

The ASEAN Free-Trade Area and its implications on the battery industry

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Abstract

In February, 1992, the six ASEAN member nations agreed to reduce tariffs and thus, eventually, to create an ASEAN Free Trade Area (AFTA) over 15 years. AFTA will lead to more competition in the high-growth ASEAN battery domestic market. Already about ten companies from four countries export both to markets that are rigorous in quality (e.g., the USA and Australia) and to heavily discounted markets, e.g., the Middle East. To date, however, these manufacturers rarely sell to other Asean markets outside their home country. AFTA should also encourage manufacturers of battery equipment, mould making, separators, battery electricals, and testing equipment to locate their facilities in an Asean country. Technology and productivity is high and wages are reasonable in ASEAN nations and with AFTA, the markets are larger. Manufacturing complementation programmes will also become an attractive option.

Introduction

My assignment is to speak on the ASEAN Free-Trade Area (AFTA) and its implications with respect to the battery industry in particular. This topic concerns a regional trade development that may have significant consequences for all Asian battery and associated companies during the next decade.

I was privileged to be the Philippine's signatory to the ASEAN agreement in Singapore in February 1992 to establish trade mechanisms that would lead to AFTA over the next fifteen years. The agreement utilized the Common Effective Preferential Tariff (CEPT) scheme to reduce tariffs systematically for all manufactured goods. These included capital equipment and processed agricultural products.

Some products are to be assigned to a fast-track programme by which tariffs, mostly at 20% or below, will go down further to 0 to 5% in seven or ten years. Other products will proceed along a normal track, i.e., tariffs now above 20% will reduce to 0 to 5% in ten or fifteen years. Countries may choose to place some products on a temporary exclusion list, but such an exemption will end in the year 2000. It has been reported that Malaysia excluded batteries in the AFTA negotiations. Permanent exclusions apply to products associated with defence or health issues. Countries may choose to exclude these items because of restrictions that arise from other local legislation. At the end of the fifteen-year period, however, all tariffs for intra-ASEAN trade of manufactured goods will be down to 0 to 5%. Within seven to ten years, 60% of all manufactured goods traded among ASEAN countries are expected to be at 0 to 5% tariffs.

There are additional rules for ASEAN local-content requirements to prevent non-ASEAN countries from using a low-tariff country as a staging point for re-exports. By and large, a workable framework has been established to accelerate intra-ASEAN trade.

Background on ASEAN

The above is the basic scheme for AFTA. The agreement lacks meaning, however, unless it is explained first within the context of ASEAN and, second, within the broad framework of developments in international trade.

Table 1 provides some basic facts about ASEAN for our non-ASEAN friends. Six countries compose ASEAN, namely: Brunei Darassalam, Indonesia, Malaysia, Singapore, Thailand and the Philippines. The region has a population of 330 million with a combined GNP of US\$ 312 billion. On average, per capita GNP is close to US\$ 1000 and the economic growth rates are generally high. ASEAN may also grow in the number of country members. At present, Papua New Guinea, Vietnam and Laos have observer status and may be granted membership at an appropriate time. Within the next decade, the Southeast Asian countries of Myanmar and Cambodia are likely to be invited to join, and further countries have applied for membership.

ASEAN has had cooperative ventures in the political and economic fields. In economics, there have been ASEAN Joint Ventures in: basic industries; complementation programmes in the vehicle and other industries; cooperation in communications, energy, agriculture; a Preferential Tariff Agreement that reduces duties by as much as 50% for trade in selected products.

To date, intra-ASEAN trade has been modest. Countries in the region trade more with the USA, Japan and the European Economic Community. ASEAN trade accounted for as low as 9% of Philippine trade and as high as 40% for Singapore.

International trade developments

It is not possible to discuss AFTA without considering international trade developments. Further, one cannot escape some discussion of the Uruguay Round, the North American Free-Trade Area (NAFTA), the East Asia Economic Caucus (EAEC)

TABLE 1
Selected statistics for ASEAN countries in 1993

Country	Population ($\times 10^6$)	GNP (per capita) (US\$)	GDP growth (%)	Export in 12 months (US\$)	INF cpi (%)
Brunei Darussalam	0.3	17500	3.0	2.6	2.5
Indonesia	188.4	645	5.8	33.9	8.9
Malaysia	18.8	2965	8.1	42.5	3.7
Singapore	3.1	15200	7.1	63.4	2.3
Thailand	58.6	1660	7.4	33.2	3.6
Philippines	64.2	835	0.2	10.0	6.7

and the Asia Pacific Economic Cooperation (APEC). Every time that I have to speak on these international developments with their acronyms, I worry that I will bore my audience to tears. This would qualify as a crime here in the lovely island of Bali.

