

# *Industrial Policies and Implementation:* Philippine Automotive Manufacturing as a Lens

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# Outline of the Presentation

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- I. Objectives of the Study
- II. Overview on Past Industrial and Liberalization Policies
- III. The Philippine New Industrial Policy
- IV. The Potential of the Philippine Automotive Industry
  - A. Evolution of Policies and Regulations in the Automotive Industry (3)
  - B. Present Situation of the PH Automotive Industry (1)
  - C. PH Automotive Industry Performance
  - D. The Philippine Automotive Manufacturing Industry Roadmap
- V. Policy Implementation and Challenges
  - A. State Capacity for Reform Issues
  - B. Political Economy Issues
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# Objectives of the Study

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- ✓ Discuss the **Philippine industrial policy reforms and implementation** over the period 1973-2014 through the lens of the automotive manufacturing industry.
- ✓ Understand the policy reforms undertaken by the government but more importantly to **analyze the capacity of the government to implement** such reforms, and how the government responds to challenges and obstacles to reform.
- ✓ Discuss the **factors that will facilitate or will hinder the process** of reforms and implementation under the new approach to the development of the **automotive manufacturing industry**
- ✓ Highlight **issues** for successful implementation



# Overview on Past Industrial and Liberalization Policies

Period	Policy	Characteristics	Issues
50s-70s	Import Substitution	high tariff & NTBs, fiscal/non-fiscal incentives, regulations	inefficient resource allocation
80s-90s	Trade Liberalization	Trade Reform Program GATT-WTO ('95), AFTA ('93)	Lack of adjustment measures
20s	Regionalism/ Bilateralism via FTAs	ASEAN+1 FTAs (China, Japan, Korea, Aus, NZ, India), ATIGA ('10), PJEPA	Lack of structural transformation

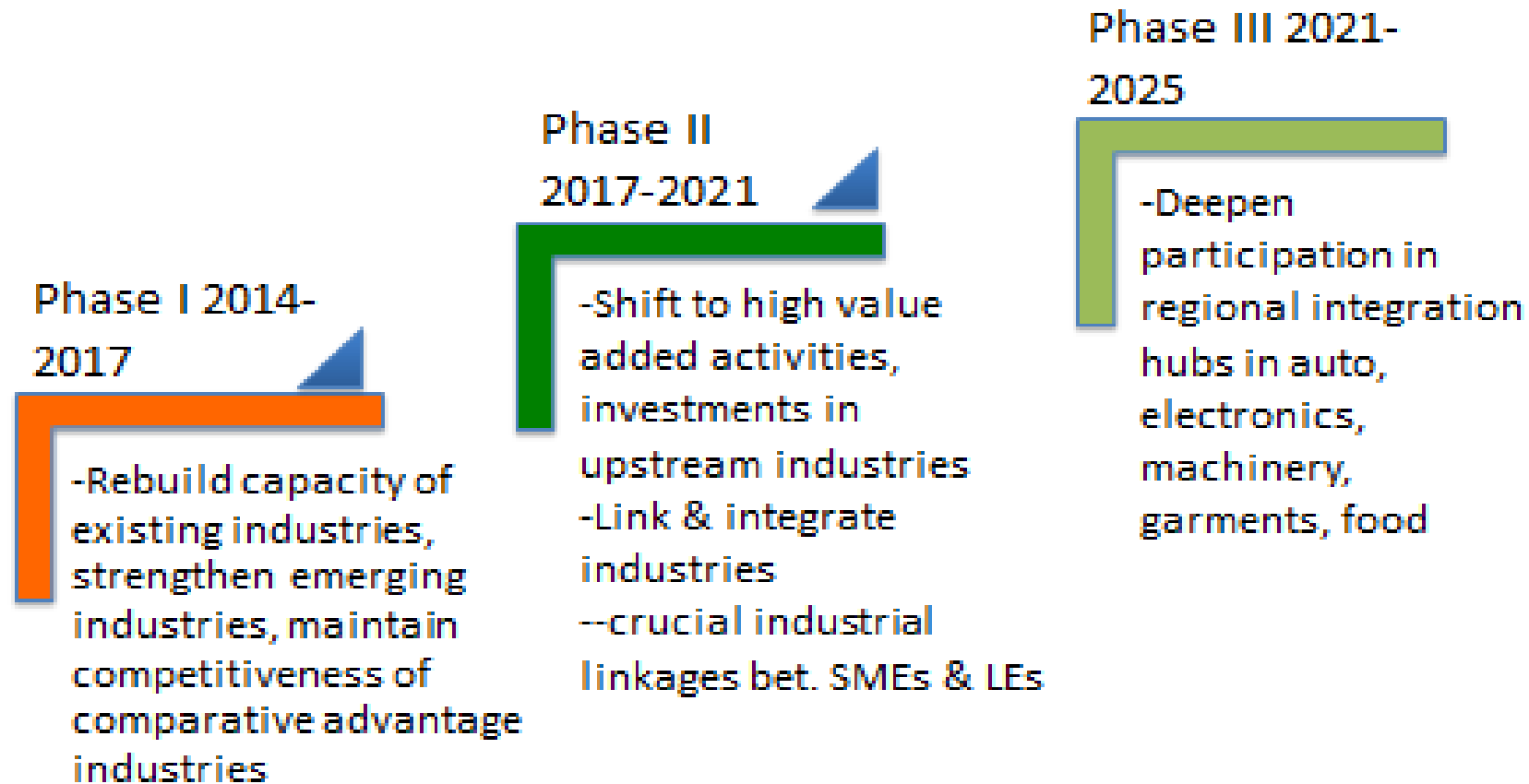
# Failure to attain expected structural changes

