Overseas Market Information

Automotive Industry in ASEAN/Singapore

ASEAN Automotive Background

The Association of Southeast Asian Nations (ASEAN) has begun to recover from the 1997 financial crisis. The ASEAN nations together represent a potential new automotive vehicle market of 1.5 million or more units annually, and is considered to be one of the last real growth areas for the automotive industry. Given the projections for the growth of the car population in ASEAN, there is little doubt that demand for automotive parts and accessories will also increase proportionately. Automakers are optimistic about future opportunities in Asia, and anticipate that, by the year 2006, vehicle sales in Asia will grow at a rate greater than that of Europe and North America combined. It is important to note, however, that Japanese companies dominate 80-90% of auto assembly in the ASEAN nations.

Automotive Trade and the ASEAN Free Trade Agreement

The most important trade policy issue that could help auto and auto parts manufacturers is the move towards the ASEAN Free Trade Agreement (AFTA). Under this scheme, each country in ASEAN would agree to lower its tariffs to 0-5% by 2003. Although ASEAN countries featured in this report have signed the agreement, significant challenges still exist; Vietnam and Malaysia have both asked for extensions. Malaysia, which protects its national cars, has asked to have passenger vehicles excluded temporarily from the agreement so that they can maintain relatively high tax rates. Most industry experts are concerned that the January 1, 2003 timeframe will not be met.

Currently, auto companies in the region are using the ASEAN Industrial Cooperation (AICO) programme that allows for preferential tariff treatment (often as low as 5%) for intra-ASEAN trade in auto parts and raw materials. Under an AICO arrangement, two countries exchange auto parts to receive preferential rates. Both AFTA and AICO have led several auto and auto parts manufacturers to establish a regional production or distribution center in the area rather than a presence in each country in the region.

Although ASEAN nations account for less than 2% of the global market for automobiles, industry analysts expect it to grow at a 5-15% rate over the next several years. Automakers, as well as manufacturers of auto parts and accessories will benefit from this growth. The most important thing is to support the ASEAN Free Trade Agreement and continue to move the ASEAN region toward free and fair trade.

A new entrant is best advised to test the waters by **Exporting** through established channels and tapping on existing players.

Structure of the Industry and AFTA

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% 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, Thailand exported under body and electrical parts, and Malaysia exported parts for fuel tank, suspension system, steering link assembly, convenient and accessory equipment, and electrical parts to the Philippines. In turn, both the countries imported manual transmission from the Philippines. In the case of Asian Carmakers, Malaysia imported alloy wheels from the Philippines in exchange for sheet glass.

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 per cent. 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 per cent 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 per cent. 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 much lower tariffs for the automotive industry that would range from 3 to 5% by the year 2003.

Market size

Singapore is an island state of only 626 square kilometers with a population of 3.5 million people. The Singapore Government sees traffic density as something that must be closely controlled. Most measures to contain the vehicle population on the island are naturally directed at private car ownership, but commercial vehicles are also affected to a certain degree. Automobile manufacturing is, therefore, not encouraged in Singapore; there are no automotive manufacturing plants here. After reaching ten years of age, cars must be scrapped or face hefty road taxes. Those owners who get rid of their cars are entitled to receive a lump-sum benefit under the Preferential Additional Registration Fee (PARF) plan introduced on December 31, 1975. The sum, determined by engine capacity, may be used to offset the registration fee of a new car, but it is not applicable to cars previously registered outside Singapore. Those who keep their cars more than ten years must pay a surcharge on their road tax of between 10-50%. As a result of this fairly high turnover there is very small market for remanufactured/reconditioned cars and auto parts. There are very few reconditioned automotive parts and supplies dealers because new parts are preferable. Since there is no domestic production of automobiles in Singapore, imports must meet total market demand.

Japan commands a major share of the auto parts market in Singapore. Over half of all vehicles sold in Singapore are made in Japan, and Japanese companies ship parts from Singapore for use back in Japan. Other major suppliers to Singapore are the US, Germany, Taiwan, Malaysia, and the United Kingdom.

There is, however, renewed interest in ASEAN, both as a market and automotive production base. The ASEAN automotive sector enjoys competitive advantages in labour costs, human resource skills, and technological capability. But it has also flaws, including quality problems, logistics difficulties and lack of global market experience.

Despite these negative factors, global automakers are competing to secure a niche in the region. There is a surge of auto investments even as they await the market to fully recover from the debilitating crisis. What attracts investors is the fact that ASEAN economies have diverse but complementary resource bases (i.e., in terms of their endowments of labour, capital and technology) and is expected to be the world's 5th largest (presuming flawless integration) vehicle market by the year 2005.

Imports - Exports

ASEAN Automotive Trade balances indicate underdeveloped global competitors largely for reasons of archaic ASEAN auto policies, which have resulted in fragmented markets and discouraged exports.

Data currently available with the UN (though of the year 1997) foregrounds the dearth of competitive muscle in ASEAN manufacturers as highlighted hereunder :

Apparent consumption

Like the rest of Asia, the ASEAN automotive sector is now bouncing back from the devastating economic crisis of 1997/1998 that crippled the region's automotive industry. In the four largest ASEAN markets - Indonesia, Malaysia, Philippines, Thailand - total vehicle sales dropped from nearly 1.5 million units in 1996 to about 450,000 units in 1998, a 63% drop. Sales in the ASEAN region recovered strongly in 1999, totaling about 550,000 units. Average annual growth to 2005 is forecast at 16%, led by commercial vehicles with average growth of more than 19% each year. Nevertheless, recovery to 1996 levels is generally not expected until 2004.

In Thailand, the recovery in vehicle demand started in the second half of 1999. In the first half of 2000 vehicle demand increased by 43% over the same period in 1999. For the whole of 2000, total vehicle demand was estimated to be over 270,000 units, an increase of 24% over the 1999 level. Likewise, the Malaysian vehicle market has equally been recovering. Total vehicle demand is expected to grow by 19% to just over 340,000 units. Vietnam is also experiencing strong growth in vehicle sales, particularly domestic sales. Indonesia was the hardest hit in 1998 with political and social upheaval adding to its economic difficulties. Nevertheless, despite ongoing political instability, total vehicle sales rose by 455% in the first half of 2000 to just below 127,000 units from under 23,000 units in the same period in 1999. In the medium term, the industry's evolution will depend much on the political situation. Political instability and some stock market events have probably been responsible for the Philippines's lag in entering the recovery phase that has been observed in most of the ASEAN countries.

Malaysian models hold the top three positions in the ASEAN car market, almost entirely due to their strong dominance of the car market in Malaysia. The Isuzu pickup and the Toyota Hilux pickup, both built in Thailand, lead the ASEAN commercial vehicle market, followed by the Toyota Kijang, the largest volume vehicle in Indonesia, and the Daihatsu Terios. Apart from the Malaysian manufacturers, only three non-Japanese cars - BMW 3-series, Kia Sephia and Hyundai Accent/Excel - have been represented in the top 20 selling models in the ASEAN region. In terms of market share, Malaysia's Proton has a commanding 26%, followed by Toyota (22%) and Perodua (13%) in the top three positions. Next come Isuzu (9%), Mitsubishi (8%), Honda (6%), and Nissan (5%). These figures reflect the slowness of the European and US manufacturers to take up the challenge of the region, a situation that is now changing with increasing output in the Thai plants of Ford/Mazda and GM.

The automotive sector is a scale-intensive industry and none of the ASEAN economies is large enough for an automotive company. Even though vehicle sales in the region increased from 300,000 units in 1986 to about 1.5 million in 1996, individual markers ranged from 160,000 units in the Philippines to 590,000 units in Thailand, figures hardly sufficient for two to three efficient plants. The problem is that, due to the restrictive policies that all the members of the region have, very little was exported among ASEAN markets. The same held true for components, whose circulation among countries was limited by local content rules. Therefore, most of the assembly units have not been competitive on an international level.

Potential consumption

Within the Asian region, many global automotive makers consider ASEAN both a priority market and investment area. Japanese auto producers, who already have over 80% market share in the ASEAN-4 countries of Thailand, Malaysia, Indonesia and the Philippines, are increasing their production capacity even further, primarily in Thailand. Though slower than the Japanese, latecomer US firms such as GM and Ford are also making strong inroads into ASEAN. Even the European automakers, which previously preferred to licence the production of their models, have been attracted to this region.

