxes as they only have seven passenger seats and are covered by a 15 percent excise tax..

D. ASEAN and the Philippine Automotive Industry

ASEAN Industrial Complementation

On June 18, 1981, the ASEAN member states agreed under the Basic Agreement on ASEAN Industrial Complementation (or BAAIC) to accelerate economic growth in the region through industrial complementation. The Agreement covered the ASEAN Industrial

Complementation (AIC) packages which organized the complementary exchanges of specific products agreed upon by the ASEAN member countries. The products in the AIC packages were given preferences in accordance with the Agreement on ASEAN Preferential Trading Arrangements as well as mandatory sourcing and local content recognition.

Within the framework of the BAAIC, a Brand-to-Brand Complementation (BBC) scheme for the automotive industry was signed on October 18, 1988. The scheme provided an arrangement where specified parts and components of a specific vehicle model was traded and used by the brand owners and brand related original equipment manufacturers in their respective original equipment products. Participating ASEAN countries were granted privileges such as a minimum of 50 percent margin of tariff preference to BBC products and local content accreditation.

In 1996, Mitsubishi Motor Corporation, Nissan Motor Co., Toyota Motor Corporation, and Asian Carmakers Corporation had BBC schemes with Malaysia and Thailand. Under the Mitsubishi BBC scheme, the Philippines imported parts of manual transmission and final drive system, stamping body parts and parts of bumper system from Thailand and parts of steering system from Malaysia. In exchange, the Philippines exported parts of manual transmission and final drive system to Thailand and parts of manual transmission to Malaysia.

Under the Nissan scheme, the Philippines imported body metal parts and oil pan assembly from Malaysia and body metal parts from Thailand in exchange for body metal and injection parts to the two countries. For Toyota, the Philippines imported parts for fuel tank, suspension system, steering link assembly, convenient and accessory equipment, and electrical parts from Malaysia and under body and electrical parts from Thailand. In turn, it exported manual transmission to both countries. In the case of Asian Carmakers, the Philippines imported sheet glass from Malaysia in exchange for alloy wheels.

Effective November 1, 1996, the new ASEAN Industrial Cooperative (AICO) Scheme replaced the BBC scheme and the ASEAN Industrial Joint Venture (AIJV) scheme.

Common Effective Preferential Tariff (CEPT) for the ASEAN Free Trade Area (AFTA)

On January 28, 1992, the ASEAN member states agreed to extensively remove barriers to intra-ASEAN trade by creating the ASEAN Free Trade Area. Its main mechanism was the Common Effective Preferential Tariff which covered all manufactured products including capital goods and agricultural products. A time frame of 15 years was planned beginning January 1, 1993 with the final effective tariffs ranging from zero to five percent. Under the CEPT, a product is eligible for concessions if it is in the inclusion list with a tariff reduction schedule and if it has a 40 percent ASEAN content.

In September 1994, the ASEAN member states agreed to accelerate the implementation of the CEPT scheme by shortening the time frame from 15 to 10 years such that by January 1996 all CEPT products would have a tariff of zero to five percent. The ASEAN member countries also decided to phase out the temporary exclusion list by January 2000.

In 1993, only a few automotive products were identified for inclusion in the AFTA CEPT. In line with the accelerated CEPT Scheme for the AFTA, Executive Order 234 was issued in April 2000 and transferred the remaining automotive products from the temporary exclusion list and the sensitive list to the inclusion list. If AFTA goes through, this would result in very lower tariffs for the automotive industry which would range from 3 to 5 percent by the year 2003.

Section 2: Structure and Performance of the Industry: 1990 – early 2000

A. The Industry in Perspective

There are currently 19 operating assemblers registered with the BOI. Out of these, 12 are assemblers of passenger cars and the remaining ones are mainly engaged in commercial vehicle assembly. Nissan and Mitsubishi assemble all four major vehicle types: passenger cars, AUVs, LCVs, and trucks/buses. Toyota assembles passenger cars, AUVs and LCVs. Columbian Motors, Francisco Motors, and Isuzu Motors are registered assemblers of AUVs, LCVs, and trucks/buses.

In 1995, the Philippine automotive industry accounted for about 3 percent of total manufacturing value added. During the same year, total employment was 11,307 workers. About half of the registered assemblers are affiliated with Japanese companies either through joint venture or technical assistance agreements.

Table 10 presents the distribution of average production costs in vehicle assembly in 1995. The costs are broken down by cost inputs, i.e., imported raw material, local raw material, labor, and manufacturing overhead. Raw materials are the major elements in vehicle assembly accounting for 93 percent of total production cost. The cost of local raw materials represented 40 percent while the cost of imported raw materials accounted for an average share of 53 percent of total production cost in 1995. Direct labor accounted for 1 percent of total cost while manufacturing overhead had a share of 6 percent of total cost.

Table 10: Distribution of Production Cost, 1995

Major Cost Item	% Share
Local raw materials	40
Imported raw materials	53
Direct labor	1
Manufacturing overhead	6

The Philippine components sector consists of some 256 companies distributed as follows: metalworking -- 48 percent, rubber – 15 percent, seats and trims – 10 percent, plastics – 9 percent, electrical – 8 percent, and others – 10 percent. The components sector currently manufactures about 330 parts including the following:

- Suspension: tires, steel rims, aluminum wheels, leaf and coil springs
- Interior: carpets, seats

- Electrical system: wiring harnesses, batteries, lamps, relays
- Pressed components: mufflers, radiators, seat frames, seat adjusters, oil and air filters, pedals
- Rubber and plastic components: fan belts, rubber hoses, small plastic parts
- Mechanical parts: transmission
- Cast and forged components: gear blanks, brake disks, brake drums

By the end of 1999, total investments in the parts and components industry amounted to about P27 billion. Total employment was 45,000 workers and exports were valued at around US$1.1 billion. The bulk of total exports was accounted for by wiring harnesses, a labor-intensive component. Major components exports like transmissions and ABS controls are manufactured by Japanese vehicle assembly firms under the ASEAN AICO scheme. OEM export sales are difficult to achieve unless there is a close tie-up with multinational corporations.

The bulk of the industry is composed of small firms with capitalization ranging from P0.5 to P5 million. Most of these firms operate as mom and pop style suppliers with varying capabilities and some real quality problems. These firms failed to develop as they have insufficient capital and technology that are necessary to improve their products. The large firms with capitalization of more than P100 million account for only about 7 percent of the industry. They comprise the major players of the industry and are the same companies manufacturing parts for OEM car assemblers and engaged in exporting activities.

B. Profile of Major Industry Players

Toyota Motor Philippines Corporation (TMPC)

Toyota Motor Philippines Corporation was incorporated in August 1988 and entered the industry via the 1987 Car Development Program as a registered passenger vehicle, AUV and LCV assembler. TMPC is a joint venture between Toyota Motors Japan and the Metrobank Group. Delta Motors, Toyota's assembler-distributor under the 1973 PCMP closed shop in 1983. Toyota started its production in February 1989. Toyota has its own components maker, Toyota Autoparts, which manufactures transmissions and constant velocity joints.

Nissan Motor Philippines Inc.

Nissan Motors Philippines was incorporated in April 1982 and started its operations in the country in 1983 after acquiring the former Volkswagen assembly facility. Nissan was one of the three participants in the government's 1987 CDP. Initially, Nissan was a joint venture between the First Manila Management Corporation, Nicherman (a local trading firm) and Nissan Japan. Currently, Nissan is 60% owned by the Mantrasco Group together with Yowloon and Nissan Japan. Nissan is a registered assembler of passenger cars, AUVs, LCVs, and trucks/buses.

Mitsubishi Motors Philippines Corporation

Mitsubishi Motors was incorporated in February 1963 and was previously known as the Canlubang Automotive Resources Corporation (CarCo) which was controlled by the Yulo

family. Mitsubishi was one of the original program participants since the first PCMP. While the three other participants dropped out of the PCMP, Mitsubishi decided to remain. Carco was renamed Philippine Automotive Manufacturing Corporation (Pamcor) and was registered under the 1987 CDP as an assembler of passenger cars (Galant, lancer, space wagon) and commercial vehicles (AUVs, L200, L300, and buses/trucks). At present, Mitsubishi Motors is 100 percent Japanese-owned with Mitsubishi Motors Corporation of Japan controlling 51 percent while Nissho-Iwai Corporation owns 49 percent. Mitsubishi's domestic components are supplied by its subsidiary, Asian Transmission Corporation which manufactures transmissions, engine assemblies for all domestic models, and axle assemblies for some domestic vehicles.

Table 11 : List of BOI-Registered Vehicle Assemblers

Registered Assembler	Passenger Cars	AUVs	LCVs	Trucks/Buses
1. Toyota	Corolla, Camry, Echo	Tamaraw FX/Revo	Lite Ace	
2. Nissan	Sentra, Exalta, Cefiro	AD Resort	Vanette	Trucks
3. Mitsubishi	Lancer, Galant	Adventure	L300, L200, Pajero	Trucks, Buses
4. Honda	City, Civic, Accord, HRV		CR-V	
5. Columbian Autocar	Familia, Mazda-Sedan			
6. Transfarm & Co				
7. Italcar Pilipinas	Hyundai Excel, Fiat Uno			
8. Proton Pilipinas	Wira Sedan			
9. Asian Carmakers	BMW, Daihatsu Charade			
10. Scandinavian Motors	Volvo			
11. Commercial Motors	Mercedes Benz		Vans	Trucks
12. Ford Motors	LYNX		Ranger	
13. Columbian Motors			Daihatsu, Kia Ceres, K3600s	Nissan Diesel
14. Filipinas Daewoo				Daewoo
15. Francisco Motors		Anfra Jeep	Mazda	
16. Isuzu Motors		Highlander	Pick-up, Trooper	Trucks
17. MAN Automotive				Trucks
18. Pilipinas Hino		Bayan Cab	Super	Trucks

			Carry, Samurai	
19. Universal Motors			Pick-up, Terrano, Safari, Urvan Shuttle	

Honda Cars Philippines, Inc

Honda Cars Philippines was incorporated in November 1990 and entered the industry in the same year under the People's Car Program (covering passenger cars 1.2 liters and below). Honda Cars is a joint venture between the Ayala Corporation and the Rizal Commercial Banking Corporation and the Honda Motor Co. and Mitsubishi Corp. of Japan. Its part makers Honda Parts Manufacturing Corporation and Honda Engine Manufacturing, Philippine Inc. merged in 1999.

