



INSTITUTE OF SOUTHEAST ASIAN STUDIES

**DECISION-MAKING  
IN AN ASEAN  
COMPLEMENTATION SCHEME**  
The Automotive Industry

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## I INTRODUCTION

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The idea of regional automotive complementation was first proposed by the United Nations Team Report on ASEAN in 1969. Subsequently, a meeting of the private automotive sector was convened in Bangkok on 29-30 October 1971 to programme the development of the ASEAN automotive industry. Representatives of the private automotive sector agreed at that meeting that the developing countries of Southeast Asia needed to industrialize more rapidly and therefore it would be useful to change the small home markets in each of the countries into larger ones to allow reasonable economies of scale, but for capital-intensive industries this need not foreclose the possibility of each participating country establishing its own national integrated automotive industry. To prevent uneconomic fragmentation of manufacturing activities once a larger market was established, manufacturers and assembly plants using imported, completely knocked down (CKD) packs would be limited to a smaller number as participants in the programme. The delegates also agreed that ASEAN governments should provide the necessary institutional framework, such as local content concept and tariff and non-tariff preferences, to support the project.

Inspired by the prospects of co-operation, GAAKINDO (Association of Assemblers and Sole Agents in Indonesia), convened

the private automotive business at Jakarta on 23-25 June 1976 to formally organize the ASEAN Automotive Federation (AAF). The goals of the AAF are (1) to arrive at an orderly regional system for parts manufacturing and distribution, and (2) to develop and promote component manufacturing capability in ASEAN countries.

The AAF proposed to ASEAN COIME (Committee on Industry, Minerals and Energy) that an ASEAN Automotive Industry Development Plan be set up by an independent body of technical consultants with the following terms of reference:

1. Development Objectives

- a. To develop the automotive industries in the ASEAN region on a viable basis to meet the requirements of the region and to tap potential export markets for automotive parts and components.
- b. To induce the development of auxiliary industries which will accelerate the overall industrial development of ASEAN countries.

2. Immediate Objective

- a. To recommend regional automotive industry development plans for short term (five years) and long term (twenty years) based on regional complementation and co-operation schemes.

3. Special Considerations

- a. To increase intra-ASEAN trade and technical co-operation among ASEAN member countries, COIME

will form the ASEAN Automotive Export Groups to present papers on the automotive industry and recommend appropriate action on AAF proposals.<sup>1</sup>

The concept of ASEAN Automotive Complementmentation evolved from this meeting of the private sector. On this concept, the relationship between the private sector and ASEAN, especially the private automotive sector and ASEAN, is through the ASEAN-CCI (Chamber of Commerce and Industries), which has the sole consultative status for ASEAN according to the rule of ASEAN COIME. It is through the ASEAN-CCI that the private sector can comment on and recommend policy and programmes for ASEAN.

The ASEAN-CCI drew up a document entitled "Guidelines on Industrial Complementmentation" in 1977, to serve as an officially accepted guide for the private sector. After some review and modifications, it was adopted by the ASEAN Foreign Ministers on 17-19 June 1981 and was called "The Basic Agreement on ASEAN Industrial Complementmentation". This document was a product of the work of the ASEAN-CCI, COIME, ASEAN Economic Ministers and the ASEAN Foreign Ministers.<sup>2</sup>

In November 1975, a Working Group on Industrial Complementmentation (WGIC) was created by the ASEAN-CCI to determine how to implement industrial complementmentation schemes in the private sector within the overall framework of ASEAN co-operation. The WGIC created a sub-working group on Motor Vehicle Complementmentation which met in Manila on 6-8 November 1975. The meeting established the following principles:

1. Complementmentation should be in line with the national objectives of each member country and with the overall guidelines for ASEAN regional complementmentation.



2. There shall be equitable sharing of benefits among the participating countries.
3. A listing of parts manufactured in ASEAN countries should be made for possible consideration of special treatment.
4. If and when agreement is reached on specific products, there may be a need to negotiate adjustments of tariff and non-tariff barriers on the flow of such products among ASEAN countries.
5. Specific projects for complementation should be identified. Allocation of projects to country participants should consider technical feasibility, specialization and division of labour.

Thus the automotive complementation project is an important feature in ASEAN Industrial Complementation (AIC). What follows are three case studies of decision-making in which the complementation issue as it is dealt with by government and the private sector in Indonesia, the Philippines and Thailand is examined. While the automotive complementation project was largely initiated by the private sector, the governments in the ASEAN countries are kept informed and, as shown in the case studies, crucially involved in all stages of the discussion. The desirability of complementation has never been doubted by the governments nor the industry: economies of scale, improved efficiency, and inflow of research and development, are some of the more familiar arguments in favour of complementation put forward by both governments and industry in ASEAN. Aspiration alone, however, could not overcome or camouflage the practical difficulties of achieving complementation: the fragmentation of

the industry, the intense competition among assemblers and components manufacturers, the divergent perceptions, the varying degree of importance of the automotive industry to the national economies, and the carving up of the market by transnational corporations (TNCs).