The primary market pull factor for such a move in the 1990s was the remarkable pre-crisis growth in the ASEAN market. While nowhere near the size of the markets in North America, Europe or Japan, the ASEAN region - with only 3% of total world share - has seen demand rise from 700,000 vehicles in 1991 to a peak of 1.5 million vehicles in 1996. This unprecedented growth can be attributed to rising personal income levels supported by the region's growing economies. But the economic crisis of 1997-98 shrank the regional auto market to less than a third of its size. Had the boom continued, the ASEAN auto market would have expanded to 2 million vehicles by year 2000. Under the present situation, auto sales in the ASEAN-4 countries are expected to reach 1.8 million units in 2005. As it is, sales in Malaysia and Thailand are already picking up strongly. The long-term prospects for the region remain bright, especially as national markets become more liberalized. Combined, ASEAN - with a population of 500 million - is the sixth largest economy in the world. This makes it a "must invest" region for global automotive makers and parts manufacturers alike.

Automotive giants, when they size up the region, would like to look at it as one market and not on a per country basis. When one of them invests in any country in the region, the viability of the venture is hinged on access to neighbouring markets. This integration is now being considered through AFTA, the ASEAN free trade agreement scheduled to take effect in January 2003. If AFTA goes ahead, member economies commit to limit tariffs in parts and vehicles to a ceiling of 5% among signatories. This integration will make the region much more attractive for global investors. It will lower manufacturing costs and maximize available facilities and resources by increasing the scale of production and promoting competition. Existing investments are counting on AFTA to take place. GM plans to export 90% of the production of its new Thai plant. Likewise, the Ford plant, currently making several models at sub-optimal efficiency, has been designed to rapidly convert to making one model highly efficiently for export across the region. BMW has a considered similar perspective. But the ability of ASEAN members to honour AFTA commitments is doubtful as they commence to adopt nationalistic policies to facilitate recovery from the Asian economic meltdown.

Malaysia announced that it could not meet the previously agreed deadline to slash tariffs on motor vehicle parts. It obtained an extension of 2 years to liberalize the industry, i.e., January 2005. Malaysia is at the extreme in terms of creating a protective environment to the local industry. Its strategy has been to foster the development of its national car brands, Proton and Perodua, in which the government has poured millions of dollars. At present, due to restrictive import policies, the car plants of the national manufacturers enjoy the best scale economies in the region and export a significant share of their production throughout the region. The country is aiming to become a significant production center for passenger cars in the region. But to achieve this goal, the local OEMs and their suppliers have to overcome the big challenge of producing their own models, instead of re-engineered Mitsubishi cars, a very difficult endeavour in today's industry context.

Within ASEAN, Thailand is on the opposite extreme to Malaysia, being the first country in the region to open its doors to the world's biggest automakers. Off late, carmakers in Thailand have been freed of a requirement to buy at least 54% of their parts locally. Now they can import from the lowest-cost, highest-quality, most-innovative producers anywhere in the world. The aim of the government is to make the country a regional export platform for all major OEMs, spurring the industry growth. But with local-content requirements lifted, multinationals plan to obtain parts globally, meaning they will buy far less from domestic suppliers. The switch is likely to become apparent when they place orders in 2003 for new models to be unveiled in 2003. General Motors plans to import nearly 85% of its parts, while DaimlerChrysler and BMW, newcomers to Thailand, will also import most of the parts for their luxury models, industry analysts claim. This is the potential downside of the laissez-faire strategy.

Emerging or less competitive local firms will face a crunch, as they can no longer operate under protective governmental policies. With the expertise, experience, brand acceptance, and economies of scale that the larger and more established players enjoy, the smaller or less competitive players may face depletion in market share and eventually bankruptcy. A report by the German Technical Cooperation Agency shows that of about 500 car-parts makers in Thailand, nearly 300 are Thai-owned, and nearly all 300 risk going under. Last year, a study by the Federation of Automobile and Parts Industries of Thailand produced similar findings, claiming that up to 30,000 Thai jobs were at stake. A 1998 study of the industry by Thailand's Productivity Institute found "inconsistent quality, high costs of production, deviation from delivery schedules and unresponsiveness to sophisticated production technology. According to industry analysts, the message to Thai car-parts makers is clear : Either find a technologically fit partner, or perish. But, so far, few are facing up to that hard fact".

The rest of the ASEAN economies are facing challenges that often larger than those faced by Thailand. Because of smaller scales and unused capacity in Vietnam or the Philippines, the ability to develop local firms to compete in the regional market will be even more difficult. Finding the balance among all the countries will be hard, but it is the only solution for the development of the regional automotive industry.

Research, development and quality standards

One major technological development pertains to the decision of parts manufacturers to position ASEAN as a supply base. There are world-class companies such as Delphi and Visteon that now produce modular systems for global customers. The development of new products and manufacturing techniques has allowed assemblers in the region to cut costs and to increase cooperation in designs with parts manufacturers, thereby integrating their OEM suppliers to the manufacturing process. One Thai parts manufacturer, for example, co-designs car bumper and door structure with Isuzu. In doing so, this firm is forced to acquire or develop its own technology. Meanwhile, those that are technologically deficient join hands with sophisticated parts manufacturers from developed countries. Toyota announced its intention to have more parts made in Thailand and other Asian nations, and is now undertaking a review and evaluation of parts and components that may be produced locally.

Second, car assemblers in the region are working to develop common platforms in response to a global procurement strategy. Aside from improving efficiency, the move is aimed at reducing costs and adapting local raw materials and parts. A regional network of parts suppliers in ASEAN would provide regional economies of scale. For example, Toyota and Honda now procure door-stamping parts from the same company, while Siam Toyota supplies cylinder blocks to Toyota and other Japanese carmakers. Moreover, the AICO scheme allows assemblers to further reduce costs through the exchange of parts produced under centralized production operations in each country. One positive spillover development has been increasing labour efficiency for the region.

Third, headquarters are moving to centralize key technological developments such as product designs, marketing plans and production technology. Most subsidiaries have adapted production processes and even organizational management systems from parent companies. For example, the Kamban system is implemented in local affiliates of Toyota Motors. Recently, Toyota allowed the Thai R&D team to work with a Japanese counterpart in designing the Toyota ‘Soluna’ car. The Thai Rung Union Research department has been engaged in designing the body of a multi-purpose vehicle. Sammith Motor, a parts manufacturer, has implemented its own R&D for the REM steel roof market. Stanley Electric, for its part, intends to make Thai operation its core plant for Asia. It will supply dies and parts to the company’s plants in India and Vietnam. For its die-making facilities, the Thai plant has an R&D center and an integrated production system for automobile lamps.

Fourth, advances in information technology are facilitating materials sourcing in the region. Non-affiliated parts suppliers and car assemblers can now obtain information on assemblers’ requirements through electronic networks. Toyota and MITI have jointly established CALS (Commerce at light speed) network that links parts producers in various countries in Asia. There is also an emerging facility for automobile sales via the Internet such as Auto-By-Tel and CarPoint. Recently, Toyota Motors Thailand has set up TBR (Toyota Business Reforming) system for its 90 local dealers to speed up communications with dealers. GE Capital (Thailand) Ltd. has formed a strategic alliance with Central Retail Corp. and car manufacturers Nissan, BMW and Mitsubishi to launch products online.

Fifth, some assemblers and parts manufacturers have established regional coordination centers to reduce risk and improve the efficiency of ASEAN operations, a move designed to prevent the repercussions of the 1997 financial crisis. There are plans to use Bangkok as a center for marketing in the Indo-China region. Chrysler Sales and Services (Thailand) has opened a new head office, showroom, service center, and parts warehouse in Bangkok to be the marketing hub for ASEAN. Japanese assemblers have likewise established regional headquarters in Singapore (Toyota) and Thailand (Honda, Mazda) to facilitate the smooth operations of their networks.

Conformance to product standards : QS 9000 and ISO 14000

Since the ISO has become one of the most important quality indicators of exported products, major export markets such as Europe, America and ASEAN require automotive and auto parts manufacturers to be QS 9000 and ISO 14000 certified. ISO or QS certification now plays a crucial role in the automotive industry, particularly for SME suppliers that need to enter and sustain their participation in the export market. Many automotive manufacturers are now taking appropriate steps to achieve certification. Nonetheless, quality control and product standardization are becoming more crucial for parts manufacturers. Most Japanese auto assemblers in the region adopted the American part defect rate control or PPM in 1998. The aim is to improve productivity by reducing defect rates. Moreover, environmental and safety standards are forcing exporters to address recycling and pollution issues.

Import Policy and Procedures

Rules and Regulations on Imports

Singapore is in principle, a free port and most products (with the exception of motor vehicles/automobiles - not spare parts) enter duty free. With the exception of four tariff lines covering beer and certain alcoholic beverages, Singapore imposes no tariffs on imported goods. These four remaining tariffs were eliminated January 1, 2001, for trade within the ASEAN Free Trade Area and with New Zealand in the context of the Singapore-New Zealand Free Trade Area, and was also be eliminated for Japan when the Japan-Singapore New Age Economic Partnership Agreement took effect. However, for social and/or environmental reasons Singapore levies high excise taxes on distilled spirits and wine, tobacco products, motor vehicles (all of which are imported), and gasoline. During the Uruguay Round of multilateral trade negotiations, Singapore agreed to bind 70.5% of its tariff lines.