Honda was able to enter the main category of the CDP as the law allowed PCP participants to move to the more lucrative main category after one year of assembly operations in the PCP. Honda has stopped its assembly of small cars (Civic hatchback) due to the unprofitability of this venture.

Asian Carmakers Corporation
Columbian Motors Corporation
Columbian Autocar Corporation

Asian Carmakers Corporation, Columbian Motors Corporation, and Columbian Autocar Corporation are under the Columbian Motor Group of companies which assembles multi-brand vehicles. The Columbian Motor Group is owned by the Alvarez family. Asian Carmakers and Columbian Autocar Corporation were among the participants allowed by the BOI to assemble the people's car. The two companies entered the industry in 1990. Asian Carmakers was registered as an assembler of the Japanese passenger car, Daihatsu charade. Asian Carmakers is also a registered assembler of European car, BMW under the main and luxury car categories of the CDP. Columbian Autocar was a registered assembler of South Korean car, Kia under the PCP and Japanese passenger car, Mazda under the CDP main category.

Columbian Motors Corporation assembles trucks and buses. It is 62.85 percent Filipino owned and has an existing joint venture arrangement with Nissan Diesel Motor Co., Ltd with an equity of 1.55 percent and Nichimen Corp with an equity of 35.6 percent.

Italcar Pilipinas

Italcar Pilipinas entered the industry in 1990 via the PCP of the Car Development Program. Italcar assembles Fiat Uno and as soon as it was able to move to the main category of the CDP, it started the assembly of South Korean car, Hyundai Excel.

Transfarm and Company

Transfarm also entered the industry in 1993 through the PCP. Transfarm assmbles the Daewoo Racer.

Scandinavian Motors

Scandinavian Motors, assembler of the Swedish car, Volvo, entered the industry in 1994 through the luxury car program of the CDP.

Commercial Motors

Commercial Motors, assembler of the German car, Mercedes Benz, entered the industry in 1994 through the luxury car program of the CDP.

Proton Pilipinas Corporation

Proton of Malaysia entered the industry in 1994 through the ASEAN Industrial Joint Venture (AIJV) Scheme of the CDP. Proton Pilipinas is a joint venture with Autocorp Group, a Filipino firm. Proton assembles not only Proton Wira, but also European automobiles Volkswagen, Alfa Romeo, and Audi cars.

Ford Motors Philippines

Ford Motors Philippines re-entered the country in 1998. Ford was one of the first five car manufacturers that participated in the government's Progressive Car Manufacturing Program initiated in 1973. With the economic crisis that hit the country in the early 1980s, Ford together with General Motors (GM) pulled out of the country while Delta Motors (Toyota's assembler) closed down.

Ford has registered with the Philippine Economic Zone Authority (PEZA) as a domestic-oriented enterprise located in an economic zone and as car assembler with the Board of Investments (BOI). Its PEZA registration allowed it tax-free capital equipment and machinery imports.

Ford's operations commenced in September 1999 as it assembled passenger cars (Ford Lynx) and commercial vehicles (Ford Ranger). Ford is 100 percent owned by its mother company, Ford US.

Francisco Motor Corporation

Francisco Motor Corporation was incorporated in 1974 and started its operations during the same year. It has a CKD supply contract with Mazda Japan to assemble commercial vehicles.

Isuzu Philippines Corporation

Isuzu Philippines was incorporated in August 1995 and started its assembly operations in July 1996. It is a joint venture between Isuzu Motors and Mitsubishi Corporation of Japan controlling 70 percent of total equity while its Filipino partner owns the

remaining 30 percent. Isuzu Motors is registered under the CVDP and assembles wagons, pick-up trucks, cab-over trucks, and buses.

Universal Motors Corporation

Universal Motors was incorporated in April 1954 and began to engage in vehicle assembly only in 1972. It is 100 percent Filipino owned and has a technical assistance agreement with Nissan Motor Co. of Japan. It is a registered participant under the CVDP and assembles light commercial vehicles (Safari and Terrano).

Pilipinas Transport Industries, Inc.

Pilipinas Transport was incorporated in 1979 and started its operations in February 1980. It is 100 percent owned by a Filipino company, the Mantrasco Group. It is a registered participant under the CVDP and assembles Suzuki and Hino light commercial vehicles (Vitara).

Pilipinas Hino Inc.

Pilipinas Hino was incorporated in March 1989 and began its operations in January 1976. It is a joint venture between the Professinal Managers Inc. which controls 70 percent of the company and the Hino Motors and Marubeni Corporation of Japan which control the remaining 30 percent. Pilipinas Hino is a CVDP participant and assembles trucks and buses.

Table 12: A Profile of the Automotive Industry

Firm	Registration Date	Annual Production Capacity	Foreign Equity	Filipino Equity/ Names of Stockholders
Toyota Motor Philippines Corporation	August 1988	50,000 units	40% Japanese (Toyota – 34% and Japanese-affiliated company in the Phils. – 6%)	60% Filipino
Nissan Motor Philippines Inc.	April 1982	36,000 units	40% Japanese (Nissan – 23.4% and Marubeni – 16.6%)	60% Filipino Rex C. Drilon II Leonardo S. Gamboa Vicente Mills, Jr. Edilberto Narciso, Jr. Jose S. Sandejas
Honda Cars Philippines, Inc.	November 1990 (restructured in 1999)	30,000 units	74.2% Japanese (Honda – 54.2% and Mitsubishi-20%)	25.8% Filipino Ayala Corporation Rizal Commercial Banking Corporation Jaime A. Zobel de Ayala
Mitsubishi Motors	February 1963	62,300 units	100% Japanese (Mitsubishi –	

Philippines Corporation			51% and Nissho-Iwai – 49%)	
Columbian Motors Corporation	December 1981	1,000 units	37.5 Japanese (Nissan Diesel Motor Co. – 1.55% and Nichimen Corp – 35.6%)	62.5% Filipino Alvarez Group
Asian Carmakers Corporation	March 1990	22,000 units	10 % Japanese (Nichimen Corp.)	90% Filipino
Francisco Motor Corporation	1974	12,000 units (2 shifts daily)		100% Filipino
Isuzu Philippines Corporation	August 1995	15,000 units	70% Japanese (Isuzu Motors – 35% and Mitsubishi – 35%)	30% Filipino
Universal Motors Corporation	April 1954	12,000 units		100% Filipino
Pilipinas Hino Inc.	March 1975	3,200 units	30% Japanese (Hino Motors – 15%, Marubeni Corp – 15%)	70% Filipino Professional Managers Inc.
Pilipinas Transport Industries, Inc.	December 1979	3,200 units		100% Filipino Mantrasco Group

C. A Review of Industry Structure and Performance

The production of vehicles in the country was growing steadily from 1991 up to 1996 reaching a level of 137,365 units in 1996, the highest level of production in the history of the industry. With the increasing liberalization of the industry, the long waiting time for customers' orders which characterized the industry for a long period of time finally ended. As the market was opened to new players, competition came into play. Customers had a wider array of brands and models to choose from and which they could readily obtain in less than a week after an order was placed. With more market players, competition grew stiffer. Discounts, rebates, easy financing packages and a host of other promotional gimmicks were provided to customers.

The industry expected vehicle sales to remain buoyant in 1997. After 1996, a number of firms invested in new plants to expand their operations in anticipation of a continuing

domestic vehicle demand as the purchasing power surpassed the US$1000 GDP per capita income. The 1997 crisis, however, halted the growth of the industry. Production by Japanese-affiliated firms fell by 16 percent in 1997 and to 50 percent in 1998. A recovery was felt in 1999 as production went up by 12 percent.

Prior to 1998, vehicle assembly in the country was concentrated in passenger cars. The mid-1990s witnessed a stronger growth in the commercial vehicles segment. In 1998 and 1999, commercial vehicles started dominating total industry production and accounted for 55 and 63 percent, respectively of the total.

Japanese-affiliated firms dominated the industry. Their share in total production increased from 88 percent in 1995 to 94 percent in 1996. For passenger cars, the share of Japanese-affiliated firms substantially increased from 85 percent in 1995 to 95 percent in 1996. Their share in the total production of commercial vehicles went up from 92 to 94 percent during the same years under review.

In 1996, total vehicle sales were a little over 162,000units. Locally produced vehicles accounted for almost 88 percent or about 142,145 units. The share of imported vehicles to total sales increased moderately from 12 percent in 1996 to 14 percent in 1997. This slightly dropped to 13.6 percent in 1998 and to 9.4 percent in 1999 (refer to table 16).

In 1996, LCVs accounted for the bulk of imported vehicles or about 67 percent of the total vehicles imported while passenger cars accounted for the remaining 33 percent. In 1999, the share of LCV imports to total vehicle imports rose to about 77 percent.