	Value Added						Employment		
	Average Growth			Average Share			Average Share		
	80s	90s	20s	80s	90s	20s	80s	90s	20s
<b>GDP</b>	1.7	3	4.7	100	100	100	100	100	100
<b>Agriculture</b>	1.1	1.8	3.0	23.9	20.8	18.9	49.6	43.2	36.1
<b>Industry</b>	0.3	3.0	4.2	38.0	34.1	33.1	14.5	16.0	15.1
<i>Manufacturing</i>	<i>0.9</i>	<i>2.5</i>	<i>4.1</i>	<i>26.3</i>	<i>24.3</i>	<i>23.7</i>	<i>9.9</i>	<i>10.0</i>	<i>9.1</i>
<b>Services</b>	3.3	3.6	5.8	40.4	42.4	48.0	35.9	40.9	48.8

Source: Aldaba (2013)

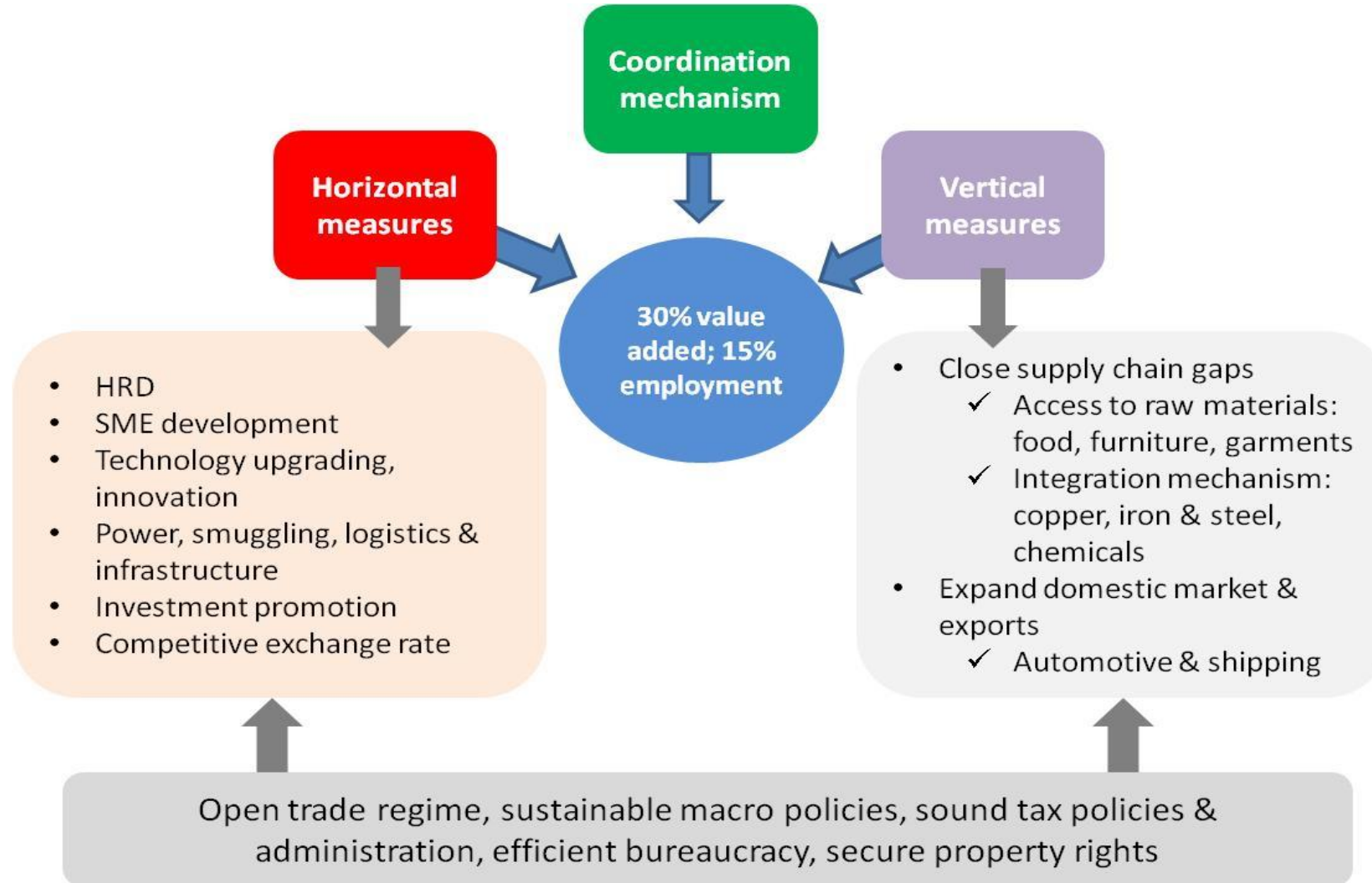
# Roadmap for structural transformation

Vision: globally competitive manufacturing



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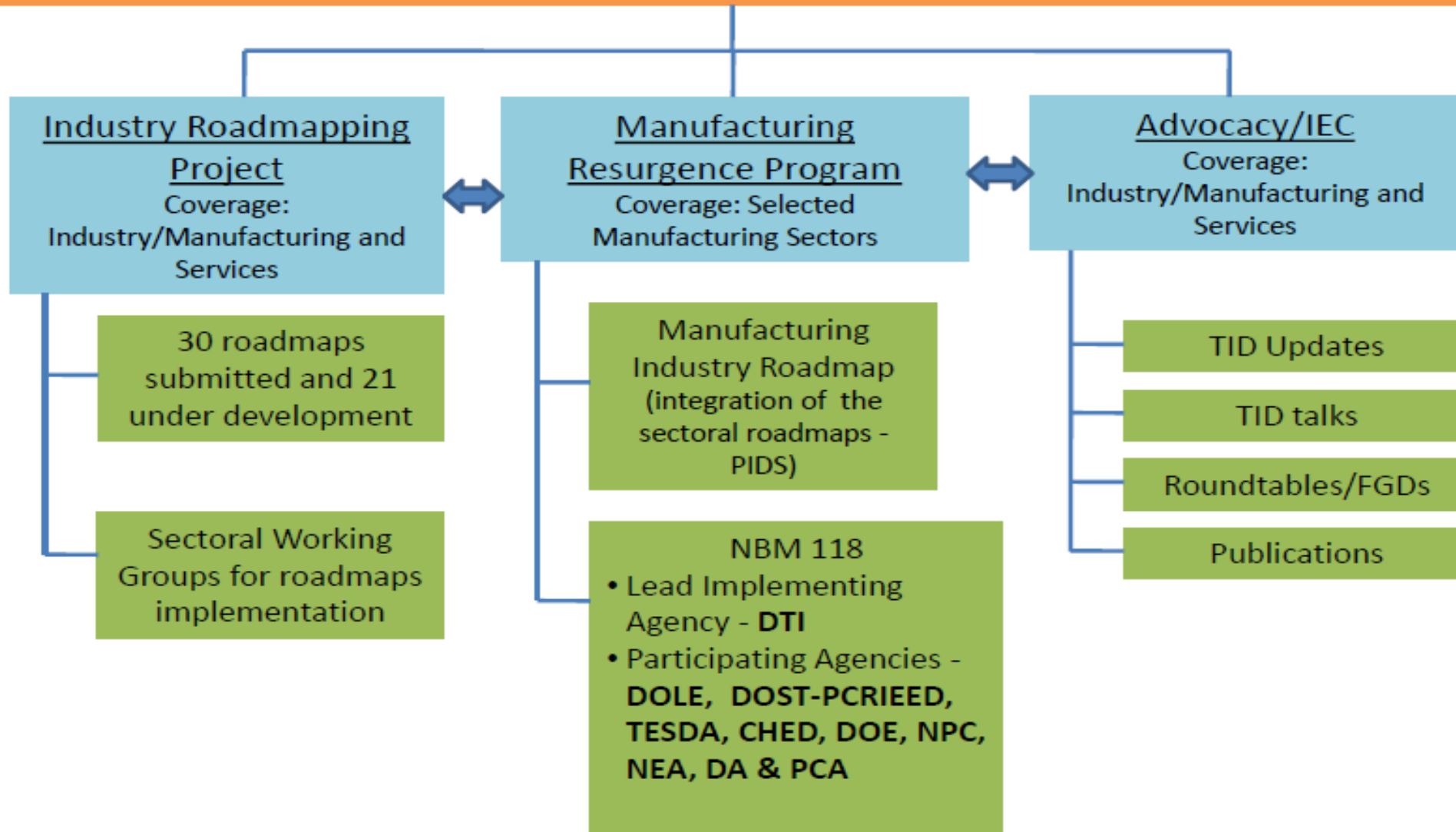
# Framework of Philippine New Industrial Policy, Targets and Strategic Actions