As an APEC participant, Singapore has also committed to eliminating all tariffs by 2010 (consistent with the agreed time frame for “developed economies”) and to bind these commitments at the World Trade Organization (WTO). Singapore is a signatory to the WTO Information Technology Agreement (ITA).

Import Duties

• Customs Duty

All dutiable goods imported into or manufactured in Singapore are subject to Customs Duty in accordance with the Schedule to the Singapore Customs Duties Order. The broad categories of dutiable goods in Singapore are intoxicating liquors, tobacco products, motor vehicles and petroleum products. Where the goods are dutiable, ad valorem or specific rates may be applied. An ad valorem rate is a percentage of the assessed value of the imported goods such as 31 per cent ad valorem. A specific rate is a specified amount per unit of weight or other quantity such as $ 180 per kg. The complete list of goods dutiable on import into Singapore in included in *Annex I*.

Other charges on imports

• GST (Goods and Services Tax)

Imported Goods

GST is levied on imported goods at the rate of 3 per cent of the CIF value of the goods. If the goods are dutiable, the GST is collected simultaneously with the Customs Duty. The Singapore Government has promulgated the GST to be hiked to 5% w.e.f. 1st January, 2003.

In the case of dutiable goods such as liquors, tobacco, motor vehicles and petroleum products, the GST together with the Customs Duty is temporarily suspended when such goods on importation are removed to a licensed warehouse for storage. The GST and the Customs Duty is payable when the goods are later released from the warehouse for local consumption. For imported non-dutiable goods, which are removed to a bonded warehouse for storage or imported under the major exporter scheme, the GST is temporarily suspended. The GST is payable to Customs when the goods are removed from the bonded warehouse for local consumption. In the case of goods imported under the major exporter scheme, the importer has to collect GST on his local sales. The importer is accountable for this GST to the Inland Revenue Authority of Singapore (IRAS) during the accounting period concerned.

If the goods are deposited in the free trade zone (FTZ) pending re-export or transhipment, the GST payable is suspended. The GST is payable on goods used or consumed in the FTZ as well as on their removal into the Customs territory for home consumption. GST is also payable on any supply made in the FTZ if the goods supplied are used or consumed in the FTZ. However, GST is not payable on any supply made in the FTZ if the goods supplied are meant for re-export or transhipment.

Locally Manufactured Goods

In the case of locally manufactured goods subject to Excise Duty, the GST is collected together with the Excise Duty when there is a supply or sale in the warehouse before the duty point. If there is no supply or sale in the warehouse before the duty point, the manufacturer is required to pay only the Excise Duty on the goods to Customs at the time of removal from the warehouse. The GST payable on the goods is to be accounted for, to the IRAS when a supply or sale has taken place subsequently.

Valuation

• Customs valuation and procedure

Value of Imported and Locally Manufactured Goods

The value of imported goods and locally manufactured goods subject to the ad valorem rate of Duty is determined according to normal price defined in Section 22 of the Customs Act. The normal price refers to the price that the goods would fetch at the time when the Duty becomes payable on a sale in the open market between the buyer and the seller independent of each other. The following elements are taken into account in assessing the Duty payable :

a. Cost b. Insurance c. Freight
d. Handling charges (if imported by sea or air)
e. All other charges incidental to the sale and delivery of the goods, e.g. commission, documentation, packing, etc.

Goods & Services Tax (GST)

For dutiable goods, the taxable value for GST is calculated based on the CIF value plus all Duties and other charges. In the case of non-dutiable goods, the GST is based on the CIF value plus any commission and other incidental charges whether or not shown on the invoice. The CIF value if shown in foreign currency is converted to Singapore dollars by using the prevailing Customs exchange rate. If there is a supply or sale in the FTZ, the GST is computed on the value of this sale (normally the price on the sales invoice) or the last sale (Last selling price : LSP) if there has been more than one sale, plus the duty payable, if any. If the consignment comprises dutiable goods attracting ad valorem rate of duty, the importer has to obtain a Singapore Customs Open Market (SCOM) value from Customs. In this instance, two separate permits have to be applied - a storage permit (IM) showing the name of the importer as stated in the overseas supplier invoice and a Customs Duty/GST Payment permit showing the name of the new owner of the goods. Where there is no price payable for the goods, or if the price paid is not the sole consideration, the open market value (OMV) as determined by Customs plus the Duty payable, if any, should be used to arrive at the GST payable. For warehoused goods, the purchase price in the warehouse plus the Duty payable, if any, should be used to compute the GST payable. For locally manufactured goods subject to Excise Duty which have been supplied or sold in the warehouse and where price is the sole consideration, the GST will be based on the value of the sale (normally the invoice price) or the value of the last sale (LSP) if there has been more than one sale, plus the Duty payable, if any.

• Special requirements

Flat Rates for Freight and Insurance

For invoice value quoted in FOB (Free on Board) terms and the freight and insurance charges are not known or are not available to the importer, or where the freight charges cover two or more invoices of varying invoice terms, flat rates for freight and insurance shall be used to arrive at the CIF (Cost, Insurance and Freight) value.

The flat rates for freight and insurance to be used are :

Place of export Flat rate for freight and insurance

Africa, Canada and USA 24.5% of FOB value
UK and countries in Europe 19% of FOB value
Australia, Japan and New Zealand 19% of FOB value
Sri Lanka, China, Taiwan, Korea, India and Pakistan 15.5% of FOB value
Myanmar, Thailand, Cambodia, Laos, Vietnam,
Hong Kong, Philippines and Indonesia 9.5% of FOB value
West Malaysia 6% of FOB value.

Flat Rate for Insurance

For invoice value quoted in FOB or C&F terms and the insurance charges are not available to the importer, a flat rate for insurance shall be used to arrive at the CIF value. The flat rate for insurance is 2% of the C&F value.

Value for imported goods Flat rate for insurance charge
Cost and Freight 2% of C&F value

Rate of Exchange

The rate of exchange used in the conversion of the foreign currency quoted in the invoice into Singapore dollars should be indicated. The rate must be the prevailing rate quoted by Customs at the time of declaration if the currency is one of the common foreign currencies listed in the Customs rates of exchange. If the foreign currency quoted in the invoice is other than those listed currencies given by Customs, a trader can use the selling rate quoted by a commercial bank for that currency. In this case, the trader is required to declare the name of the bank, telephone number and the date on which the rate was quoted in the "remarks column" of the Customs Duty/GST payment declaration. The Customs rates of exchange are downloaded on a weekly basis to all TradeNet users.

• Payment of Customs Duty/GST

Upon approval of a payment declaration, the payment of Customs Duty and/or GST will be made through the "Inter-Bank GIRO" (IBG). For such IBG arrangement, the declaring company is required to authorize the deductions to be made from his bank account by signing a "Inter-Bank GIRO" (IBG) Form. If the importer is not a declarant but wishes to pay the Customs Duty and/or GST from his bank account for declarations made by his declaring agent, he must indicate the declaring agent's name and CR (Central Registration) No. in the payment authorization section of the IBG Form. An importer may authorize a maximum of three declaring agents to declare payment permits on his behalf. The payment mode for the Customs Duty and/or GST will be reflected as one of the condition codes in the permit. The two codes are :

GF Through IBG deduction of the importer's bank account if an authorized declaring agent declares permit and the limit set for the IBG deduction is not exceeded.

G7 Through IBG deduction of the declaring agent's bank account and the limit set for the IBG deduction is not exceeded.

Documentary Requirement for Imports

• Types of Customs Declaration

The various Customs declarations for the movement of goods in Singapore are :

– Inward declaration
– Transhipment declaration
– Removal declaration
– Payment declaration
– Outward declaration
– Duty Exemption/GST Relief Certificate
– Duty Exemption/GST Payment declaration

Customs declarations are submitted for the following purposes :

• **Inward** - for removal of goods from arrival points (by sea, air, road and rail) to licensed premises or other approved places of storage;

• **Transhipment** - for removal of goods :

– Imported by sea from vessels at anchorage to the Free Trade Zone (FTZ) for storage;

– From the FTZ for re-export to foreign destination;

– From the point at which they arrive on import to another point at which they are to be re-exported (eg. from Peninsular Malaysia via Woodlands Checkpoint to Singapore Changi Airport);

• **Removal** - to cover movement of goods between licensed or approved premises within Customs territory (e.g. from one licensed warehouse to another);

• **Payment** - for payment of Duty and/or GST on goods, which are to be consumed in Singapore;

• **Outward** - to cover movement of goods from Customs territory (e.g. removal of goods from licensed/approved premises for export or storage in the FTZ);

• **Duty Exemption/GST Relief** - to cover movement of goods which are exempted from payment of Duty/GST in Singapore; and

• Duty Exemption/GST Payment - to cover movement of goods, which are exempted from payment of Customs Duty but GST payable.