Total vehicle sales declined by 11 percent in 1997, by 44 percent in 1998 and by 7 percent in 1999. Total sales shrank from 144,435 units in 1997 to 80,231 units in 1998 and to 74,414 units in 1999.

Table 13 : Production of Passenger Cars and Commercial Vehicles

Year	1991	1992	1993	1994	1995	1996	1997**	1998**	1999**
Passenger Cars	**27267**	**33543**	**51359**	**57066**	**73323**	**76909**	**58486**	**23857**	**23196**
Category I: engine displacement: 1200 cc and below									
Daihatsu Charade	1657	1036	1102	500	316	40	14	5	19
Kia Pride	4286	1712	2542	5015	6369	781			
Honda Civic	902	2345	1663	1680	3290	2			
Fiat Uno		427	305	152	278	57			
Daewoo Racer			499	2764	2441	1354			
Category II: engine displacement: above 1200 cc but below 2190 cc									
BMW				80	639	389			
Mazda Cars			2007	2291	4459	7110	5137	902	663
Honda Cars			5802	7856	10657	20568	16024	10762	9843
Hyundai Excel					600	855			
Nissan Cars	4325	6561	7155	7157	10818	10245	7347	3751	3989
Mitsubishi Cars	6065	8308	11988	14077	12835	16772	13061	3578	2527
Proton Wira						0			

Toyota Cars	10032	13154	18200	15301	18393	18273	16903	4859	6155
Category III: engine displacement: 2190 cc and above									
BMW 5 Series				89	149	0			
Mercedes Benz			96	94	45	189			
Nissan Cedric				10	1736	0			
Volvo					298	274			
Commercial Vehicles*	**19741**	**25356**	**30843**	**42280**	**53693**	**60456**	**50830**	**31287**	**38507**
Total	**47008**	**58899**	**82202**	**99346**	**127016**	**137365**	**109316**	**55144**	**61703**

Source: Data from 1991 to 1996 were from the Board of Investments.
Notes:
*Commercial Vehicles cover pick-ups, vans, buses, trucks and special purpose vehicles.
** Data refer only to Japanese-affiliated companies.

The Toyota Tamaraw FX was the highest selling vehicle in the Philippines in 1999. Far second was the Honda Civic followed by Toyota Corolla, Mitsubishi Adventure, and Nissan Sentra. Table 15 presents sales of the ten most popular vehicles for 1999.

Table 15 : Highest Selling Vehicles in the Philippines, 1999

Vehicle Make and Model	Market Segment	Units Sold
Toyota Tamaraw FX	AUV	12355
Honda Civic	Passenger Car	6827
Toyota Corolla	Passenger Car	5548
Mitsubishi Adventure	AUV	4709
Nissan Sentra	Passenger Car	3348
Honda CR-V	LCV	2947
Isuzu Highlander	AUV	2521
Honda City	Passenger Car	2443
Toyota Hi-ace*	LCV	2245
Mitsubishi Pajero	LCV	2264
Mitsubishi Lancer	Passenger Car	2228

*Imported as CBU

Over the last eight years, there have been significant changes in consumers' tastes and preferences. Demand for commercial vehicles has been strong owing to the substantial increases in AUV sales. The share of AUVs has more than doubled between 1996 and 1999. Its share went up tremendously from only about 11 percent in 1996 to 27 percent in 1999. The share of LCVs increased from about 30 percent during the years 1996-1997 to 32 percent in 1998 and 1999. The share of passenger cars declined from about 55 percent in 1996 to 52 percent in 1997. In the years that followed, this dropped substantially from 43 percent in 1998 to only 37 percent in 1999. The share of trucks and buses was almost constant during the years 1996 to 1999.

Table 14A: Vehicle Industry Sales, 1990- Jan to Aug 2000

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Jan-Aug 2000
Passenger cars											
Toyota	17,020	10,368	13,116	18,307	15,298	17,107	19,814	14,706	8,013	5,938	4,675
Honda	-	880	1,969	6,963	9,000	11,673	20,233	17,181	10,038	10,040	6,892
Nissan	8,038	5,492	7,561	8,645	9,062	12,978	12,134	10,519	4,653	3,922	3,953
Mitsubishi	8,955	6,333	7,963	12,645	14,386	12,486	14,944	13,262	5,203	2,797	1,564
Mazda	-	-	-	1,458	-	4,277	7,850	6,811	1,867	1,274	146
Suzuki	-	-	-	-	-	-	289	374	121	97	105
Other Japan	-	879	1,532	809	-	277	179	119	101	28	15
Total Japan	**34,013**	**23,952**	**32,141**	**48,827**	**47,746**	**58,798**	**75,443**	**62,972**	**29,996**	**24,096**	**17,350**
Proton	-	-	-	-	-	928	1,230	967	263	156	29
Hyundai	-	-	-	-	-	858	1,424	774	544	438	156
Daewoo	-	-	-	-	2,239	3,119	3,089	1,687	145	97	-
Kia	1,180	3,846	2,689	2,030	8,170	6,490	4,947	6,067	2,332	891	677
Benz	-	-	-	41	121	60	165	110	94	27	113
Volvo	-	-	-	-	16	247	286	408	273	161	154
VW	-	-	-	-	-		1,226	1,246	219	88	150
BMW	-	-	-	-	-	536	930	975	341	363	138
Opel	-	-	-	-	-	-	-	131	311	392	409
Ford	-	-	-	-	-	-	-	-	-	657	1,366
Other Europe & Korea	-	-	322	301	209	159	237	423	170	214	195
Total	**1,180**	**3,846**	**3,011**	**2,372**	**10,755**	**12,397**	**13,534**	**12,788**	**4,692**	**3,484**	**3,387**
TOTAL Passenger cars	**35,193**	**27,798**	**35,152**	**51,199**	**58,501**	**71,195**	**88,977**	**75,760**	**34,688**	**27,580**	**20,737**
Annual Percentage Change		-0.21	0.26	0.46	0.14	0.22	0.25	-0.15	-0.54	-0.20	

Commercial vehicles*	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	Jan-Aug 2000
Toyota	2,280	3,498	5,557	7,317	16,505	19,932	21,987	17,097	9,033	15,675	12,426
Honda	-	-	-	-	-	-	-	629	3,181	2,947	2,020
Nissan	5,724	4,131	3,629	6,100	6,724	6,453	7,765	6,620	4,007	3,613	2,651
Mitsbishi	6,061	6,167	9,588	12,649	14,613	19,224	21,589	16,315	14,077	12,899	9,251
Mazda	4,070	2,998	2,565	2,391	2,399	3,312	3,375	3,276	1,277	585	171
Hino	799	718	776	1,194	1,541	-	703	406	160	237	230
Isuzu	446	280	758	1,089	1,233	2,178	3,308	10,053	6,338	5,751	5,032
Suzuki	-	-	-	-	-	1,500	2,091	1,472	549	509	310
Other Japan	560	90	7	1	-	411	218	126	135	92	300
Total Japan	**19,940**	**17,882**	**22,880**	**30,741**	**43,015**	**53,010**	**61,036**	**55,994**	**38,757**	**42,308**	**32,391**
Benz	65	48	4	39	36	76	166	137	47	22	125
Hyundai	-	-	-	-	-	338	793	531	57	-	-
VW	-	-	-	-	-	-	229	138	81	62	31

Kia	2,613	2,187	2,264	1,812	1,819	3,424	8,398	9,389	5,180	1,886	1,033
GM	-	-	-	-	-	-	-	-	-	116	141
Ford	-	-	-	-	-	-	-	-	-	1,952	2,456
Other Europe & Korea	54	34	60	20	100	119	2,496	2,486	1,421	488	101
Total	**2,732**	**2,269**	**2,328**	**1,871**	**1,955**	**3,957**	**12,082**	**12,681**	**6,786**	**4,526**	**3,887**
TOTAL Commercial vehicles	**22,672**	**20,151**	**25,208**	**32,612**	**44,970**	**56,967**	**73,118**	**68,675**	**45,543**	**46,834**	**36,278**
Annual Percentage Change		-0.11	0.25	0.29	0.38	0.27	0.28	-0.06	-0.34	0.03	

Total Vehicles	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**Jan-Aug 2000**
Toyota	19,300	13,866	18,673	25,624	31,803	37,039	41,801	31,803	17,046	21,613	17,101
Honda		880	1,969	6,963	9,000	11,673	20,233	17,810	13,219	12,987	8,912
Nissan	13,762	9,623	11,190	14,745	15,786	19,431	19,899	17,139	8,660	7,535	6,604
Mitsubishi	15,016	12,500	17,551	25,294	28,999	31,710	36,533	29,577	19,280	15,696	10,815
Mazda	4,070	2,998	2,565	3,849	2,399	7,589	11,225	10,087	3,144	1,859	317
Hino	799	718	776	1,194	1,541	-	992	780	281	237	230
Isuzu	446	280	758	1,089	1,233	2,178	3,308	10,053	6,338	5,751	5,032
Suzuki	-	-	-	-	-	1,500	2,091	1,472	549	606	415
Other Japan	560	969	1,539	810	-	688	397	245	236	120	315
Total Japan	**53,953**	**41,834**	**55,021**	**79,568**	**90,761**	**111,808**	**136,479**	**118,966**	**68,753**	**66,404**	**49,741**
Hyundai	-	-	-	-	-	1,196	2,217	1,305	601	438	156
Kia	3,793	6,033	4,953	3,842	9,989	9,914	13,345	15,456	7,512	2,777	1,710
Proton	-	-	-	-	-	928	1,230	967	263	156	29
Daewoo	-	-	-	-	2,239	3,119	3,089	1,687	145	97	58
Benz	65	48	4	80	157	136	331	247	141	49	238
Volvo	-	-	-	-	16	247	286	408	273	161	154
VW	-	-	-	-	-	-	1,455	1,384	300	150	181
BMW	-	-	-	-	-	536	930	975	341	363	138
Opel	-	-	-	-	-	-	-	131	311	392	409
GM	-	-	-	-	-	-	-	-	-	116	141
Ford	-	-	-	-	-	-	-	-	-	2,609	3,822
Other Europe & Korea	54	34	382	321	309	278	2733	2,909	1,591	702	238
Total	**3,912**	**6,115**	**5,339**	**4,243**	**12,710**	**16,354**	**25,616**	**25,469**	**11,478**	**8,010**	**7,274**
GRAND TOTAL	**57,865**	**47,949**	**60,360**	**83,811**	**103,471**	**128,162**	**162,095**	**144,435**	**80,231**	**74,414**	**57,015**
Annual Percentage Change		-0.17	0.26	0.39	0.23	0.24	0.26	-0.11	-0.44	-0.07	

Source of data: CAMPI

* Note: Commercial Vehicles cover pick-ups, vans, buses, trucks and special purpose vehicles.