# Industry Development Program

Coverage: Industry/Manufacturing and Services



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## Philippine Automotive Manufacturing as a Lens

# Evolution of Policies and Regulations in the Automotive Industry (1)

<b>Year</b>	<b>Program/Policy</b>	<b>Features/Objectives</b>
1973	<ul style="list-style-type: none"> <li>• Progressive Car Manufacturing Program (PCMP)</li> <li>• Progressive Truck Manufacturing Program (PTMP)</li> </ul>	<ul style="list-style-type: none"> <li>- increase local assemblers domestic content from 10 percent in 1973 to 60 percent in 1976</li> <li>- promote horizontal integration in the industry by the creation of new manufacturing activities among small and medium scale enterprises through subcontracting and transfer of technology</li> <li>- build up exports of manufactured products in a regional (ASEAN) automotive complementation program</li> </ul>
1987	<ul style="list-style-type: none"> <li>• Car Development Program (CDP); Commercial Vehicle Development Program (CVDP); Motorcycle Development Program (MDP)</li> </ul>	<ul style="list-style-type: none"> <li>- increase local assemblers domestic content from 32.26 percent in 1988 to 40 percent in 1990</li> <li>- develop a viable automotive parts manufacturing industry</li> <li>- facilitate technology transfer and development</li> <li>- generate employment, make available reasonably priced passenger cars, and earn and save foreign exchange for the country</li> </ul>
1990	<ul style="list-style-type: none"> <li>• People's Car Program (PCP)</li> </ul>	<ul style="list-style-type: none"> <li>- include the assembly of smaller cars, named as people's car, or passenger cars with gasoline engine displacement of not more than 1200 cc</li> <li>- meet the minimum local content usage from 35% in 1991 to 51% in 1993</li> </ul>