Processing and Approval

TradeNet Processing

In Singapore, all declarations for movement of goods are submitted and processed electronically through an EDI system known as 'TradeNet'. Only Singapore-registered companies may apply to declare permits through the TradeNet System. Declarations can be made separately to the Trade Development Board (TDB) or Customs or jointly to TDB and Customs. Where a joint declaration is applied, it will first be routed to TDB and then to Customs for processing. For goods, which are subject to import controls, the declarations will, after processing by the TDB, be routed to the authority administering the controls before finally being transmitted to Customs for processing and approval. To submit a TradeNet declaration, a trader has to assign a unique reference number. This number assigned to a Customs or joint declaration serves to identify a particular declaration. This reference number consists of 3 data elements, namely, the declaring company's CR number, the date of transmission (YY MM DD) and the declaration's serial number. It is normally assigned automatically by the trader's software system. Approved Customs permits would be transmitted back to the trader who will print the permit i.e. the Cargo Clearance Permit (CCP) at his own premises for clearance of the goods. The declarant must sign the CCP. Only one copy of the CCP is to be printed and used for cargo clearance.

A trader can use the TradeNet System to declare :

– A maximum of 50 items of goods in a Customs or Joint Customs/TDB declaration;
– Mixed items of dutiable and non-dutiable goods in a Customs or Joint Customs/TDB declaration provided that the goods are :
  – under one bill of lading/airway bill (except in the case of through Transhipment);
  – to be released from the same place; and
  – to be removed to one place of receipt.

Conditions

Traders are advised to read carefully the conditions imposed on the Cargo Clearance Permits for compliance. Declarants are also advised to make true and correct declarations when submitting declarations to Customs for approval. The law provides penalties for non-compliance of conditions and false, wrong or incorrect declarations.

Rejection

If a declaration is incomplete or erroneous, the SNS will reject the declaration and would not route it to Customs. SNS will transmit a rejection message with the code "Error M" to the trader. If a declaration is processed by Customs and found not to meet with Customs requirements, Customs will transmit a rejection message with the code "CR" to the trader. In such a case, the trader must re-submit the entire declaration to Customs after rectifying the errors or omissions. The re-submission is considered a fresh declaration under a new unique reference number.

Validity of Permits

– Inward permits for the movement of goods to licensed or bonded warehouses and for temporary import are valid for a period of 14 days. Blanket inward permits, are valid till the end of the calendar month.

– Removal permits for the movement of dutiable goods between licensed warehouses are valid for a period of 2 days from the date of approval. The validity period for the movement of goods from one bonded warehouse to another under a RM permit is one calendar month.

– Outward permits for dutiable goods are valid for 3 days and that for non-dutiable goods is 14 days from the date of approval. Outward permits covering the movement of dutiable sea stores are valid for a period of 2 days from the date of approval.

– ME permit for the release of goods from a bonded warehouse is valid for one calendar month and that for direct importation goods is 14 days.

– Duty Exemption Certificates are valid for a period of 14 days for the importation of goods direct from any point of entry and two days if released from a licensed warehouse. GST relief certificates are valid for a period of 14 days from the date of approval.

– White Transhipment permits are valid for 14 days, while that for Pink Transhipment permits is 30 days.

– Duty/GST Payment permits are valid for 14 days from the date of approval.

– If the goods are not removed within the stipulated period, the validity of the permit may be extended. The application for the extension of validity period can be submitted electronically before the expiry of the permit.

Amendments of Permits

A cargo clearance permit can only be amended with the written authority of the Customs office. It is an offence to amend or add any particulars to a Customs or Joint Customs/TDB permit without Custom's authorization. Amendment of most of the fields under the header level and selected fields at the item level can be submitted electronically through the TradeNet System.

The conditions for making electronic amendments are as follows :

– The application is made by the same company, which declared the permit.
– The application can only be made if the permit has not been used for cargo clearance.
– A permit can be amended only four times electronically.
– A maximum of 30 fields may be amended during each electronic amendment.
– No electronic amendment is allowed if the earlier amendment was made manually. If further amendments are required for this permit, the trader may apply for manual amendment. Any application for extension of the validity or departure period must be submitted within the validity period of the permit. Any late application for extension will be rejected by the System with the message "Late Amendment".

An amended permit will be transmitted to the applicant upon approval of the electronic amendment request. The amended permit will have an "Amendment Summary" which lists all the fields, which have been amended for the particular application. The most up-to-date Cargo Clearance Permit must be produced to Customs at the time of cargo clearance. Request for amendment of other fields, i.e. those disallowed electronic amendment through the TradeNet System, should be submitted in writing to Documentation Branch using the prescribed form. The relevant documents should be forwarded and the reason for amendment stated in the application letter.

Cancellation of Permits

• **Manual cancellation**

An application for manual cancellation of an unused Cargo Clearance Permit not later than the following working day after expiry of the permit. The request for cancellation must be made in writing and submitted together with the first page of the permit to be cancelled.

• **Electronic cancellation of Customs non-payment permits**

Customs non-payment permits for non-controlled goods whether Customs or joint permits are allowed to be cancelled electronically through the TradeNet System. Non-payment permits include Inward, Major Exporter, Outward, White Transhipment, Pink Transhipment, Removal and Exemption (excluding IZ & EZ) Permits. Electronic cancellation enables one to cancel permits on any day round the clock.

Cancellation of a Customs permit is not possible under the following conditions :

a. It has not been utilized to clear cargo;
b. It is a TradeNet permit and has not expired for more than 1 day;
c. It is not a payment permit (permit type ID, DP, IG, IZ or EZ);
d. It is not a blanket permit;
e. It has not been returned to Customs Manifests Unit;
f. It is a Removal Permit (RM) covering dutiable goods from/ to licensed warehouses but stock movement has not been posted;
g. It is an Inward or ME Permit and goods not released from an unmanned place (place of release code not IMB, LOB, ANCH, DGL, 3FP or PFP);
h. It is an Outward Permit and goods not exported via an unmanned place (place of receipt code not = 3MB, LOB, ANCH, DGL, 3FP or PFP); and
i. It is an Exemption Permit (Permit type IE or EX) and goods are not released from a bonded warehouse, an approved place or an unmanned place (place of release code not = BW, 0, 3MB, LOB, DGL, ANCH, 3FP or PFP).

To submit a request for electronic cancellation of a Customs permit, one needs to specify in the Cancellation Declaration the unique reference number, the permit type, permit number, replacement permit number (if any), declarant's NRIC number, name, telephone number and nationality.

Return of Permits

Traders must return the endorsed copy of Cargo Clearance Permits to the Manifests Unit of Documentation Branch or Air Cargo Section of Airports Branch when such a condition has been imposed in the permit.

Importation that does not require a Permit

Customs permits are not required for the following types of importation :

– Intoxicating liquors not exceeding ten liters and tobacco not exceeding two kilogrammes in the possession or baggage of any person arriving in Singapore.
– Petroleum carried in the supply tank or in a spare container of not more than ten liters capacity of a motor vehicle or in the fuel supply tanks of an aircraft for its propulsion.
– Dutiable goods imported by post unless so required by Customs.
– Dutiable goods removed from a vessel into a Free Trade Zone by an authority administering the Free Trade Zone.

Items under Control

For items under import/export control, local importers/exporters must either obtain endorsement or a licence before import/export. Items may also be prohibited from import/export. For controlled items, importers/exporters must not enter into any financial commitment or contractual obligations before they obtain the necessary licences or approvals from the controlling agencies.

Item Authority

Animals, birds, meat products, plants Agri-food and Veterinary Authority (AVA)

Arms and explosives, bullet-proof Singapore Police Force clothing, toy guns, pistols and revolvers, weapons, kris, spears and swords

Publications, prerecorded cartridges Films and Publications and cassettes Department

Films, video tapes, laser discs, CD-ROM, Films and Publications video games Department

Medicines, pharmaceuticals, poison Drug Administration Department

Ministry of Health

Telecommunication and radio Info-Comm Development communication equipment, toy authority of Singapore walkie-talkies.