Table 14B: Percentage Share to Total Sales

Passenger cars	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**
Toyota	48.36	37.30	37.31	35.76	26.15	24.03	22.27	19.41	23.10	21.53	22.54
Honda	0.00	3.17	5.60	13.60	15.38	16.40	22.74	22.68	28.94	36.40	33.24
Nissan	22.84	19.76	21.51	16.89	15.49	18.23	13.64	13.88	13.41	14.22	19.06
Mitsubishi	25.45	22.78	22.65	24.70	24.59	17.54	16.80	17.51	15.00	10.14	7.54
Mazda	0.00	0.00	0.00	2.85	0.00	6.01	8.82	8.99	5.38	4.62	0.70
Suzuki	0.00	0.00	0.00	0.00	0.00	0.00	0.32	0.49	0.35	0.35	0.51
Other Japan	0.00	3.16	4.36	1.58	0.00	0.39	0.20	0.16	0.29	0.10	0.07
Total Japan	**96.65**	**86.16**	**91.43**	**95.37**	**81.62**	**82.59**	**84.79**	**83.12**	**86.47**	**87.37**	**83.67**
Proton	0.00	0.00	0.00	0.00	0.00	1.30	1.38	1.28	0.76	0.57	0.14
Hyundai	0.00	0.00	0.00	0.00	0.00	1.21	1.60	1.02	1.57	1.59	0.75
Daewoo	0.00	0.00	0.00	0.00	3.83	4.38	3.47	2.23	0.42	0.35	0.00
Kia	3.35	13.84	7.65	3.96	13.97	9.12	5.56	8.01	6.72	3.23	3.26
Benz	0.00	0.00	0.00	0.08	0.21	0.08	0.19	0.15	0.27	0.10	0.54
Volvo	0.00	0.00	0.00	0.00	0.03	0.35	0.32	0.54	0.79	0.58	0.74
VW	0.00	0.00	0.00	0.00	0.00	0.00	1.38	1.64	0.63	0.32	0.72
BMW	0.00	0.00	0.00	0.00	0.00	0.75	1.05	1.29	0.98	1.32	0.67
Opel	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.17	0.90	1.42	1.97
Ford	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	2.38	6.59
Other Europe & Korea	0.00	0.00	0.92	0.59	0.36	0.22	0.27	0.56	0.49	0.78	0.94
Total	**3.35**	**13.84**	**8.57**	**4.63**	**18.38**	**17.41**	**15.21**	**16.88**	**13.53**	**12.63**	**16.33**
TOTAL Passenger cars	100	100	100	100	100	100	100	100	100	100	100.00

Commercial vehicles*	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**Jan-Aug 2000**
Toyota	10.06	17.36	22.04	22.44	36.70	34.99	30.07	24.90	19.83	33.47	34.25
Honda	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.92	6.98	6.29	5.57
Nissan	25.25	20.50	14.40	18.70	14.95	11.33	10.62	9.64	8.80	7.71	7.31
Mitsbishi	26.73	30.60	38.04	38.79	32.49	33.75	29.53	23.76	30.91	27.54	25.50
Mazda	17.95	14.88	10.18	7.33	5.33	5.81	4.62	4.77	2.80	1.25	0.47
Hino	3.52	3.56	3.08	3.66	3.43	0.00	0.96	0.59	0.35	0.51	0.63
Isuzu	1.97	1.39	3.01	3.34	2.74	3.82	4.52	14.64	13.92	12.28	13.87
Suzuki	0.00	0.00	0.00	0.00	0.00	2.63	2.86	2.14	1.21	1.09	0.85
Other Japan	2.47	0.45	0.03	0.00	0.00	0.72	0.30	0.18	0.30	0.20	0.83
Total Japan	87.95	88.74	90.76	94.26	95.65	93.05	83.48	81.53	85.10	90.34	89.29
Benz	0.29	0.24	0.02	0.12	0.08	0.13	0.23	0.20	0.10	0.05	0.34
Hyundai	0.00	0.00	0.00	0.00	0.00	0.59	1.08	0.77	0.13	0.00	
VW	0.00	0.00	0.00	0.00	0.00	0.00	0.31	0.20	0.18	0.13	0.09

Kia	11.53	10.85	8.98	5.56	4.04	6.01	11.49	13.67	11.37	4.03	2.85
GM	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.39
Ford	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	4.17	6.77
Other Europe & Korea	0.24	0.17	0.24	0.06	0.22	0.21	3.41	3.62	3.12	1.04	0.28
Total	12.05	11.26	9.24	5.74	4.35	6.95	16.52	18.47	14.90	9.66	10.71
TOTAL Commercial vehicles	100	100	100	100	100	100	100	100	100	100	100

Total Vehicles	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**Jan-Aug 2000**
Toyota	33.35	28.92	30.94	30.57	30.74	28.90	25.79	22.02	21.25	29.04	29.99
Honda	0.00	1.84	3.26	8.31	8.70	9.11	12.48	12.33	16.48	17.45	15.63
Nissan	23.78	20.07	18.54	17.59	15.26	15.16	12.28	11.87	10.79	10.13	11.58
Mitsubishi	25.95	26.07	29.08	30.18	28.03	24.74	22.54	20.48	24.03	21.09	18.97
Mazda	7.03	6.25	4.25	4.59	2.32	5.92	6.92	6.98	3.92	2.50	0.56
Hino	1.38	1.50	1.29	1.42	1.49	0.00	0.61	0.54	0.35	0.32	0.40
Isuzu	0.77	0.58	1.26	1.30	1.19	1.70	2.04	6.96	7.90	7.73	8.83
Suzuki	0.00	0.00	0.00	0.00	0.00	1.17	1.29	1.02	0.68	0.81	0.73
Other Japan	0.97	2.02	2.55	0.97	0.00	0.54	0.24	0.17	0.29	0.16	0.55
Total Japan	93.24	87.25	91.15	94.94	87.72	87.24	84.20	82.37	85.69	89.24	87.24
Hyundai	0.00	0.00	0.00	0.00	0.00	0.93	1.37	0.90	0.75	0.59	0.27
Kia	6.55	12.58	8.21	4.58	9.65	7.74	8.23	10.70	9.36	3.73	3.00
Proton	0.00	0.00	0.00	0.00	0.00	0.72	0.76	0.67	0.33	0.21	0.05
Daewoo	0.00	0.00	0.00	0.00	2.16	2.43	1.91	1.17	0.18	0.13	0.10
Benz	0.11	0.10	0.01	0.10	0.15	0.11	0.20	0.17	0.18	0.07	0.42
Volvo	0.00	0.00	0.00	0.00	0.02	0.19	0.18	0.28	0.34	0.22	0.27
VW	0.00	0.00	0.00	0.00	0.00	0.00	0.90	0.96	0.37	0.20	0.32
BMW	0.00	0.00	0.00	0.00	0.00	0.42	0.57	0.68	0.43	0.49	0.24
Opel	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.09	0.39	0.53	0.72
GM	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.16	0.25
Ford	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	3.51	6.70
Other Europe & Korea	0.09	0.07	0.63	0.38	0.30	0.22	1.69	2.01	1.98	0.94	0.42
Total	6.76	12.75	8.85	5.06	12.28	12.76	15.80	17.63	14.31	10.76	12.76
GRAND TOTAL	100	100	100	100	100	100	100	100	100	100	100

Table 16: Market Shares by Vehicle Segment, 1996-1999

	1999	1998	1997	1996
Passenger Cars	27580	34688	75760	88977
% to total	37.06	43.24	52.45	54.89
Domestic	26001	32958	70634	82348
Imported	1579	1730	5126	6629
AUVs	20293	17458	20004	18089
% to total	27.27	21.76	13.85	11.16
LCVs	24165	25602	43506	49673
% to total	32.47	31.91	30.12	30.64
Domestic	18750	16450	28257	36352
Imported	5415	9152	15249	13321
Trucks and Buses	2376	2483	5165	5356
% to total	3.19	3.09	3.58	3.30
Total	74,414	80,231	144,435	162,095
Total Imports	6994	10882	20375	19950
% to Total	9.40	13.56	14.11	12.31

All the four segments of the vehicle market are highly concentrated as indicated by CR4 levels. The four-firm concentration ratios represent the sum of the shares of the top four firms to total sales. In the passenger car segment, the industry is dominated by the big four: Honda, Toyota, Mitsubishi, and Nissan with concentration ratios or market shares of the four largest firms even rising from 74 percent in 1996 to 81 percent in 1999. In the LCV segment, concentration level declined from 80 percent in 1996 to 76 percent in 1999. Note that the LCV segment has the lowest concentration levels owing to the strong presence of imports. The leaders in this segment are Mitsubishi, Honda, Universal Motors, and Isuzu. In the AUV segment, there are only three major competing firms led by Toyota and followed by Mitsubishi and Isuzu. Hence, concentration level in the AUV segment has remained at very high levels. In the trucks and buses segment, the leading firms are Mitsubishi, Isuzu, Phil-Hino, and Columbian. Concentration level in this segment has also remained high.