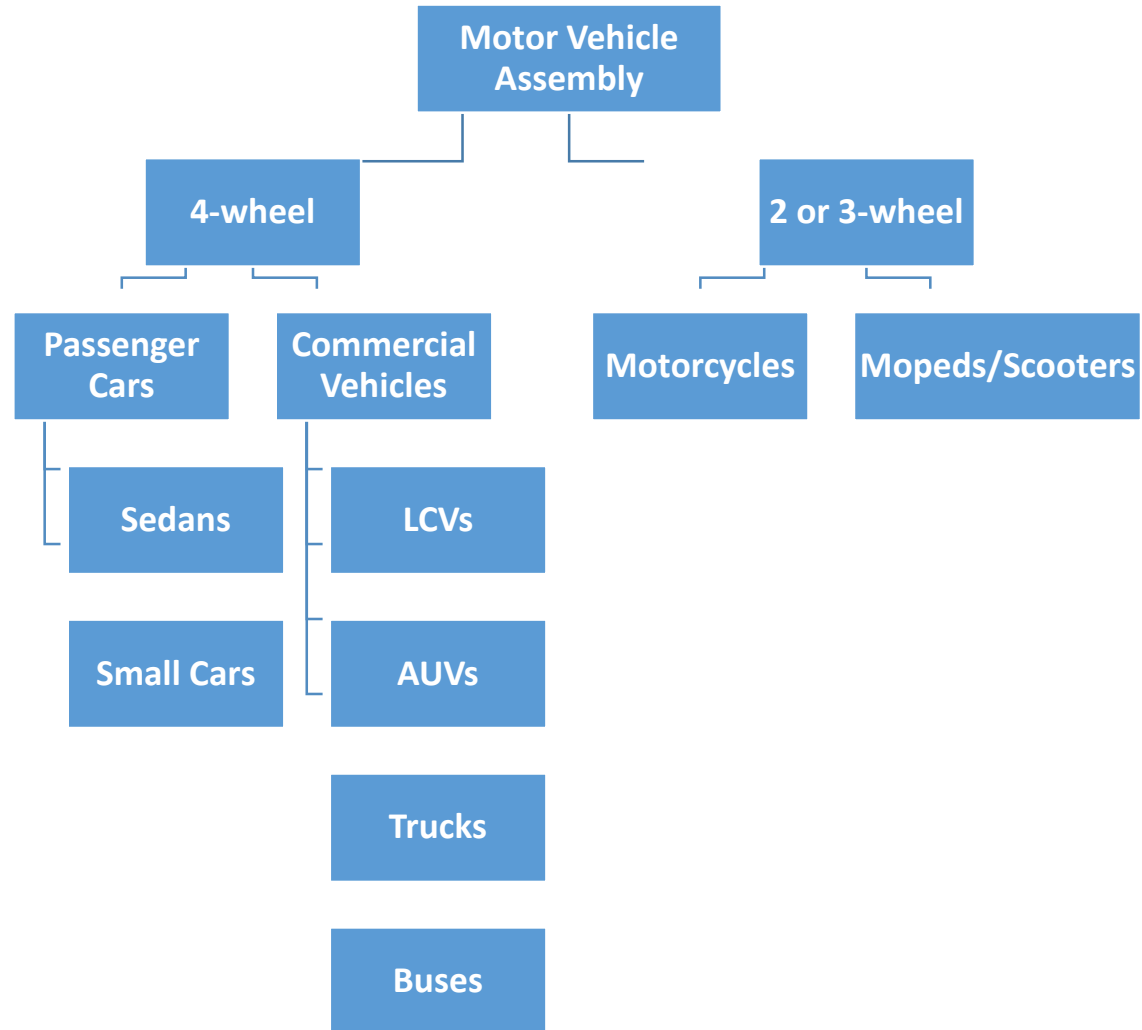
# Evolution of Policies and Regulations in the Automotive Industry (2)

1992	<ul style="list-style-type: none"> <li>Luxury Car Program</li> </ul>	<ul style="list-style-type: none"> <li>- allow the entry of high end passenger cars defined as passenger cars with engine displacement greater than 2800 cc</li> </ul>
1994	<ul style="list-style-type: none"> <li>ASEAN Industrial Joint Venture (AIJV) Scheme</li> </ul>	<ul style="list-style-type: none"> <li>- allow the entry of new assemblers under the ASEAN Industrial Joint Venture (AIJV) Scheme</li> </ul>
1996	<ul style="list-style-type: none"> <li>Memorandum Order Number 346</li> <li>Car Development Program</li> <li>Commercial Vehicle Development Program</li> </ul>	<ul style="list-style-type: none"> <li>- open up the closed vehicle categories to new participants and removed restrictions on the number of models and variants</li> <li>- terminate the foreign exchange and local content requirements under the CDP and CVDP in the year 2000</li> </ul>
2002	<ul style="list-style-type: none"> <li>New Motor Vehicle Development Program (EO 156)</li> </ul>	<ul style="list-style-type: none"> <li>- ban the importation of all types of used motor vehicles and parts and components, except those that may be allowed under certain conditions</li> <li>- restructure the Most Favored Nation (MFN) tariff rates for motor vehicles and their raw materials and parts and components at such rates that will encourage the development of the Philippine motor vehicle industry.</li> <li>- restructure the current excise tax system for motor vehicles with the end view of creating a simple, fair and stable tax structure</li> <li>- continue the application of AICO scheme as maybe adopted by the Association of Southeast Asian Nations (ASEAN)</li> <li>- give incentives to assemblers and parts and components makers for the export of CBUs and parts and components</li> </ul>