Examples of prohibited items are :

– Intoxicating liquors and cigarettes marked with the words "Singapore Duty Not Paid" on the labels, cartons or packets
– Cigarettes with the prefix 'E' printed on the packets
– Chewing gum
– Chewing tobacco and imitation tobacco products
– Cigarette lighters of pistol or revolver shape
– Controlled drugs and psychotropic substances
– Endangered species of wildlife and their by-products
– Firecrackers
– Obscene articles, publications, video tapes and software
– Reproduction of copyright publications, video tapes or discs, records or cassettes
– Seditious and treasonable materials
– Toy coins and toy currency notes

Samples

Samples of no commercial value may be imported duty free except for liquor and tobacco products. For commercial samples of non-dutiable and non-controlled items not exceeding US$ 400.00, no import/export trade documentation is required and GST is not payable. Samples as well as professional equipment or goods for exhibition display may be temporary imported under an ATA Carnet.

Parcel Post

No import permit is required for imports by parcel post. However for imports of controlled items, relevant licences must be obtained before importation.

Export Policies and Incentives

Export incentives

The purpose of these benefits is to increase the value of exports through the provision of the following fiscal incentives :

– 90% of "qualifying" export income is exempt from corporate income tax. "Qualifying" export income refers to any annual increase in export income. The exemption period is 5-10 years in the case of companies engaged in the provision of services (with a provision for extension) and 3-15 years in the case of companies engaged in the production of manufacturing products.

– Dividends : In Singapore there are no withholding taxes levied on dividends. Instead dividends are taxed at 25.5% with a tax credit being given for any corporate tax levied on the profits out of which dividends are paid. Where there is a shortfall between the tax credit and the 25.5% charge levied on dividends the shortfall must be made up by the company paying the dividend and not by the shareholder receiving it. Companies, which hold “export incentive certificates” are exempt from any further taxation on the shortfall in so far as that shortfall is a direct result of the concessionary, tax status granted.

Export Policies

As a matter of policy, Singapore does not subsidize exports, although it does actively promote them. The government offers significant incentives to attract foreign investment, almost all of which is in export-oriented industries. It also offers tax incentives to exporters (as mentioned above) and reimburses firms for certain costs incurred in trade promotion. But it does not employ multiple exchange rates, preferential financing schemes, import-cost-reduction measures or other trade distorting policy tools.

Regulations, Procedures and Effectiveness

Singapore pursues a free and fair trade policy. Other than a Goods & Services Tax, which was introduced on April 1, 1994 for, imports of goods, very few goods are dutiable or under control. Companies can hence export goods out of Singapore freely.

- **Export Controls**

Companies must make an outward declaration to export or re-export their goods out of Singapore. Except for selected items, there are very few controls on exports of goods from Singapore. Quantitative restrictions exist for certain textiles and garments to Canada, EU countries and the US. Items such as rubber, timber, granite and chlorofluorocarbons are subject to export control and licensing. Items under export control must be endorsed or licensed by the appropriate government agencies before they can be exported.

- **Procedures**

To facilitate trade, International Enterprise Singapore (IE Singapore) has simplified import and export procedures. Trade documents are speedily processed through TradeNet - an electronic data interchange (EDI) system.

For non-controlled and non-dutiable items (including **auto-mobile components and spare parts)**, companies may export their goods first and obtain the Export Permits within 3 days after export. If the company is not a TradeNet user, they may :

1. Appoint a TradeNet Service Centre to apply for the export permit;
2. Provide the export invoice and Air Waybill to their appointed TradeNet Service Centre for them to apply for the export permit;
3. Collect the Export Cargo Clearance Permit (CCP) from the TradeNet Service Centre after it has been approved.

- **Effectiveness**

The tax incentives have been instrumental in inviting a critical mass of international traders to base their operations in Singapore. Singapore is a world-class example of benefits that ensue from free trade. Free flow of International Trade has been the very breadbasket of Singapore.

The implementation of a paperless TradeNet system :

– Has made available an operational platform on both EDI and the Internet 24 hours a day
– Has streamlined procedures for import and export
– Enabled transhipments to be cleared from two days to within 1-3 minutes
– Has increased efficiency in trade transactions
– Is estimated to have generated $ 2.8 billion in savings to the trading community.

Import Practices

The import channels can be classified into the following 6 broad categories :

– Governments
– Global auto manufacturers
– Assemblers
–Multilateral organizations
–OEM suppliers
–End users

Governments

In their desire to develop a homegrown auto industry, ASEAN governments spurred their auto industries by adopting highly protective import-substitution policies characterized by high tariff walls. In the 1980s, however, they begun to pursue different policy paths; Thailand proceeded with a localization policy with strong preference for assemblers whilst Malaysia and Indonesia opted for the development of a national car. The Philippines, whose car-manufacturing programme started ahead of the others, pursued the development of a strong parts manufacturing sector through an ambitious local content policy. Notwithstanding the individual country policy designs, the aggressive business development strategy of the Japanese car manufacturers moulded the policy direction and industrialization process of the ASEAN auto industry. The emergence of a regional network of parts suppliers and the growth of component firms are a manifestation of Japanese efforts to set up a reliable production and marketing network, and thus influence local industry growth.

Multilateral organizations

The advent of trade liberalization in the 1990s introduced new rules for the industry. AFTA and WTO prescribed the lifting of trade barriers and other forms of restrictions, effectively forcing ASEAN governments and businessmen to prepare for a more competitive environment. These developments came about as the global automotive industry was experiencing excess production capacity and market saturation, especially in the developed markets. American and European assemblers recognized the potential of the ASEAN region - now virtually a Japanese enclave - in terms of expanding market and as an export base.

Under the WTO provisions, for instance, market access into previously protected markets would be enhanced with the lowering of tariffs. The global trading system will also change with the implementation of such measures as the Trade Related Investment Measures Agreement (TRIMS), the Trade Related Intellectual Property Rights Agreement (TRIPS), Agreement on Subsidies and Countervailing Measures (SCM), as well as safeguards and anti-dumping measures. Other changes in the new trading environment include the abolition of local content requirements, voluntary export restraints (VERs), export subsidies and the removal of non-trade barriers. These measures pose both challenges and opportunities to the development of the automotive sector in ASEAN.

Global auto manufacturers

Capitalizing on the ASEAN Industrial Cooperation (AICO) Scheme, several global auto manufacturers are already contemplating the idea of producing - an Asian vehicle - a vehicle that can meet the specific needs of the regional market in terms of purpose, affordability and quality. Two models - one for passengers and the other a hybrid (commercial-cum passenger car) for small businesses and extended families - have been considered by Japanese manufacturers, namely Toyota and Honda. Such a project would enable automakers to gain from the scheme's preferential tariffs by integrating their operations in the region. It would also allow them to take advantage of the rapidly expanding market, reduce costs by producing outside their home country, and help make ASEAN an effective, low-cost auto production base for the global market.

OEM suppliers

The degree of cooperation among automakers and their OEM suppliers in ASEAN is tight. During the economic crisis companies implemented various measures to maintain their operations in the region. Assemblers started to use ASEAN-made products in vehicles manufactured in Japan or in third countries. Japanese parent companies provided financial support to their subsidiaries. In the case of joint ventures, the Japanese parent companies injected most of the capital requirements while local subsidiaries received loan extensions from mother companies.

More radical changes in the sourcing patterns between assemblers and parts producers, and among parts manufacturers are forthcoming as E-commerce extends. The emergence of the electronic markets linking component suppliers and assemblers has the potential of delivering enormous improvements in the supply chain by cutting down the transaction costs and speeding up communication. More important for ASEAN manufacturers is that E-commerce gives small firms unprecedented opportunity to make their bids in the global exchange.

Assemblers

Auto assemblers are planning to use more local content instead of importing parts from outside. The appreciation of the currencies brought about by the economic crisis has increased the relative prices of imported raw materials. Utilizing locally made parts and raw materials cut costs. For example, Isuzu plans to procure local parts since the production cost of pick-up trucks using locally produced parts is still lower than import alternatives. Mazda has plans of using more local content, about 75% in the case of the 'Fighter' pick-up with Auto Alliance. Moreover, local content requirements set by host governments force assemblers to substitute domestic for foreign parts. Thus, a local content policy pampers inefficient production - blocks competitive imports - while parts that are produced efficiently are made to "subsidize" the inefficiency.

End users

For almost three decades, consumers in ASEAN have borne the burden of promoting the domestic industry shielded behind high tariff walls. Despite the recent adjustments, tariffs remain a major concern. In ASEAN, because of the absence of uniformity in product classification, the scope of protection to the industry can be gleaned from an inventory of tariff lines. That is, highly protected markets are often shielded by more detailed product breakdowns, and therefore a greater number of tariff lines. Equally striking are the wide gaps in tariff rates. Trade taxes on CBUs can be as high as 300% in Malaysia, and as moderate as 30% in the Philippines. The bulk of Indonesian and Philippine imports are taxed between 21% and 40%. The concentration of Thailand's and Malaysian imports, by contrast, fall in the tax ranges of 41% - 60% and 61% - 99%, respectively.