Table 17: Four-firm Concentration Ratios (in percent)

Industry Segment	1999	1998	1997	1996
Asian Utility Vehicles	98.00	96.64	99.29	100.00
Passenger Cars	81.20	79.66	75.00	74.35
Light Commercial Vehicles	75.98	78.93	82.87	79.84
Trucks and buses	93.52	87.64	91.31	90.65

Source of basic data: CAMPI Sales

Industry leaders Toyota, Mitsubishi, Honda, Nissan, Pilipinas Hino, and Columbian Motors were consistently among the top 1000 corporations in the Philippines from 1986 to 1996. These companies made more profits than losses during the years under review. The profits of Mitsubishi steadily rose between 1987 up to 1996. Mitsubishi reported record net income of P1.3 billion in 1996. Toyota's profits reflected an increasing trend since 1989 when it started its operations. While Honda sustained losses for three straight years, it was able to recover in 1995 and 1996 and even managed to register profits in 1997 when most firms were posting net losses.

Table 18: Net Income of Major Automotive Firms (in thousand pesos)

	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Mitsubishi	-129066	74527	220084	406941	245979	174686	418627	227000	499607	646804	1306406	-470356
Toyota				111680	273713	182165	166670	30797	286857	465062	674742	-186086
Nissan	-3145	22253	38565	61532	68493	66551	152431	77848	100184	40065	47331	
Honda							-204444	-196001	-204317	427145	544132	10617
Pilipinas Hino	3071	6306	10789	13671	2383	1977	16674	15459	20121	42138	77688	-11789
Universal Motor	1244	2884	5491	21213	28907	38511			57095			
Columbian Motors	1216	4737	6835	19232			73866	41623	63241	78138	150024	52893
Columbian Auto Car							-21751	-42396		80238	59812	-156528
Francisco Motors	-12683	-1166	610	10929		8898	7407	1523	857	2934	10060	1292
Commercial Motors			938	2332				6297	6875	5651	57981	22870
Isuzu Motors				396145	-14772	632				3963	-6805	-218101
Pilipinas Transport											52752	-11488
Asian Carmakers											25190	16170

Source: Business World, Top 1000 Corporations in the Philippines, various issues.

Policy Issues

Protection and Promotion of the Philippine Automotive Industry

For more than two decades, the automotive industry developed under a system of protection, regulation and promotion through high tariffs, local content scheme, and import restrictions. This resulted in an industry which had one of the highest protection levels in the manufacturing sector. This complex package of assistance, however, failed to promote an efficient industry capable of competing internationally. The industry performed poorly and

paled in comparison with assemblers in other Southeast Asian countries. Its high cost structure in the mid 1990s tended to price vehicles assembled in the country out of world markets.

The effective protection rate (EPR) is the most comprehensive measure of protection as it incorporates the effects of tariffs on both inputs and outputs of a specific industry. For instance, the vehicle industry benefits from the tariffs imposed on imported vehicles (output) but is penalized by the tariffs on its CKD imports (input). The EPR measures the net protection on value added received by an industry. Value added is the margin between the prices of inputs and outputs. It is within this margin that a domestic manufacturer must pay wages, rents, and interest on borrowed capital and from which he must extract his profit. The greater the margin, the more room there is to accommodate higher factor cost and/or the higher the potential margin. It can be increased either by raising tariffs on competing imports of finished products, lowering tariffs on imported inputs, or both. This dual effect of the tariff structure is called effective protection.

The domestic resource cost represents the ratio of total domestic cost, evaluated at social opportunity cost, to the net foreign exchange earned, i.e., world price less foreign cost. The DRC measure indicates the amount of domestic resources used per unit of foreign exchange earned or saved from the production of a tradable good. As Bautista and Tecson wrote (1979, IPPP):

DRC analysis offers useful insights into the relative efficiency of sectoral investments and the international competitiveness of domestic industries. Moreover, the DRC measure can be interpreted ex post sense to represent the social cost of promoting exports or of protecting import substituting industries under an existing policy regime.

Following Medalla, Tecson, Bautista, and Power (1995), a country has comparative advantage (disadvantage) in the production of the industry's output if the DRC/SER ratio is less (greater) than 1.2.

Table 19 : EPRs and DRCs of Transport Equipment and Total Manufacturing

	1983		1988		1994	
	Transport Equipment	All Manufacturing	Transport Equipment	All Manufacturing	Transport Equipment	All Manufacturing
Effective Protection Rate	50.60	42.80	48.80	28.30	57.32	19.17
Domestic Resource Cost	2.40	1.72	1.40	1.54	1.88	1.18

Sources: Tecson (1996), Pineda (1997), and Medalla (1998)

EPR estimates for the years 1983, 1988, and 1994 indicated the high levels of protection enjoyed by the motor vehicle industry. For all these years, the effective protection of the industry was always higher than the average for all the manufacturing sectors. The DRC estimates for the transport equipment sector indicated economic inefficiencies in terms of saving foreign exchange for all years 1983, 1988, and 1994. The results also showed that

the use of domestic resources by the vehicle assemblers was costly compared to their net foreign exchange saving. On the whole, the DRC results for these years under study were indicative of the country's lack of comparative advantage in the assembly of motor vehicles. The same result seemed to be borne out by the price comparison that follows.

Table 20 : Cost Comparison

Car Type	Pd: Ex-Factory Price		Pb:Price of Imported Counterpart (Japan)		Pd/Pb Ratio	
	1994	1995	1994	1995	1994	1995
Passenger Car 1.2L	348,687	389,468	110,500	105,818	3.16	3.68
Passenger Car 2.0 L	686,995	802,022	231,496	240,558	2.97	3.33
LCV: Aluminum Van (diesel)2500cc	476,846	616,333	201,623	157,084	2.37	3.92
LCV: Pick-up 2500cc	435,744	499,914	168,564	209,622	2.59	2.38

The price data were provided by one of the Japanese vehicle firms in the industry. The firm had 41% local content in 1994 and 44% in 1995.

Table 20 compares the production costs of vehicles assembled in the country to comparable vehicles manufactured and assembled in Japan. The data for the years 1994 and 1995 indicated the considerable differences in the costs of production between the two countries. It is evident from the table that vehicles assembled in the Philippines were more costly than completely built up units from Japan. With 41 percent local content, production costs for passenger cars ran about 3 times those in Japan. For light commercial vehicles, production costs were in the range of 2.37-2.59 times than those in Japan. At 44 percent local content in 1995, the cost differences even widened, except for pick-up vans. In 1995, the cost of a passenger car (1.2L) was 3.68 times its Japanese counterpart while the delivery van was 3.92 times its Japanese equivalent.

The cost differences and inefficiency of the car assembly industry may be explained partly by the low-volume production, i.e., assemblers are operating below the optimum size of production, and partly by the protection from foreign competition that assemblers received. For more than two decades, the car industry developed under a system of protection and increasing local content requirement on parts which were also protected by tariffs. This, however, resulted in a high cost structure which tended to price vehicles assembled in the country out of world markets.

It was against this background that the series of trade policy reforms were carried out beginning in 1995. The reforms resulted in the removal of import restrictions on passenger cars as well as in the reduction of tariff duties on CKD parts and on locally manufactured parts. The tariff rate on passenger cars was maintained at 40%. With these tariff policy changes, automobile-related tariff rates in the country are currently the lowest in ASEAN. The local content program was scheduled to be removed in the year 2000, although an appeal has been made to the WTO to extend it for another five years.

Limited Domestic Market

A number of studies on the Philippine car assembly industry showed that the fundamental obstacle to production efficiency is the diseconomy of scale associated with production oriented to internal markets of limited size. The local car market is small compared to the minimum scales of production required in the industry. Despite the small size of the Philippine market however, there are currently twenty companies that are assembling vehicles or producing them under contract for Japanese, Korean, and European manufacturers. As a result, the average output per assembler is extremely low, with only six passenger companies having production capacity of above 10,000 as of March 1996 (Pacific Business and Industries, 1996).

Local Content Requirement

The government's local content program requires assembly firms to use 40% domestic parts. While this regulation provides protection to domestic producers of parts, the effect is somewhat different on the assembly firms that must buy locally. The use of local components has entailed a "cost penalty" among car assemblers who often must bear the high cost of local inputs, the inability of some local suppliers to meet product quality specifications, and the untimely delivery of some local suppliers. Moreover, the program requires assemblers to put up their own parts manufacturing plants. Thus, Mitsubishi and Toyota invested in transmission plants, Honda and Kia constructed engine assembly plants, and Toyota and Nissan built stamping plants. To the extent that their exports of parts are not significant, the assemblers themselves also contribute to the "cost penalty".