# Evolution of Policies and Regulations in the Automotive Industry (3)

2003	<ul style="list-style-type: none"> <li>• EO 262</li> <li>• EO 244</li> </ul>	<ul style="list-style-type: none"> <li>- modify the tariff rates on motor vehicle parts and components</li> <li>- provide special incentives to certain CBU exports</li> </ul>
2004	<ul style="list-style-type: none"> <li>• EO 312</li> </ul>	<ul style="list-style-type: none"> <li>- modify EO 244 to expand coverage of CBU exports and provide special incentives for the export of certain CBUs</li> </ul>
2010	<ul style="list-style-type: none"> <li>• Comprehensive Motor Vehicle Development Program (EO 877-A)</li> </ul>	<ul style="list-style-type: none"> <li>- creation of the Motor Vehicle Industry Council which is under the supervision of the Department of Trade and Industry (DTI)</li> <li>- establishment of the Industry Development Fund</li> <li>- reiterates the objectives of EO 156</li> </ul>
2012	<ul style="list-style-type: none"> <li>• Philippine Industrial Development Plan               <ul style="list-style-type: none"> <li>○ <b>Philippine Automotive Manufacturing Industry Roadmap</b></li> <li>○ Autoparts Industry Roadmap (status of release: pending)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>- revive the manufacturing industry, including automotive and autoparts industries, to promote inclusive growth</li> <li>- PAMI roadmap<sup>a</sup> :               <ul style="list-style-type: none"> <li>• Its overall objective is to increase the share of CKDs in the growing Philippine market</li> </ul> </li> <li>- Autoparts industry roadmap<sup>a</sup>:               <ul style="list-style-type: none"> <li>• To develop an internationally competitive and viable automotive parts industry in terms of product range, price, quality, and on-time delivery</li> <li>• To enhance value added and local capabilities in the automotive parts industry through improvement of processes, technology and human capital</li> <li>• To promote export-oriented parts and components manufacturers</li> </ul> </li> </ul>

# Present Situation of the PH Automotive Industry (1)



# Potential of PH Automotive Industry

- According to the PAMI Roadmap, in 2011, the automotive industry had a **12% share in total industrial output**, or approximately **4% of GDP**.
- Generated around **410,000 direct and indirect jobs** in vehicle and parts manufacturing, auto dealerships, and other auto-support jobs (Kabigting, 2013)
- In 2012, roughly **6% (63,370 jobs)** of the total employment in manufacturing establishments (1,056,172) are in the Parts and Accessories for Motor Vehicle Sector. (2012 Census of Philippine Business and Industry)



# Present Situation of the PH Automotive Industry (2)

- Philippine **motor vehicle industry** is principally dominated by Japanese automobile manufacturers such as Toyota Motor Phils. Corp. (TMPC), Mitsubishi Motor Phils. Corp. (MMPC), Honda Cars Phils., Inc. (HCPI), Nissan Motor Phils., Inc. (NMPI) and Isuzu Phils., Inc. (IPC). While Pilipinas Hino, Inc (Hino) and Columbian Motors Corp. (Nissan Diesel) dominate the **trucks and buses** category.

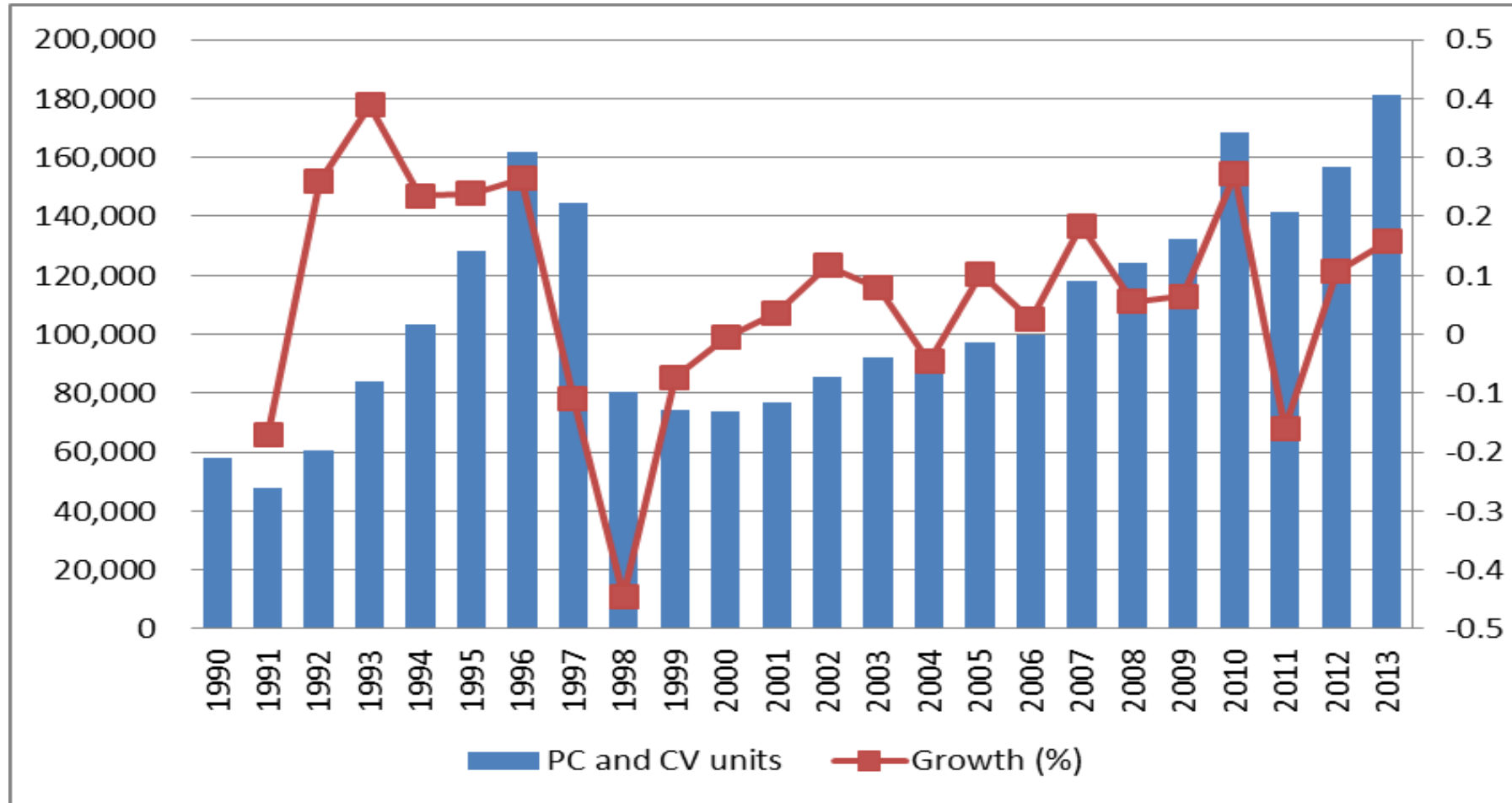
Classification	No. of Participants	Total Capacity
Passenger Car	4	200,000 units/year
Commercial Vehicle	20	146,022 units/year
Motorcycle	31	2,570,008 units/year