Regional industrial cooperation efforts and Singapore on the supply chain

ASEAN members have, over the years, pursued various industrial cooperation initiatives to enhance the region's competitive edge in a changing environment. Some of these initiatives have led to the effective utilization of economies of scale and exploitation of the region's complementary locational advantages. Such efforts in industrial development, whilst having differing degrees of success, have and will continue to be an essential component of ASEAN economic cooperation. With the member countries agreeing to increase cooperation in research and development, technology transfer, human resource development and other economic related areas, industrial cooperation in ASEAN has widened, both in scope and depth in recent years. The first concerted region-wide industrial cooperation effort followed the launch of the ASEAN Industrial Projects (AIP) scheme in 1980. The scheme was targeted at allocating large scale, government initiated projects to different member countries. A year later, the ASEAN Industrial Complementation (AIC) scheme was established to divide different production stages of industries among member nations, with a view to reap economies of scale and avoid duplication of capacity in the region. Subsequently, two other schemes, the Brand-to-Brand Complementation (BBC) scheme and ASEAN Industrial Joint Venture (AIJV) scheme were introduced. But these schemes were discontinued and replaced by the ASEAN Industrial Cooperation (AICO) scheme in 1996.

A few lessons can be learnt from the ineffectiveness of the AIP, AIC and AIJV schemes. First, industrial cooperation programmes can not predetermine resource allocation. Governments can lead the way, but they need the active support and participation of the private sector to make these schemes work. Second, the perceived 'lack of response' in several of these programmes was due to the tedious operational procedure and lag time in approval and accreditation rather than the lack of interest on the part of investors. Recognizing the weaknesses of the previous arrange-ments, the AICO scheme was introduced in November 1996. It is based on the fundamental structure of the BBC and AIJV schemes. But unlike its predecessors, AICO corresponds to the CEPT schedule and is aimed at promoting investment from technology-based industries and high value-added activities.

Brand-to-brand complementation

The brand-to-brand complementation (BBC) scheme was introduced in 1988 with a view to promote the intra-regional trade particularly in the auto sector. The scheme allowed unrestricted flow of auto components between member nations and encouraged economies of scale in the region. It considered all parts produced in the ASEAN region as 'local', and correspondingly reduced tariffs on auto parts of the same brand to 50 per cent. The scheme was not without problems - especially in the early stages - and the region's highly regulated markets worked against it. Indonesia and Malaysia, in particular were reluctant partici-pants. Further-more, there was no specific provision in the BBC scheme to reduce tariffs rates in line with the trade and regional policies of AFTA, WTO and APEC. Because of these reasons and the fact that intra-regional and intra-corporate trade in auto parts was still not substantial, benefits of the BBC scheme were not fully exploited.

The major beneficiaries of the BBC scheme were the global auto assemblers and component parts manufacturers. The Japanese in particular, assigned the production of specific component parts - which ASEAN countries had targeted for national localization-to subsidiaries in a regional division of labour. Toyota, for instance, restructured its individual country operations to develop a regional strategy for the ASEAN market. By lever-aging its regional production bases in the various ASEAN countries, the company was able to achieve economies of scale and enhance intra-subsidiary trading of automotive component parts. Not many other MNCs were able to capitalize on the opportunities provided by the BBC scheme in the fashion of Toyota.

ASEAN Industrial Cooperation Scheme

The ASEAN Industrial Cooperation (AICO) scheme is an industrial cooperation programme to promote the sharing of industrial activities between ASEAN-based companies. The scheme essentially involves a minimum of two participating companies from two different ASEAN countries. The outputs of the participating companies stand to enjoy a preferential tariff rate in the range of 0-5% upon approval. The 0-5% tariffs represent the final CEPT rate to be reached by ASEAN nations by year 2003. Approved parti-cipating companies must however use 40% local (regional) con-tent to benefit from another incentive - local content accreditation.

Apart from enjoying the above benefits, AICO participating companies are also eligible for other incentives such as non-tariff incentives, which may be provided by the participating member countries. To form an AICO arrangement, the prospective companies must fulfill the following criteria :

– Be incorporated and operating in any ASEAN countries;
– Have a minimum 30% national equity (which will be made irrelevant with the implementation of AFTA);
– Undertake resource sharing/pooling, or industrial complemen-tation or other industrial cooperation activities that are accepted by the participating country.

The objectives of the AICO Scheme are the same as those pursued and promoted by AFTA/CEPT. It is based on the principles and concepts of the CEPT Scheme for AFTA in that it minimizes tariff dissimilarities and offers qualified participating companies the immediate benefit of the CEPT tariff rates in the range of 0-5 per cent. The scheme does not only enhance ASEAN industries' competitiveness and effectiveness, but also serves as a lead into the free trade era. It is important to note that the AICO arrangement involves not only the physical movement of products between participating companies and countries but also resource sharing, industrial complementation and other industrial cooperation acti-vities. AICO seeks to enhance the competitive edge of ASEAN as a favourable manufacturing location to serve regional and global markets; to enable industries to rationalize their existing and future production capacities and capabilities by increasing effective-ness and productivity through the adoption of economies of scale and scope; to promote market sharing and to increase the competitive position of ASEAN's manufacturing industries by means of production integration across ASEAN borders.

Singapore on the supply chain

Singapore has no automotive assembly plant, but its strategic location lends convenience to transnational automakers requiring a regional coordination center. Indeed, the regional division of labour that has evolved, coupled with intra-regional trade agreements, can serve as basis for designing a regional production strategy with the HQ being located in Singapore.

Shipping

Availability

Singapore's terminal facilities provide extensive linkages and connections to the world. There are over 3000 weekly flights currently operating out of Changi Airport, connecting Singapore to 130 cities in 56 countries worldwide. With links to more than 700 ports in 130 countries worldwide, Singapore's seaport is the focal point for more than 400 shipping lines. Goods can be delivered in Asia and even in the US, within 24 hours. To ensure competitiveness and high levels of service, work is underway to further boost the port's handling capacity. Besides air and sea, Singapore is connected to the southern state of Johore in Malaysia through 2 causeways, with rail and road links running through.

Suitability

• Strategic location

Singapore's inherent appeal of being strategically located at the crossroads of major shipping lanes and air routes has been augmented by its high level of computerization, state-of-the-art air and sea port facilities, cost-effective services and superb logistical support and infrastructure.

• Singapore at the crossroads of major shipping lanes and air routes

Every two to three minutes, a ship arrives at or departs from the Port of Singapore. Everyday, PSA Corporation handles more than 40,000 containers at its terminals in Singapore. At any one time some 800 ships and 150,000 containers are in the port. These are just some of the facts that testify Singapore as the world's busiest port in terms of shipping, cargo tonnage and container throughput. It also ranks as the world's top bunkering port. Besides hosting 145,383 vessels with a shipping tonnage of 910 million gross tonnes and handling 17.09 million TEU's and 326 million tonnes of cargo in 2000, Singapore also supplied 18.7 million tonnes of bunker in the same year.

In the year 2000, 1.68 billion tonnes of cargo was handled at Changi Airport. An eight automatic terminal is being constructed which will bring Changi Airport's handling capacity to 2.5 million tones per annum. These statistics are a clear testimony to Singapore vibrancy and suitability as a shipping and logistics hub.

Cost of cargo

The government of Singapore has been committed to attracting international shipping companies, competent international ship management companies, ship agencies, and logistics service providers to establish and expand their operations in Singapore. The presence of this critical mass of logistics companies, in turn, has generated economies of scale on one hand and frequent services on the other. Of late, the competition from neighbouring Malaysia has been challenging Singapore's de facto hub status. KLIA (Kuala Lumpur International Airport) has been slashing landing fee for airlines and offering other incentives on one hand whereas PTP (Port of Tanjung Pelepas) has lured away Maersk and Evergreen (PSA's two largest customers) by offering stakes, low prices, and other concessions for using Malaysia as a transhipment port. This newly emerged competition has brought in lower prices for shippers in the region coupled with the bonus of efficient and frequent services.