In an earlier study on automotive parts manufacturing in the Philippines, Gimenez (1994) concluded that the government's local content program failed to develop the parts manufacturing sector as a world-class export sector. He pointed out that the parts manufacturing industry did not grow as fast as expected. The growth in exports was accounted for by a few components such as wiring harnesses, transmissions, radiators, aluminum wheels, plastic grills, and rubber hoses. Exports to OEM were limited to wiring harnesses (accounted for more than 70 percent of all auto parts exports), transmissions, plastic grills, and radiator hoses. On the whole, many of the parts manufactured and supplied to assemblers are not competitive in terms of both price and quality due to the following problems:

- lack of locally manufactured raw materials, hence many of the raw materials used by components manufacturers are imported
- low productivity and lack of quality measures among small and medium parts makers
- old equipment and technology, many are using technologies that are more than 20 years behind
- lack of mold design technology, tool and die making

The local content program is one major element contributing to the high cost of car assembly in the country. Local parts constituted between 35 to 43% of total cost in 1995. Except for those parts with significant exports, domestic parts are not competitive in terms of

both price and quality. The cost of domestic production does not approximate the cost of mass-produced parts in Japan or Thailand (Philippine Daily Inquirer, 1997). In a study of automotive industries in India and Latin America, Baranson (1969) noted that manufacturing cost increases as a function of domestic content. This can be attributed to the high cost of components and parts which are produced at relatively low volumes in small-scale plants. The backward linkage effects generated by assembly plants, which is usually cited as beneficial, actually gives rise to high-cost vehicle assembly

Taxation

Like tariffs, taxes inflate the prices of vehicles and thus, they reduce affordability and the demand for both imported and locally manufactured vehicles. Such discouragement is usually thought appropriate in the case of private cars while lesser taxes are imposed on vehicles intended for productive use. The prices of vehicles in the country have been substantially affected by the incidence of government tariffs and taxes. These frequently account for a significant part of the price paid by the final consumer.

The excise tax rules subject smaller and cheaper cars to taxes while bigger luxury cars are not. LCVs with seating capacity of less than 10 persons (including driver) are subject to tax. Commercial vehicles able to seat more than nine are not subject to taxes. To take advantage of this loophole, some assemblers just added rear seats to avail of the tax exemption. Recently, the government announced that it would impose excise taxes on all commercial vehicles based on engine size rather than seating capacity. These have been met by strong opposition from the industry. Since the mid 1990s, there have been proposals to amend existing tax rules and impose excise tax on AUVs which were exempted prior to the August 2000 announcement. While the industry recognizes the need to increase government revenue, the industry argues that this tax measure will restrain demand for AUVs and runs counter to the objective of encouraging the use of low cost vehicle. Moreover, the popularity of AUVs is due to their multi-purpose use and identifying whether the vehicle is intended for commercial or private use is very cumbersome. There is, therefore, a need to evaluate the overall efficiency gains from implementing the proposed tax changes vis-à-vis the current excise tax structure as well as the impact on affordability and domestic demand.

Section III: Surviving the Asian Financial Crisis

The Asian financial crisis of 1997 severely hit the automotive industry. Substantial reductions in sales, output, capacity utilization, employment, and exports were reported by the four firms interviewed for this study.

Assemblers attributed the tremendous drop in sales to the tighter access to credit as well as to high lending rates. At least 50 to 60 percent of the vehicle market are sold through bank financing. With the crisis, loan defaults mounted and this resulted in repossessions. Financing companies became more cautious in lending automotive loans and required

between 30 to 40 percent down payment, compared to only 10 percent down payment prior to the crisis.

As the industry has been highly import dependent, the currency depreciation resulted in higher cost of production and increased vehicle selling prices. This further dampened domestic demand for new vehicles. Vehicle sales continued to decline despite the aggressive promotional gimmicks offered by the car companies.

To weather the storm of the crisis, automotive firms tried to cut down on their costs. Austerity measures such as lower production, downsized labor force, and other budgetary cuts on advertising and promotional activities were adopted by the firms. At the same time, some firms engaged in marketing strategies to perk up the interest of buyers. Honda provided special financing deals and incentives. Toyota implemented financing and discounts for its Corolla model. Mitsubishi also did a similar promotion for its Lancer.

Honda

The Asian financial crisis has tremendously reduced Honda's sales from a high of 22,000 units prior to the crisis to 11,000 units. While a slow recovery is felt, Honda thinks that it would take three to four more years before the industry could go back to its pre-crisis level of production. With the decline in demand, their operations were reduced and the company had to retrench some of its workers. Since the crisis, Honda's operation has been down from two to only one shift.

Amidst the crisis, the company implemented cost reduction programs aimed at reducing energy cost, improving the quality of their products, and increasing workers' productivity. Its parent company in Japan extended assistance to the company by providing discounts on their imported raw materials.

Toyota

With the Asian crisis, Toyota's production was drastically cut from 3,500 units prior to the crisis (1996) to 2,600 in 1997 and further to only 1004 units in 1998. Its capacity utilization was down to 25 percent of normal capacity (i.e., 55,000 units). Its two plants in Laguna operated at less than single shift capacity. Thus, Toyota had to reduce its costs. To decrease its workforce, it offered a voluntary separation program for its employees. The crisis also resulted in a delay in its planned investments. Had it not been for the popularity of AUVs, the impact of the crisis on Toyota would have been a lot worse. Toyota's AUVs accounted for the bulk of its vehicle sales during the crisis. With depressed demand in the region, its car parts exports were severely affected. Today, recovery seems to be near as Toyota has been operating at 35 percent capacity. Moreover, as the economies of Malaysia and Thailand start to pick up, Toyota's exports are also beginning to expand.

Mitsubishi

The Asian financial crisis hurt the company tremendously. From a 55,000 capacity utilization prior to the crisis, its capacity was down to 17,000-18,000 units. Some recovery has been felt starting in the year 2000, although this was still considered to be very minimal. As a result of the crisis, its production substantially declined and it had to retrench about 700

workers. To mitigate the negative effects of the crisis, the company continued to invest in plant improvement facilities to boost its efficiency and quality as well as to invest in pollution control equipment.

Nissan

Although some recovery signs have been felt in the early months of 2000, Nissan has been barely able to earn. Since the beginning of the crisis, their capacity utilization has been down to less than 25 percent. To cut down on their costs, the company has been implementing cost reduction programs. To date, the company has retrenched close to 40 percent of its workforce (about 600 workers). To reduce its carrying costs, the company has been drawing down its inventories. Some financial assistance was extended by its mother company in terms of longer suppliers' credit. The company has also extended credit terms to its local dealers.

Section IV: Prospects for the Automotive Industry

Asia is currently viewed to be the growth region in the world with developing Asian countries having considerable prospects particularly in the automotive industry. Investors believe that Southeast Asia is the place to go for the automotive industry following the Asian financial crisis. The traditional markets for vehicles like Western Europe and North America are now nearing maturity stage and sales have reportedly been either flat or declining. Top American and European car makers are thus looking towards Asia where a growing middle class with rapidly growing incomes present opportunities for growth.

The international automotive industry has been undergoing a process of globalization since the 1970s. Its global operations are highly complex and are frequently integrated within the strategies of multinational organizations. The globalization thrust works to the advantage of the region, the constant relocation and internationalisation of the industry, both in CBU and components, offer numerous opportunities for it. The region has cost advantages in terms of low labor cost and relevant labor skills. This is further reinforced by the regions's liberalization policies as well as its access to e-commerce and other technology.

With the implementation of the ASEAN Free Trade Area by the year 2003, top car makers are already positioning for the huge integrated market that offers preferential tariff of zero to five percent. The ceiling of five percent is low enough to allow the development of free trade in the region. Estimates on the region's automotive demand are expected to hit 7.5 million units by the year 2003. This forecast was adjusted to take into account the slow growth brought about by the Asian crisis. Americans and Europeans are aiming for global economies of scale in planning for the day when free trade reigns across the region. Their strategy is to put their factories wherever the combination of labor, supplies and transport works best and to export from them to the world.

Japanese car makers currently dominate the ASEAN region. In response to the import liberalization and local content policies pursued by these countries, Japan has treated each ASEAN country as a distinct market and invested in assembly and parts and components plants in each market. This strategy may no longer be efficient if AFTA goes ahead.

Government policy is only one of the many variables that influence the future structure of the industry. The strategies of multinational corporations play a major role. Top US and European firms have already decided to make Thailand their export base. What does AFTA imply for a small player, like the Philippines, in this large global industry?

A long term forecast by the Economist Intelligence Unit in 1998 placed the Philippines among countries with good economic prospects. In a study conducted by Standard and Poor's DRI Global Automotive group indicated that the Philippines' motorization rate of 10.8 cars/1000 people was still below that of Malaysia (143) and Thailand (37), although this was higher than Indonesia's 3.7. The industry is currently positioning the development of the AUV (Tamaraw FX-Revo, Adventure, and Highlander) to be the country's niche. There are only two ASEAN countries that are manufacturing AUVs: Philippines (left hand drive) and Indonesia (right hand drive). Ford eyes its Philippine plant as its export base for small cars. There are reports that Yulon plans to transform the Philippines as its production base for all Nissan operations in Southeast Asia. For components, Toyota and Mitsubishi intend to position the Philippines as production base for transmissions. Honda also expressed its plan to make the country its production and export base for parts.

The industry is well aware of the implementation of AFTA and the firms are getting ready in terms of improving their efficiency in order to compete. Their detailed strategies, however, are affected by a number of factors, including the following:

- Strategies of their parent companies
- Differences in consumer demand for vehicle between the Philippines and other ASEAN markets
- Competitiveness of the Philippine motor vehicle industry.

Top executives from the top four automotive firms in the country and from newcomer Ford were interviewed for this paper in order to see how they are gearing up for the accelerated implementation of AFTA. The Japanese firms interviewed for the study are still waiting for specific instructions from their parent companies. The firms are aware of the different options that are available to them. They all want to be able to export CBUs and have a fairly good idea of what their overall strategy would most likely be, although the details would have to come from their parent companies.