- The parts and components industry are composed of members from Motor Vehicle Parts Manufacturers Association of the Philippines (MVPMAP) with a total number of 131 members. Other parts manufacturing companies are from Motorcycle Parts Producers and Exporters Association (MCPPEA) composed of 76 members and 49 represents second and third tier suppliers.
- The parts and components industry approximately employs 60,000 workers. The present workforce is recognized to be highly skilled and trainable.



# PH Automotive Industry Performance

## Passenger Cars and Motor Vehicle Sales and Growth



# The Philippine Automotive Manufacturing Industry Roadmap

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- Both the **private sector and the government** realized that a **more outward looking policy**, e.g., trade liberalization, greater openness to foreign direct investments offers important pathways to **increase growth and foster competitiveness and productivity** of domestic industry and manufacturing
- The **main champions** from the government side is the **Department of Trade and Industry [DTI]**, which has drawn the assistance of the **Philippine Institute for Development Studies [PIDS]**, a government policy think tank] in conducting assessments of various sectors in industry and manufacturing, e.g., automotive manufacturing industry, chemicals, pulp and paper.
- The PAMI Roadmap was an initiative of the private sector, **Philippine Automotive Competitiveness Council, Inc. [PACCI]**.
- PACCI is composed of domestic car and truck assemblers and parts manufacturers and suppliers.

# Objectives of the PAMI Roadmap

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➤ General Objective:

**Increase the share of CKDs in the Growing Philippine Market**

- To support participating manufacturers:
  - ✓ To preserve market and increase market share (70:30 CKD:CBU)
  - ✓ To increase nationwide capacity 150% by 2020
  - ✓ To achieve full capacity utilization
- To contribute to national economic growth
  - ✓ PHP 41 billion additional investments
  - ✓ 70,000 additional jobs
  - ✓ PHP51 billion additional production in related sectors
  - ✓ Resume export operations

# PAMI Roadmap Support Measures

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To attain the targets, the roadmap proposes a package of **development measures** categorized into two components.

1. **Industry-wide Non-fiscal Policy Support Measures:** Aim to foster the domestic market through regulatory reforms and improvement of the policy environment for automotive manufacturing
  - a. Pursue Operational and Regulatory Reforms
  - b. Strengthen the Automotive Policy Environment
  - c. Hearts, Minds and Wallets campaign and government-supported financing schemes and regulations for buying locally-produced vehicles
  - d. An End-of-Life Program for Vehicles
  
2. **Fiscal Program:** Selective but wide-application of fiscal incentives to offset handicaps of domestic producers
  - a. Open two expanded vehicle categories
  - b. Apply Fiscal Incentives
  - c. Recommended Incentives

# Policy Implementation and Challenges:

## *State Capacity for Reform (1)*

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- Stakeholders in this sector include: private car and truck manufacturers [assemblers], consumers, and government
- **Academics** and **caused-oriented civil society** are also potential stakeholders but together with consumers, they were **not actively involved in the formulation of the Roadmap** and will neither be involved in its implementation.
- The exception is the PIDS, a policy think tank. It has acted as a technical assistance provider to DTI and the private firms during the process of formulating the Roadmap.
- The main government agency in policy implementation in this industry is the Department of Trade and Industry and its attached bureau, the Board of Investments.
- Currently the morale and motivation for reforms and implementation are high especially given the close relationship between the President and the DTI Secretary.