Conclusions

Notwithstanding the various schemes promoting regional trade, intra-ASEAN auto trade remains sparse. In 1998, auto trade within ASEAN was U$S 571 million, while trade with non-ASEAN economies, mainly Japan, EU and NAFTA, reached US$ 7.6 billion. No doubt the currency adjustments boosted ASEAN automotive exports. In 1998, export revenues of Thailand grew by 25%, and Malaysia, by 11%. The revenue increases were however more modest in the Philippines, 4%, and Indonesia, 3%. Yet it was not export growth that transformed the trade auto balances of these economies from deficits in 1996 to surpluses in 1998 (table 12). Rather, it was the severe contraction in market demand, and consequently in production, that drastically reduced the import spending of the industry. This suggests that the limited auto-manufacturing base within ASEAN prevented its members from taking full advantage of the export opportunities presented by the huge currency devaluation.

The recommendations are divided into three categories - those for Local Suppliers, Global Manufacturers, and Governments. We will begin with what the local suppliers need and, critically, how they can help themselves.

Local Suppliers

1. Scouting for new markets

The immediate need of the local suppliers is for new markets - new customers. They must become aggressive market seekers while at the same time maintaining their existing markets. Critically, they must develop export markets within and outside of ASEAN. They cannot simply wait on the arrival of new vehicle manufacturers and new suppliers or on the recovery of their old customers. The new arrivals will be seeking suppliers and many of the locals will be tempted to wait for this to happen. Not only could this be a long time off, but the new customers will be looking for aggressive suppliers - ones which actively seek new customers and welcome new methods. Those, which sit back and wait, will not be attractive to these global companies.

In seeking new customers, the local suppliers should pay particular attention to the aftermarket. During the crisis, the original equipment market collapsed the most. While reliable statistics are not available, the aftermarket appears to have remained the strongest. The local suppliers have generally ignored this market, but this needs to change. They could do this by gaining direct access to the aftermarket rather than going through the vehicle manufacturers and by improving the quality of the products sold in the aftermarket. In addition, these suppliers should look at markets other than automotive where their products may have application. This would be especially true for those companies making electronic parts.

2. Improvement of quality and cost control

While they develop these new markets, the local suppliers also need to improve their quality and cost control. Indeed it will be difficult for them to find new customers without improvements in these areas. Many of the current local suppliers suffer from reputations for substandard quality and cost control. They need to seek new techniques to improve their capabilities in these areas and be able to demonstrate to the new arrivals that they have improved their quality and productivity. Quality and cost control must become the focus of these companies. In order to reduce the cost of making these adjustments, closely aligned suppliers could form partnerships to market their products, improve their R&D capabilities or become equity partners. They could form consortia of niche suppliers. They could put together proposals to market systems. Most importantly, local suppliers simply need to work more closely together to strengthen their market position and attractiveness to foreign companies and investors. Local suppliers also might want to look at strengthening existing trade associations or forming new ones to help provide technical assistance and establish links with associations in the developed country markets. National associations could also explore links with foreign professional associations to enhance their technical knowledge and skills. In particular local suppliers should also seek from governments and global manufacturers : technical expertise on systems/process improvements (e.g., TQM); technology upgrading for specific manufacturing processes (e.g., mixing and compounding for rubber products, die and mould designs); pilot projects of the latest technology for training and demonstration purposes; assistance for a core group of companies to attain QS 9000 and ISO 14000; and further integration of auto parts manufacturing to achieve economies of scale and product/process complementation.

3. Better management

In addition, local suppliers, have many other issues to address, including to modernize their management techniques; improve financial management and structures; enhance human resource development (especially their engineers and production line workers); reduce the cost of their purchased materials; improve the utilization rate of their production equipment; expand their markets, both domestic and foreign; and attempt to create new business opportunities. To assist them in these efforts, global manufacturers and governments should consider and propose new measures to improve the supply structure in ASEAN.

Global Manufacturers

1. Alliances, restructuring, and consolidation

Given the global slowdown, car manufacturers, which are already forming alliances and restructuring and consolidating, should restructure even more in a bid to improve margins, consolidation and profitability. The slowdown of world car sales is expected to fix an industry that is inherently financially flawed. Margins are too meager to withstand a prolonged economic and sales slump.

2. **Supply chain in ASEAN**

As companies spread their operations throughout the world, either by establishing new the supply chain facilities, alliances or mergers, integrating the supply chain is key. Having cost-efficient and productive supply chains allows auto companies to focus more on design and satisfying their customers. AFTA will not have a far-reaching effect on supply chains. Most OEMs have legacy systems that are not viable to support E-business. Leaders of companies must be made to realize the potential and savings of a modern supply chain management system. Good supply chain management can double margins if executed properly.

3. **Cracking protectionism**

The greatest obstacle for ASEAN's auto industry remains protectionism where a multitude of trade barriers can impair the prospects and the viability of businesses. Protectionism keeps prices artificially high, drags intra-regional trade and inhibits the development of a smooth-running market. Nearly every territory in ASEAN has some sort of protectionism. Resistance to globalization is a knee-jerk reaction to declining economic growth. The countries that erect trade barriers fail to realize that globalization has a strong correlation with investment. Consis-tent and internationally market-friendly policies will be rewarded with increased investment flows from abroad. The voice of the consumer is a powerful ally in bringing down trade barriers and breaking other protectionist impediments to globalization. Consumers want to know why they are paying a high price for automobiles. Car buyers are also showing their preference for newer and alternate models than are available in the marketplace today. Automobile companies can also bring down barriers by proving to be good corporate citizens, contributing to the development of local supplier bases and utilizing indigenous sources of research and development.

Governments

1. **Removal of trade barriers**

Governments' first step is obvious, they must eliminate their restrictive trade regimes. These regimes may have had some success initially when these countries were trying to encourage investment, but over the long run they have been detrimental to the development of a globally competitive local auto industry. This includes eliminating their Trade Related Investment Measures (TRIMs). These local content measures simply do not drive local purchases. Global manufacturers will naturally pursue local suppliers, which meet global efficiency and quality standards. Elimination of TRIMs will go a long way to enable the global manufacturers to introduce new investments, which are globally competitive. These high tariffs must also be eliminated. An extremely important first step in this direction should be the implementation of the AFTA as scheduled. This will create a market of a size capable of attracting global manufacturers and allow the manufacturers to transfer the technology necessary to develop a competitive industry, which can serve as a real stimulus to economic development. Short-term assistance could be rendered by encouraging and improving AICO schemes for vehicles and components. The approval process needs to be improved to attract new foreign investment - with transparent, predictable and efficient procedures. Governments also need to recognize the value of imports from the non-ASEAN members of APEC, NAFTA, and the EU, and pursue the further elimination of the external tariffs. It can not be overemphasized that this should occur over the long term, in a gradual, step-wise fashion, which allows the industry time to plan and adjust.

2. **Regional integration to achieve economies of scale**

The development of a regional industry based on open market principles tends to lower manufacturing costs and maximizes available facilities and resources by increasing the scale of production and promoting competition. This can lead to higher levels of efficiency, more affordable products and more consumer choice. Such integration makes the region much more attractive for global investors. Initiatives such as AICO (ASEAN Industrial Cooperation Scheme) and full implementation of AFTA should be actively encouraged. A good example of regional integration is Mexico. In 1994 Mexico joined the US and Canada in the North American Free Trade Agreement (NAFTA), which moved the Mexican auto sector from heavy protection to free trade and investment rules. The results have been dramatic. Mexico's auto industry has moved from being a high-cost, relatively inefficient production base, to a world-class competitive industry completely integrated with rest of the world.

3. **Harmonization and modernization of customs procedures**

Clarity and openness in Customs policy with a key objective of simplification of processes is highly desirable. Harmonized regulations and full utilization of electronic interfaces will boost integrity and business confidence. For example, adoption of United Nations/Electronic Data Interchange for Administration, Commerce and Transport (UN/EDIFACT) electronic highway, further harmonization of automotive tariff conventions, and the adoption of the WTO's valuation and TRIPs agreements will help. Customs administration utilizing modern risk management techniques and automated processes can facilitate the reputable traders and assist in combating illegal activities.

4. **Harmonization of automotive safety and emissions standards and certification**

Recognizing the auto industry is heading towards "one standard, one model" concept for ultimate efficiency, the careful regard of harmonizing standards and desiring a compatible time schedule with other economies will assist this process. Progress towards harmonization can best be achieved within the United Nations Economic Commission for Europe Working Party 29 (UN/ECE WP 29) by encouraging economies to participate in either or both the 1998 global and the 1958 agreements. Economies should accept vehicles that meet regulations in the new global registry in lieu of unique national requirements, and accept common test devices and procedures. Additionally acceptance of a simplified and common certification approval process is recommended.

5. **Identification of new markets**

Singapore Government also need to take further steps to address the problems of limited markets. Implementation of AFTA on schedule will do much in this regard, but frankly, these economies are likely to suffer the effects of the current crisis for some time to come. To alleviate this problem, ASEAN governments should actively engage in export market development activities. These should focus on markets outside ASEAN. Governments could seek advice in this area from Japan, the United States, and Australia, which have extensive experience in this area.