Therefore, let me try to explain these international forces around a few basic principles. There is a broad, sweeping and, to my mind, revolutionary multilateral effort to bring down trade barriers worldwide through what has become known as the Uruguay Round. Agreements are to be forged in many areas that affect trade. These include tariff liberalization, intellectual property, investment measures, environmental sanctions, services, and many other areas that I shall not mention because they are not relevant to the battery industry.

Two basic principles form the driving force in the Uruguay Round, namely, market access and equal treatment. Market access simply means reducing tariffs and all bottlenecks to trade such as quotas, uneven technical standards, local content requirements, etc. Equal treatment simply says that whatever you offer the locals, you should also offer to the foreigner.

Although the Uruguay Round talks failed in late 1990, there are now efforts to resuscitate them. The system failed principally because of disagreements on agriculture which, as is well known, is a politically sensitive issue in most countries, particularly in the EEC, Japan and Korea. If the eight-month-old Clinton administration, the newly elected Hosokawa Government, the EEC leadership, and Mr Peter Sutherland the new head of GATT from the EEC, all put trade high in their agenda and provide that political will, then an overall agreement will be likely.

If the discussions stumble along as they have in the past years, then there is a greater likelihood of trading blocs emerging. The EEC has been gathering strength for some four decades now. NAFTA, which includes the USA, Canada and Mexico, faces some legislative and judicial challenges in the USA, but will become a force once these hurdles are overcome. If trade blocs prosper, Asia may end up developing its own alliances. One alternative is an initiative of Prime Minister Mahathir of Malaysia. This is known as the East Asia Economic Caucus (EAEC) and aims to include ASEAN, Japan, Korea, the other NICs and other countries in the Asia Pacific part of the world. Already, the key countries meet together with the USA and Canada in what is known as Asia-Pacific Economic Cooperation (APEC). This is an annual meeting of foreign and trade ministers, and this year will include a gathering of heads of government in Seattle.

There is no doubt that a new international order of more liberalized trade will lead to a dramatic improvement in the economic welfare of the citizens of the world. But this will also mean there will be major adjustments for both countries and industries, and for their corporations. It is small wonder that the loftiest hopes for trade and commerce can be dashed on the bargaining tables of governments.

Developments since Singapore

Since the Singapore summit in 1992, the media – particularly the Western media – has been critical of AFTA. Often, quotes are presented from trade experts or academics who argue that the 15-year tariff-reduction scheme is much too long, especially in comparison with the more dramatic changes in the EEC. Doubts are also expressed as to whether there is enough political resolve to face up to protected industries who will protest and argue for the delayed implementation of the tariff-reduction programme.

What is the bureaucracy's report on AFTA's progress? I can only remark that the Philippines view is that there has been solid progress, especially given past experience that shows that proposals such as AFTA sometimes grind at a slow pace due to differences at the bargaining table. A summary of products that are under fast or normal track, or are subject to temporary or permanent exclusions, is given in Table 2.

Again a little more background. Singapore is virtually a tax-free zone; the tariffs in Brunei are generally low, with the maximum at 20%. In terms of per capita income, these two countries are by far the most prosperous in ASEAN. Malaysia has recently undergone a major tariff-liberalization programme. The most populated countries, i.e., Indonesia, the Philippines and Thailand, have the highest tariffs but they also are going through the process of tariff reductions for manufactured goods. Even before AFTA, the Philippines had just started a five-year tariff liberalization so that manufactured goods would have a tariff ceiling of 30%.

As to be expected, there is some debate over which industries should be put in the fast-track programme. Various issues have been raised by some industries who have protested against the implementation schemes of AFTA. The more general complaints are that companies are still not ready for tougher competition and need lower costs of interest, logistics and energy. There are also troublesome disagreements among ASEAN industries because Preferential Tariff Agreements are in place and these in combination with the CEPT, AFTI and a given country's independent trade liberalization programme could result in wide disparities in tariffs among other countries.