In the following interviews, the executives bare their plans and overall strategies after the crisis and in case AFTA goes ahead.

Ford : Seemed All Geared Up For AFTA Liberalization

With the expected high growth prospects in Asia and hopes of trade liberalization through AFTA, leading American and European car producers have been setting up their plants in parts of Asia which is largely dominated by Japanese car makers. In 1998, Ford re-entered the Philippines and invested US$100 million to build a car assembly plant in Laguna. Ford was one of the first five car manufacturers that participated in the government's Progressive Car Manufacturing Program initiated in 1973. With the economic crisis that hit

the country in the early 1980s, the industry nearly collapsed as Ford together with General Motors (GM) pulled out of the country while Delta Motors (Toyota's assembler) closed down.

Ford has registered with the Philippine Economic Zone Authority (PEZA) as a domestic-oriented enterprise located in an economic zone and as a car assembler with the Board of Investments (BOI). Its PEZA registration allowed it to enjoy only value added tax (VAT)-free capital equipment and machinery imports, but it had to pay duties on these imports. Ford waived the income tax holiday and opted instead to avail of the 5% gross income tax scheme. While it applied for SKD importation, this was never approved by the government.

Ford's operations commenced in September 1999 as it assembled passenger cars (Ford Lynx) and commercial vehicles (Ford Ranger). As of 31 July 2000, Ford assembled 2,020 units of Ford Lynx and 780 units of Ranger. Ford Lynx currently has 39.5 percent local content rate consisting mostly of locally available parts such as radiators, batteries, glass, tires, and harnesses. Ford Ranger has 43.5 percent local content rate. By the end of December 2000, Ford aims to increase its local content to 40.3 percent and 43.8 percent for Lynx and Ranger, respectively. The CKD kits are imported from Mazda Japan where Ford currently has 33 percent shareholdings. Ford Philippines sources its parts and components from the following domestic firms:

On a global scale, Ford currently purchases US$200 million on parts sourced domestically from Lear/United Technologies, Yazaki Torres, International Wire, and Automotive Interiors Corporation (AIC).

Ford's AICO arrangement involves the exchange of motor vehicle parts between Thailand and the Philippines. The latter exports about 60 car engines per week and imports Ranger parts from Thailand.

At present, Ford has four dealers in Metro Manila (there are two more are under construction) and four in Pampanga, Cabanatuan, Cebu, and Davao.

Ford intends to implement a supplier's assistance program focusing on the development of small and medium automotive parts manufacturers in the Philippines. Knowing that these enterprises do not have access to both capital and technology, Ford has committed to support these firms in acquiring capital through loan interest subvention (subsidy) and technology transfer which are necessary for them to compete in the world market.

Accompanying Ford in its decision to invest in the country were other American companies like Visteon Automotive Systems, Arvin Autobus, and Photocircuits. Visteon Automotive Systems intends to put up a powertrain control system that includes products like throttle bodies, regulators, fuel injectors, ignition coils, starter motors, alternators, plastic fuel tanks, fuel pumps, sensors, and electronic control modules. Visteon invested US$ 37 million to manufacture fuel delivery system and air/fuel charging system and has the capability to integrate and assemble the entire fuel system. It hopes to transform the Philippines into one of its manufacturing bases (another one is operating in Thailand) in its plan to penetrate the Asian region. It plans to export more than 70 percent of its annual production with an

estimated value of more than US$50 million by the year 2005. Visteon is expected to go into full commercial operation next year.

Despite the crisis in the region, Ford did not postpone its planned investments in the country. Ford strongly believes that the Philippines and the ASEAN countries are the key growth markets for the world's automotive industry. Ford eyes its Thailand plant to be its export base for its pick-up trucks while its Philippine plant will supply the small cars (Ford Lynx/Laser) in the region. If the company decides to invest in AUV manufacturing, Indonesia would most likely be their export base.

Ford is optimistic that the industry would grow between 15 to 19 percent this year. It also expects full recovery from the crisis by the year 2002. Ford plans to reach a 10 to 20 percent market share in the Philippines and targets a 10 percent market share in the region. With its strategy and current investments in the region, Ford is confident that it is ready to compete once AFTA goes ahead.

Honda: Wait and See What AFTA Holds for Us

Honda invested in the Philippine passenger car industry in 1991 following the basic philosophy of Japanese companies of "manufacturing where you sell". Its vision was to produce primarily for the domestic market with a plant designed to assemble 10,000 units annually. Its only commitment was to export engine parts, plastic parts and metal stampings. Currently, these account for around 30 percent of their total exports.

Honda plans to export CBUs in the future. Their strategy is to strengthen their competitiveness and focus on the ASEAN market. Though aware of the liberalization by AFTA, the company does not seem to have definite plans yet on the type of cars or specific models to be exported in the region. They want to wait and see what happens if AFTA goes ahead. The company noted that with liberalization, it would be competing not only against other car manufacturers but against other Honda cars as well manufactured in other ASEAN countries.

For the Philippine domestic market, they would still focus on the Honda Civic. At present, Honda does not have AUVs, although the company is keen on studying the viability of adding AUVs in their assembly line.

Honda Cars and Honda Engine have recently merged. With the merger, foreign ownership increased from 70 percent to 74.4 percent while local ownership declined to 25.6 percent. The domestic partners are the Ayalas and Yuchengcos.

In anticipation of continuous growth in domestic demand, Honda increased its investments by expanding the capacity of its painting shop.

Honda is able to fulfil its required local content ratio. Currently the Honda City has a local content rate of 70 percent, Civic and Accord have 45 percent, and CRV has 42 percent. The company believes that to reduce its production cost, it must increase its local content. Honda has about 80 domestic suppliers which include Yasaki Torres, IWSP, Goodyear,

Tokyo Seat, Philippine Carpet, Fujitsu, Clarion, and Kenwood. It also sources its materials from 15-16 Japanese suppliers like FCC and F-Tech which are PEZA registered enterprises. Their ASEAN local content rate is about 40 to 65 percent.

Honda has been an AICO participant since 1995. Its imports consist of metal stamping, plastic parts, and engine components from Thailand, Indonesia, and Malaysia. It exports basically the same products to these countries. It also exports these parts to non-ASEAN countries like Taiwan, India, and Pakistan.

At present Honda has 14 dealers in the country, seven are located in Metro Manila and the rest are in major provinces in the country.

Honda believes that next year's growth would still be limited and would not differ much from this year. As the industry is heavily import dependent, Honda's main concern is the exchange rate and the heavy depreciation of the peso. Honda is also worried about the current excise tax changes and their negative effect on demand and sales.

Toyota: Searching For Its AFTA Vehicle Export

Just like the other Japanese companies, Toyota invested in the Philippines primarily to produce vehicles for the domestic market. It brought along other firms under the Toyota Group of Companies when it decided to come back to the country. In preparation for the implementation of AFTA, Toyota is thinking of exporting CBUs. The company hopes that it would be able to develop a particular model that is unique to the country. Indonesia would most likely be the production base for AUVs, Thailand for pick-up trucks, and Malaysia for passenger cars given its relatively huge market and the government support to develop a national car. The company acknowledges the difficulties that the Philippines would face in competing in the CBU market once liberalization through AFTA, which represents a bigger playing field, pushes through. One possibility for the CBU market would be for Toyota Philippines to develop the left-hand drive AUVs (with Indonesia manufacturing the right-hand drive). The firm would still continue to export car parts, where the Philippines's competitive edge seems to be and thus, Toyota expects to generate increased demand for these products once AFTA is implemented.

Toyota Auto parts currently manufactures transmissions, precision components, and body panels. These are exported to Thailand, Indonesia, Vietnam, and Malaysia under the AICO scheme as well as to non-ASEAN countries like Japan and Taiwan. In exchange, Toyota imports diesel engines from Thailand, gas engines from Indonesia, and radiators, shock absorbers, and other car parts from Malaysia. Toyota also imports Revo and Camry components from Taiwan and Australia, respectively.

Toyota's investments in the country have already reached P5 billion. Japanese equity is about 51 percent and the rest is controlled by the Filipino partners headed by the Metrobank Group (George Ty).

Toyota's current local content rate is 45 percent for passenger cars and 55 percent for AUVs. Toyota, along with other domestic manufacturers, fully supports the local parts makers' appeal to extend the local content program for another five years. Under the WTO,

the Philippines, a member country, committed to remove TRIMS by the year 2000. Toyota's policy is to source domestically whether or not a local content program is in place. For as long as domestic products are competitive in terms of price, quality, and delivery, Toyota would prefer to purchase locally. Its car seats, tires, and steering wheels are sourced locally.

Toyota has recently launched new models, the Echo and RAV4. As this activity is costly and requires a lot of investments, Toyota does not foresee the introduction of new models in the near future. It would continue to manufacture AUVs and passenger cars (Corolla size) and aims to maintain its market share in the future and try to increase it, though slightly, as it is very hard to set a target.

Currently, Toyota has 16 dealers most of which are located in Metro Manila.

As it is now, the existing political and economic climate in the Philippines looks unfavorable. Nevertheless, Toyota would stay if there are market opportunities. Toyota has a solid foundation with the presence of its companies not only in the Philippines, but also in Thailand, Malaysia, Indonesia, and Vietnam. While there are still uncertainty as to what vehicle type or models and what vehicle parts to produce, Toyota is flexible enough to face AFTA.