# Policy Implementation and Challenges:

## *State Capacity for Reform (2)*

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- Possible area of weakness is the **lack of familiarity** with the new industrial policy approach and how to implement it.
  - ✓ Main Points of the New industrial Policy
    1. Identify **market failures that act as barriers** to the growth of the industry such as information externalities and coordination failure
    2. Design **measures that could effectively address** them
- Participation in international trade, for example through regional production networks, which is an ultimate aim of the reinvigorated automotive manufacturing industry, will require “a **dedicated infrastructure to harmonize national and international standards, test products and processes, and others**” [Altenburg 2011, page 58]
  - ✓ Implies the need for **DTI and BOI to develop the knowledge and skills** set to handle such market failures, and help the private sector in hurdling the challenges of meeting standards in **global and regional value chains**.
  - ✓ *Recent government initiative:* Creation of the **Industry Development Council** constituting high-level representatives from the private sector, government, academe, labor and civil society, chaired by the DTI Secretary. It will serve as the **main coordination mechanism and venue for discussing measures** that will address vertical and horizontal issues affecting industries

# Policy Implementation and Challenges:

## *Political Economy Issues (1)*

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- The **foremost factor in policy implementation in the Philippine setting** is the support of the highest political leadership, the Presidency. Under the Philippine governmental tradition, *the nation moves as the President moves*.
- Contrary to the performance in terms of governance of the previous administration, the current political leadership is committed to reforms and good governance.
- Policy implementation in this sector has **strong political support**.
- *Possible challenge in the immediate future:* **Issue of continuity of policy reform under the next administration**
  - ✓ The country will elect its national leaders [President, Vice-President, and senators] in May 2016 and it seems that **continuing policy reform efforts** is uppermost in the minds of the people.
  - ✓ It is noted that the salutary effects of policy reform could build a natural constituency for reforms who could oppose any attempt by a weak or political leader to reverse the reform process.
  - ✓ The constituency of reforms [consumers, academics, civil society, church groups] can use the combined power of **transparency and access to information** through various traditional media and social media to make it politically costly for the a weak or corrupt leader to reverse the policy reform process.
  - ✓ **Strengthened participation of the civil society:** On this point, the creditable economic performance has provided palpable economic benefits to the constituency of reforms. It will be up to these economic agents to put pressure on the political leadership to implement policy reforms.

# Policy Implementation and Challenges:

## *Political Economy Issues (2)*

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- A **clear vision for the economy and clear objectives behind the policy reform effort** are indispensable in taking effort to implement the reforms, notwithstanding difficulties.
- *On PAMI reinvigoration:* The private sector, not government, creates jobs and hence, **providing a policy and regulatory environment cum a package of fiscal and non-fiscal measures** to private firms that risk capital and create those jobs seems logical and appropriate. This seems to be the consensus in public-private workshops and seminars on developing the automotive industry
- Implementing the Roadmap involves a close collaboration and coordination between DTI and PACCI. Under the present political leadership, **there is fertile ground for better and stronger public-private collaboration and coordination** because of the honesty and sincerity of the current President Benigno Aquino, Jr.



# Final Remarks

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- In sum, it is good to feel **optimistic** that this time the policy reform process cobbled by **public-private collaborative effort** might work for the automotive manufacturing industry in the Philippines.
  - ✓ There is a powerful coalition of support, adequate authority given to DTI and BOI to work with the private automotive manufacturing industry and some capacity on the part of implementing agencies [DTI, BOI] to implement the reform.
- In an emerging economy such as the Philippines [low middle income but with huge potential for sustained growth], **private firms have to find their comparative advantage and niche in dynamic regional production networks.** This requires the following:
  - ✓ astute leadership;
  - ✓ close collaboration with public institutions which hopefully are capable of dealing with information externalities and coordination failure;
  - ✓ high level quality education;
  - ✓ access to resources: scientific, technological and financial



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# Thank you!

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