Likelihood of ASEAN battery trade

The ASEAN battery domestic markets, like most other markets, are driven by motor vehicle original equipment and replacement demand (see Tables 3 to 6). Motor vehicle registrations total 14 222 million; Indonesia accounts for 46%. Thus, the ASEAN market, though much larger than the US and Japanese markets in population, is only about 25, 20 and 17% of the Japanese, EEC and US markets, respectively. It can be surmised, however, that the growth rates are much more brisk than in other markets. This is demonstrated by the dramatic increase in new vehicle sales in Thailand.

Four of the six ASEAN countries are net exporters of batteries, but the total exports amount to only about US\$ 40 million (see Table 7). From limited data, it can be deduced that Indonesia, Malaysia, the Philippines and Thailand export between US\$ 8 and 14 million. About ten companies in ASEAN are regular exporters. From the foreign trade statistics of the various countries, Indonesia's main market is the UK; for Thailand, it is Hong Kong and Bahrain; for Malaysia, it is Lebanon, Singapore, Australia and Nigeria; for the Philippines, it is Australia and the USA. Although the manufacturing facilities in Singapore are modest, the country is active in re-exporting ASEAN and non-ASEAN batteries in many markets.

How good and how cost-competitive are ASEAN batteries? ASEAN batteries have hurdled both the quality standards of a relatively rigorous market, such as Australia, and the price competitiveness in a heavily discounted market such as that in the Middle East. ASEAN accounted for as much as 46% of all Australian battery imports in 1992. This level is likely to increase with the higher costs and the strong currencies of Korea and Taiwan. There are also the beginnings of a global reach with the purchase of a UK battery company by an Indonesian firm, and a USA West Coast battery maker by a Philippine company.

TABLE 2

Summary of list of products, accelerated tariff reduction, normal rate reduction and exclusion list under the CEPT as of February, 1993

Country	Hs digit level	Inclusion			Subtotal	% (F) (J)	Exclusion			Total
		Fast-track tariff reduction programme	Normal-track tariff reduction programme				Temporary exemption	Permanent general exemption		
Brunei Darussalam	9	2357	2760	5111	90.57	338	195	5650		
Indonesia	9	2831	4523	7354	77.97	1707	370	9431		
Malaysia	9	3141	7223	10364	83.23	609	773	11746		
Philippines	8	1033	3418	4451	79.61	714	426	5591		
Singapore	9	2205	3517	5722	97.95	120	120	5842		
Thailand	6	1936	2764	4700	88.38	118 ^a	500 ^b	5318		

^aTemporary exclusions are based on a 10-digit level. Figures under the Permanent Exclusion and General Exemption are at a 6-digit level, based on certain assumptions.

^bThese data should have been reconfirmed by 31 July 1993. So far, only Singapore and the Philippines have confirmed.

TABLE 3

World market for automotive batteries (in millions of units) [1, 2]

Region	Actual 1990	Actual 1991	Forecast 1995
North America	84.9	81.4	93.9
Latin America	17.9	18.9	21.8
Europe	67.3	69.6	75.4
Middle East/Africa	10.0	9.6	12.3
Asia/Pacific	53.7	58.8	64.2
Total	233.8	238.3	267.6

TABLE 4

Flow of automotive batteries: 1989 (in millions of units) [3]

Region	Net exports	Net imports
North America		2.2
Latin America		2.0
Middle East/Africa		3.5
Western Europe	1.5	
Asia/Pacific	6.2	
Total	7.7	7.7

TABLE 5

Estimated motor vehicle registrations of ASEAN members (in millions of units) [4]^a

Indonesia	6538
Thailand	2974
Malaysia	2728
Philippines	1400
Singapore	450
Brunei	132
Total	14222

^aData based on historical average annual growth rates of the different countries.

TABLE 6

Estimated motorcycle registrations of ASEAN members (in millions of units) [4]^a

Indonesia	13684
Thailand	6294
Malaysia	3468
Philippines	459
Singapore	124
Brunei	4
Total	24033

^aData extrapolated based on historical average annual growth rates of the different countries.

TABLE 7

Selected statistics of ASEAN battery exports by region (in US\$) [5-8]

To/From	Philippines 1992	Indonesia 1991	Malaysia 1991	Thailand 1988
Fellow Asean	13827	54324	2025788	427083
Other Asia/Pacific	4870797	782708	3176623	3065632
Middle East/Africa	84259	1658066	6682941	3216799
North America	4186490			13511
Latin America	174033	62838	211815	199774
Europe		5820262	1384103	80895
Total	9329406	8378198	13481270	7003694

Export prices are generally very low (as cheap as US\$ 14 on an N50 size) and companies simply strive to recover cash costs, earn some tax credits and incentives for exports, and utilize unused plant capacities. There are payoffs that do not emerge as readily on the bottom line, principally the learning benefits of modifying and redesigning products for different, and often more difficult, markets. That said, exports do not provide a grand cash bonanza to the battery manufacturer.