Mitsubishi Motors: Hesitantly Getting Ready for AFTA

Just like the rest of the industry, Mitsubishi Motors is preparing for AFTA by reducing its costs of production. It has implemented a vendor program focusing on ability to provide acceptable quality, cost, and delivery. To date, Mitsubishi is partially successful in its effort to lower costs. The company would like to focus on their big volume vehicle model, AUVs. These vehicles would be their export product not only within ASEAN but to other countries as well like Cambodia, Myanmar, and even Vietnam. In the Philippines, Mitsubishi hopes to continue manufacturing their passenger car Lancer and their AUVs as their plants are here. The company sees the situation as a very fluid one, it views the future with uncertainty and is not confident that it would succeed since the odds are against the company. If its continued operations would not be feasible once AFTA goes through, the company plans to engage in trading activities by importing CBUs.

Wit regard to its AICO scheme, Mitsubishi imports parts for the Adventure from Indonesia and parts of the Lancer from Thailand and in exchange, the company exports mainly transmissions and to a lesser extent, pressed parts and suspension parts to both countries.

Currently, Mitsubishi has a local content rate of between 45 to 50 percent for passenger cars, 55 percent for AUVs, and 30 percent for trucks. Its domestic suppliers include the following firms: Yazaki –Torres for wire harnesses, Associated Wire, Nippon Paint, Republic Glass, Portillo Seats, Philippine Carpet, Aluminum Wheels, F-tech (suspension parts), Associated Rubber, Transworld Rubber, Rubberwood, Robert's (radiators, coil, leaf spring), Uratex (foam parts), as well as battery makers. It also sources its axles and transmission assembly from its subsidiary, Asian Transmission. Mitsubishi believes that it should focus more on its local vendors and develop local manufacturing capability as well as its linkages with its vendors.

Mitsubishi hopes to maintain its current market share and try to increase it even more. At present, the company has 38 dealers/outlets, eight of which are located in Metro Manila.

The company believes that given the country's motorization rate (ratio of population to total number of vehicles), around 10 persons per vehicle in Metro Manila and roughly 50 persons per vehicle in the provinces, there is still a large potential market for motor vehicles in the country. The government needs to provide the proper economic environment as well as to make motorization an integral part of economic development. It should reduce the cost of vehicles by lowering tariffs on inputs and reducing excise taxes, particularly on AUVs. Only by removing these hurdles will the industry become a profitable venture.

Nissan: Worriedly Awaiting the Signal from Japan

In 1997, Nissan built a new and more modern assembly plant in Sta. Rosa, Laguna. The new plant together with new capital equipment amounted to P2 billion. Nissan decided to invest in these facilities to expand its capacity in response to the high growth of the industry in previous years and the expectation that this growing domestic demand would continue in the future. Little did the company knew that during the same time, a crisis was already in the offing. As the crisis struck since the middle of 1997, Nissan has been unable to earn positively. With its continuing operating losses, the company has not been able to recover any of its previous investments. In need of fresh capital infusion, the Japanese sold three-quarters of their shareholdings to their Taiwanese partner, , Yulon Motor Co. which is the leading car maker inTaiwan.

The implementation of AFTA in 2002 will make it more difficult for Nissan to compete. They know that AFTA represents a larger, open market where anybody can come in and bring in any vehicle model. This situation is expected to give rise to stiffer competition. There are no clear directions yet on how the company plans to address the future competition arising from AFTA. The company is still waiting for specific instructions on what its role will be in the global operations of its mother company, Nissan, in Japan. There are several options that the company is presently studying:

- Nissan can continue its CKD operations and focus on their biggest selling model, Sentra, and export both RHD and LHD passenger cars.
- Nissan can engage in CBU operations, that is, import and engage in vehicle trading activities, although one major drawback in considering this option is what to do with its newly constructed assembly facilities.
- Nissan can concentrate in manufacturing transmissions and press panels to be sold in both the domestic and foreign markets.
- Nissan can engage in the assembly of AUVs.
- Nissan can engage in providing vehicle service and repair.

While the AFTA would be beneficial to consumers, they are worried that at the first onset, AFTA would result in increasing unemployment and investment losses for domestic vehicle assemblers like Nissan and their suppliers.

Nissan is currently able to meet its local content requirement of 40 percent. Their target is a higher rate, possibly double this rate. Their AICO application has not yet been approved and is still being reviewed by the government. They plan to export power steering tubes, applied brake tubes, and reserve tanks to Thailand and Malaysia and import panels, seat components, and electrical parts from the both countries. Nissan is exporting body parts, tire carriers, and tire covers to within ASEAN as well as to Japan. Although, exports of these products represent a very small portion of their total production (less than $100,000).

Nissan has a total of 31 dealers distributed all over the country. Around 80 percent of these dealers are located in Metro Manila. Nissan aims to maintain its current market share and hopefully, be able to increase it further.

Nissan shares the sentiments of other industry players most especially the lack of consistency in government policy in implementing the Car Development Program, rules on SKD importation, as well as on the imposition of excise taxes.

A Summing Up

The Philippine automotive industry has been affected by a wide range of trade policies such as tariff reductions, import restrictions, and local content scheme. The 1990s witnessed trade policy reforms ranging from tariff reductions, removal of import restrictions, industry deregulation, and the plan to abolish the local content program. These reforms were aimed at achieving cost competitiveness and export orientation. These were part of economy-wide changes to reduce protection and remove unnecessary barriers to the efficient use of resources across all sectors of the Philippine economy. These policy changes must continue to take place and be implemented as planned if the industry is to achieve its full potential in the face of global competition. Meanwhile, the government must provide stable industry policy so that firms can set their targets and plan their investments in the light of market opportunities. Recent inconsistencies in implementing the rules on SKD importation as well as on excise taxes must be immediately corrected and avoided in the future.

The adoption of the AFTA-CEPT scheme would entail intraregional tariffs ranging from zero to five percent. Consequently, this low and almost uniform tariff structure will substanstially reduce effective protection in the industry. It will also allow the entry of relatively cheaper imports which is expected to heighten competition in the industry. To survive, domestic firms must work doubly hard to strengthen their competitiveness in anticipation of the day when no protection will be in place. This would require improvements in efficiency and productivity, reduction in production costs (particularly raw materials cost which account for a major percentage of motor vehicle costs), and expansion of market size (by exporting or reducing the number of models and plants serving the domestic market) to achieve economies of scale.

AFTA and the increasing globalization (which occurs through trade and foreign direct investment) of the industry poses both risks and opportunities for us. The opportunities would come from the effects of liberalization combined with the cost advantages that firms in the country may offer. Some sectors in the industry fear that AFTA would precipitate the industry's total demise as domestic firms would not be able to compete and would no longer engage in CKD assembly. Definitely, there will be short run adjustment costs as the new liberalized environment will affect firms differently. The efficient ones would prosper while

those which remain inefficient would fail. This might result in a smaller number of firms in the future and provided they are able to operate at an efficient scale and export successfully, the industry might still be sustainable. However, without the accompanying changes in their cost competitiveness and market orientation, the chances of domestic assemblers and parts makers in competing globally might be slim.

Data from the 1999 Japanese Automakers' Cooperative Assistance indicated that as of 1998, there were only two domestic firms, Nissan and Nissan Diesel, that were able to export CBUs. Nissan exported 120 units of Cefiro to Taiwan and 300 units of AD Resort to Syria while Nissan Diesel exported 71 large buses to Japan and China. In contrast, during the same year, Mitsubishi Thailand exported 59,023 CBUs (one-ton pickup trucks), 2,930 CKD units (pickup), and 1720 units of passenger cars. Hino Thailand exported 18 CBUs of GH model while Mazda Thailand exported 1,855 commercial vehicles to Australia and New Zealand. Daihatsu Indonesia exported 79 CBUs commercial vehicles and 280 CKD units commercial vehicles. Indonesia's exports of Toyota Kijang amounted to 374 CBUs and 7,690 CKD units. In Malaysia, exports of passenger cars reached 25,280 units in 1997 and 20,484 units in 1998 (see Table 21).

There is no doubt that these export figures indicate that the Philippine automotive industry is not yet globally competitive. To survive the five percent tariff regime, domestic firms will have to bring down their production costs in line with the costs and quality of others. It is only by operating at an efficient scale and exporting successfully that the industry may be sustainable in the future.

Table 21: Automotive Exports in Indonesia, Malaysia, Thailand, and Philippines

	1994	1995	1996	1997	1998
Indonesia					
Passenger Cars	-	-	-	-	3
Commercial Vehicles	4333	5663	5890	5451	8455
Total	**4333**	**5663**	**5890**	**5451**	**8458**
Thailand					
Passenger Cars	1202	-	-	980	6942
Commercial Vehicles	6981	7190	14260	40655	64607
Total	**8183**	**7190**	**14260**	**41635**	**71549**
Malaysia					
Passenger Cars	15000	20800	21900	25280	20484
Commercial Vehicles	16	149	92	234	277
Total	**15016**	**20949**	**21992**	**25514**	**20761**
Philippines					
Passenger Cars	-	-	-	-	120
Commercial Vehicles	12	18	18	47	376
Total	**12**	**18**	**18**	**47**	**496**

Source: Japanese Automakers' Cooperative Assistance (JAMA), 1999

As the international changes continue, the Philippine domestic car industry will have to evolve further if it is to be competitive in a global context. As an initial step, it is necessary

to reduce tariff protection and remove the local content program in order to create a competitive domestic market which will put pressure on domestic firms to continue their efforts to improve their performance, reduce costs and increase productivity. It is only by doing so that firms will have a chance in competing in a global industry. Delaying the reforms would simply delay the realization of potential benefits. Firms which ask the government to postpone the reforms and retain tariff protection to enable them to compete have very little prospect of exporting successfully. Delaying the reforms is not a guarantee that these firms would become internationally competitive.