6. **Human resource development**

Governments also need to implement long term schemes to improve the human capital in these markets. Trained, highly skilled workers will be in great demand by the new investors. Governments should work with these companies before they arrive to determine the skills needed and how they can educate their citizens in these skills. Singapore Government might also look at the Automotive Institute in Thailand and consider adopting a similar scheme. The Institute is under the Ministry of Industry. Its primary purpose is to enhance the competitiveness of the Thai automotive industry in the global market. To do this, it has four principal objectives :

(1) To provide testing for automobiles, parts and raw materials
(2) To disseminate automotive-related information and provide consultation and training
(3) To coordinate and cooperate among related agencies
(4) To conduct research on automotive-related topics.

While some ASEAN economies may want to engage in more or fewer objectives, we believe that a central government body focusing on assisting the auto industry could be of assistance to the recovery and development of the local supplier industry.

Useful Addresses

Government Bodies

Ministry of Trade and Industry
100 High Street
#09-01 The Treasury, Singapore 179434
Tel. : (65) 6225 9911
Fax : (65) 6332 7260
E-mail : feedback@mti.gov.sg
Website : www.mti.gov.sg

International Enterprise Singapore
230 Victoria Street
#07-00 Bugis Junction Office Tower
Singapore 188024
Tel. : (65) 6337 6628
Fax : (65) 6337 6898/6838
Website : www.iesingapore.gov.sg

Economic Development Board
250 North Bridge Road
#24-00 Raffles City Tower
Singapore 179101
Tel. : (65) 6339 5805
Fax : (65) 6339 6077
E-mail : webmaster@edb.gov.sg
Website : www.sedb.com

Ministry of Transport
#39-00 & #33-00 Storeys
460 Alexandra Road, #18-00 PSA Building
Singapore 119963
Tel. : (65) 6270 7988
Fax : (65) 6375 7734
E-mail : mot@mot.gov.sg
Website : www.mot.gov.sg

Maritime and Port Authority of Singapore
460 Alexandra Road, #18-00 PSA Building
Singapore 119963
Tel. : (65) 6375 1600
Fax : (65) 6275 9247
E-mail : mpa@mpa.gov.sg
Website : www.mpa.gov.sg

Ministry of National Development
5, Maxwell Road
#21/22 Tower Block
MND Complex
Singapore 069110
Tel. : (65) 6222 1211
Fax : (65) 6325 7254
E-mail : MND_HQ@mnd.gov.sg
Website : www.mnd.gov.sg

Singapore Department of Statistics
100 High Street
#05-01 The Treasury
Singapore 179434
Tel. : (65) 6332 7686
Fax : (65) 6332 7689
E-mail : info@singstat.gov.sg
Website : www.singstat.gov.sg

Customs and Excise Department
55 Newton Road, #10-01
Revenue House
Singapore 307987
Tel. : (65) 6272 8222
Fax : (65) 6250 8663
E-mail : ced_documentation@ced.gov.sg
Website : www.gov.sg/customs

Land Transport Authority
460 Alexandra Road
#28-00 PSA Building
Singapore 119963
Tel. : (65) 1800 - CALL LTA (1800 - 2255582)
Fax : (65) 6375 7201
E-mail : land_transport_authority@lta.gov.sg
Website : www.lta.gov.sg

Civil Aviation Authority of Singapore
Singapore Changi Airport
P.O. Box 1, Singapore 918141
Tel. : (65) 6542 1122
Fax : (65) 6542 1231
Website : www.changi.airport.com.sg

Chambers of Commerce & Industry and Trade Associations

Singapore Business Federation
10 Hoe Chiang Road
#22-01 Kepple Towers
Singapore 089315
Tel. : (65) 6827 6828
Fax : (65) 6827 6807
E-mail : info@sbf.org.sg
Website : www.sbf.org.sg

The American Chamber of Commerce in Singapore
1 Scotts Road
#16-07 Shaw Centre
Singapore 228208
Tel. : (65) 6235 0077
Fax : (65) 6732 5917
E-mail : info@amcham.org.sg
Website : www.amcham.org.sg

British Chamber of Commerce
10 Collyer Quay #03-04
Ocean Building
Singapore 049315
Tel. : (65) 6438 5655
Fax : (65) 6438 5755

Japanese Chamber of Commerce & Industry Singapore
10 Shenton Way #12-04
M A S Bldg., Singapore 079117
Tel. : (65) 6221 0541
Fax : (65) 6225 6197

Singapore Chinese Chamber of Commerce and Industry
47 Hill Street, #09-00
Chinese Chamber of Commerce Building
Singapore 179365
Tel. : (65) 6337 8381
Fax : (65) 6339 0605
E-mail : corporate@sccci.org.sg
Website : www.sccci.org.sg

Singapore Indian Chamber of Commerce and Industry
101 Cecil Street, #23-01/04
Tong Eng Building
Singapore 069533
Tel. : (65) 6222 2855
Fax : (65) 6223 1707
E-mail : sicci@singnet.com.sg
Website : www.sicci.com.sg

Singapore Malay Chamber of Commerce and Industry
72A Bussorah Street, Singapore 199485
Tel. : (65) 6297 9296
Fax : (65) 6392 4527
E-mail : smcci@singnet.com.sg

Singapore International Chamber of Commerce and Industry
6 Raffles Quay, #10-01
John Hancock Tower, Singapore 048580
Tel. : (65) 6224 1255
Fax : (65) 6224 2785
E-mail : general@sicc.com.sg
Website : www.sicc.com.sg

Italian Chamber of Commerce Singapore
32 Maxwell Road
#01-04 Whitehouse, Singapore 069115
Tel. : (65) 6890 0702
Fax : (65) 6324 6797
E-mail : singapore@italchamber.org.sg
Website : www.italchamber.org.sg

Singapore Cycle & Motor Traders' Association
261 Waterloo Street #03-09
Singapore 180261
Tel. : (65) 6339 7648
Fax : (65) 6336 6181
E-mail : scmta@pacific.net.sg
Website : http://autoparts.com.sg

Annex I

List of Automotive Products subject to Customs Duty upon Importation into Singapore

HS Code	Product Description	Customs Duty	Full Rate Excise
8703.10 100	Snow vehicles & golf cars for the transport of 8 persons or less, including the driver	Nil	31%
8703.21 100	Passenger vehicles, petrol, not exceeding 1000 cc, for the transport of 8 persons or less, including the driver	Nil	31%
8703.22 100	Passenger vehicles, petrol, exceeding 1000 cc but not exceeding 1500 cc, for the transport of 8 persons or less, including the driver	Nil	31%
8703.23 100	Passenger vehicles, petrol, exceeding 1500 cc but not exceeding 3000 cc, for the transport of 8 persons or less, including the driver	Nil	31%
8703.24 100	Passenger vehicles, petrol, exceeding 3000 cc, for the transport of 8 persons or less, including the driver	Nil	31%
8703.31 100	Passenger vehicles, diesel, not exceeding 1500 cc, for the transport of 8 persons or less, including the driver	Nil	31%
8703.32 100	Passenger vehicles, diesel, exceeding 1500 cc but not exceeding 2500 cc, for the transport of 8 persons or less, including the driver	Nil	31%
8703.33 100	Passenger vehicles, diesel, exceeding 2500 cc, for the transport of 8 persons or less, including the driver	Nil	31%
8703.90 100	Other passenger vehicles, for the transport of 8 persons or less, including the driver	Nil	31%
8706.00 100	Chassis with engines for passenger vehicles	Nil	31%
8707.10 000	Bodies for passenger vehicles	Nil	31%
8711.10 100	Motorcycles, not exceeding 50 cc	Nil	12%
8711.10 200	Motor scooters, not exceeding 50 cc	Nil	12%
8711.10 900	Other motorized cycles, not exceeding 50 cc	Nil	12%
8711.20 100	Motorcycles, exceeding 50 cc but not exceeding 250 cc	Nil	12%
8711.20 200	Motor scooters, exceeding 50 cc but not exceeding 250 cc	Nil	12%
8711.20 900	Other motorized cycles, exceeding 50 cc but not exceeding 250 cc	Nil	12%
8711.30 000	Motorcycles, exceeding 250 cc but not exceeding 500 cc	Nil	12%
8711.40 000	Motorcycles, exceeding 500 cc but not exceeding 800 cc	Nil	12%
8711.50 000	Motorcycles, exceeding 800 cc	Nil	12%
8711.90 100	Other motorcycles	Nil	12%
8711.90 200	Other motor scooters	Nil	12%
8711.90 900	Other motorized cycles	Nil	12%

(Source : EEPC Singapore Office)