Intra-ASEAN trade

At present, there is very little intra-ASEAN trade. Why is this so? It may well be because of a lack of market knowledge, the absence of interested and active distributors, or a product that requires significant servicing and/or unattractive pricing. It may also be a reluctance to invite a retaliatory response from an ASEAN competitor. An Australian manufacturer with high cost structures may not pose a threat to an ASEAN battery producer, but a fellow manufacturer will be a problem.

It is likely that intra-ASEAN trade will happen during in the next five years as tariffs go down? It is difficult to imagine why not? See, for example, Table 8. Except for Malaysia which has chosen to keep batteries in its temporary exclusion list, ASEAN countries have agreed to bring tariffs down through a normal track so that the maxima will be 20% after ten years. Already, batteries are the object of Preferential Trading Agreements that reduce tariffs by 25 to 50%. There have also been more exclusions for battery parts. With these tariff schedules and the export prices obtained in other parts of the world, the probabilities of intra-ASEAN battery trade will no doubt increase tremendously.

It should be noted that ASEAN trade has become visible in many other product areas, from branded consumer products to industrial materials. While the numbers are still relatively low, they are likely to increase. Even if manufacturers are reluctant to ignite intra-ASEAN competition, distributors and importers will see opportunities if the price and the product are both attractive.

Will ASEAN corporations, not necessarily the ASEAN battery manufacturers, move into other parts of the battery industry including equipment manufacturing, advanced mould-making, separator and other parts production, battery electricals and testing equipment and facilities? Perhaps not initially, but ASEAN manufacturers have reduced the technological gap in a number of industries and it is probable that these

TABLE 8

Indicative tariff schedule for batteries under AFTA

Year	Philippines (%)	Thailand (%)	Indonesia (%)	Malaysia (%)	Singapore (%)	Brunei (%)
1992	60	60	30	35	0	20
1993	52.5	60	30	35	0	20
1994	45	60	30	35	0	20
1995	37.5	60	30	35	0	15
1996	22.5	30	30	35	0	15
1997	22.5	30	30	35	0	15
1998	22.5	30	20	35	0	10
1999	22.5	25	20	35	0	10
2000	22.5	25	20	35	0	0-5
2001	20	20	20	35	0	0-5
2002	20	20	20	35	0	0-5
2003	20	15	20	35	0	0-5
2004	15	10	15	35	0	0-5
2005	15	5	15	35	0	0-5
2006	10	5	10	35	0	0-5
2007	10	5	10	35	0	0-5
2008	5	5	5	35	0	0-5

advancements will effect the battery industry just as they did in Taiwan and Korea before ASEAN.

Will the presence of AFTA encourage a battery multinational to invest in a specific ASEAN country to serve the larger and more accessible ASEAN market? This is difficult to predict, but the more likely response of a non-ASEAN manufacturer is to 'wait and see' and, in the meantime, to pursue joint ventures more actively. Will AFTA encourage manufacturers of battery raw materials to locate a plant in ASEAN, as envisioned by the governments? There are not too many alternatives for such investments, save perhaps for smelters, separators and mould-making. Nevertheless, investments may also be attractive in battery raw materials that are needed by other industries, such as a petrochemical plant that provides polypropylene.

Complementation programmes have been a part of ASEAN cooperation and with AFTA, the prospect of such joint ventures should be strongly considered in manufacturing, as well as in export marketing.

Global challenges in the next decade

Over the past two decades, many dramatic developments have occurred during Asia's progress as a manufacturing force over a vast array of products. The pace has been accelerated by the trading companies of Japan and Korea that have served as the locomotives of international trade. Many more developments lie ahead, and I am sure that a number of you at this Conference are watching the developments in China which has been a significant market for some, but appears more as a potential major competitor in the future.

ASEAN's leaders — and let me just cite Thailand's former Prime Minister Anand Panyarachun among them — have seen AFTA as an economic force to get the region's

protected industries out of their shells and brave the strong, but invigorating, winds of ASEAN and international competition. AFTA has started, it still has to move beyond first gear, but in my opinion, it is likely to forge ahead and benefit the consumers and the more efficient companies of the region. This prospect should lead to some interesting opportunities, and I wish you great success in this coming adventure.

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