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**Notes**

- 1 "Towards Building a Genuine and Substantive ASEAN Automotive Industry", Documents in the Tokyo and Seoul Meetings. 1-4 December 1981.
- 2 Review (November 1981). See Document, Annex A.

## II DECISION-MAKING PROCESS IN INDONESIA ON THE ASEAN AUTOMOTIVE COMPLEMENTATION PROJECT

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Estrella D. Solidum

### Introduction

Indonesia has a strong commitment to the automotive industry complementation as indicated by the activities of the Association of Automobile Sole Agents and Assemblers (GAAKINDO). The latter convened the ASEAN Automotive Federation (AAF) in 1976. GAAKINDO was subsequently renamed the Automotive Federation of Indonesia or Federasi Otomotif. Members of this federation have explored other problems to upgrade the viability of ASEAN automotive industries, such as through "software complementation" and "strategic planning".<sup>1</sup> The Indonesian Government has also assisted the private sector in promoting co-operation in the automotive industry in ASEAN and to identify the problems that have emerged and their possible solutions. Although it is recognized that each country would like to produce its own vehicle, Indonesia has agreed to make use of the components now available in the ASEAN countries instead of importing from the principals in other countries. While Indonesian's aim is to have a national vehicle by 1987 it will still export parts for the complementation and purchase parts from ASEAN members for the other vehicles that are produced in the country.

This section tries to show how decisions have been made in

Indonesia for the automotive industry complementation in ASEAN and how its industry has been affected by the decisions.

In Indonesia, the government and the private automotive associations have been the two sectors which make decisions for the automotive complementation. From the start of the complementation project, the government has been the leading sector because of its pervasive role in the Indonesian economy.<sup>2</sup> The government has laid out general policies for the various economic sectors to follow, and in particular, as far as the automotive industry is concerned, the official policy is to start producing the automotive engine in 1983 and to finally produce all the parts for the whole vehicle by 1987.<sup>3</sup> However, it is the automotive parts producers who must attend to the problem of how to phase their business to fit in with the objectives of the government. The government is concerned with problems of standards, quality control, transfer of technology, scarcity of resources, costs penalty, relationship with the multi-national principals and availability of supporting industries and services.

### **Decision-Making in the Government Sector**

Generally, the government's role in decision-making for the automotive complementation is spearheaded by the Office of the Director General of the Basic Metals Industry (BMI) which is a part of the Ministry of Industry. The BMI holds a workshop or a conference every year to prepare the annual work programme. Private sector groups are invited to bring proposals for consideration within the framework of the government's long-term and short-term plans. The proposals from the Federasi Otomotif

have been the results of the earlier discussions with the AAF. The BMI, in considering how the automotive complementation project can serve the national programme, must take into account two groups of decisions. The first would be the decisions of the ASEAN Economic Ministers on the preferential tariff for certain commodities. The second aspect to note would be the existing Indonesian laws and decrees concerning export, import and foreign exchange, the issuance of certificates of origin for Indonesian export commodities, and the co-ordination of trade and tax laws.<sup>4</sup>

The BMI, together with the officers of the Federasi Otomotif, possesses the proposals that have been presented. The screening of the proposals is done in co-operation with the Ministries of Industry and Finance. At this stage, private automotive groups are known to lobby the government offices outside of official hearing in order that their proposals may be accepted by the government. All decisions are made by consensus.

The government ministries concerned attend only to the associations of manufacturers and not to the individual companies. There are departments in the various ministries which correspond to the industrial groups or associations in the private sector. Business associations must go to the respective counterpart in the government. If an individual company has to transact business with the government agencies, it must first join an association which can represent its interests to the ministry's department concerned. If the individual company is not satisfied with the results, it can ask the relevant committee of the Chamber of Commerce and Industry (KADIN) to represent its interest to the government.

Arising from all the private sector groups' proposals which have been considered during the hearings of the BMI, a new

proposal is made. This becomes the official proposal of Indonesia which its national delegation transmits to the ASEAN Committee on Industry, Minerals, and Energy (COIME) at the ASEAN level. This proposal goes through the same procedure as all other proposals do on the same matter. It is sent to the Experts Group of COIME, before it is referred again to COIME. The decision of COIME is sent to the ASEAN Economic Ministers Meeting (AEM) for approval. The final decision of the AEM is sent back to the various governments for implementation. The Indonesian government prepares all the regulations to support the ASEAN decision. The Ministry of Industry will communicate to the other ministries concerned, directing them to issue also the necessary regulations for implementation.

The Indonesian Government has also issued its "Oral Guidelines for Bilateral Agreement" within the framework of the ASEAN Automotive Complementation Scheme to guide all concerned states. States in ASEAN enter into bilateral agreements to enlarge the area of the automotive industry co-operation by providing for reduction of non-tariff barriers bilaterally. The following points are taken from the "Guidelines",<sup>5</sup> namely,

1. The private sector must take the initiative in proposing the complementation plan for approval by each respective government.
2. The complementation plan should not have adverse effects on the national interests of both countries, but instead should strengthen each country's position, particularly in reducing the cost penalty for the manufacture of local parts by offsetting it through bigger volume of sales.

3. The complementation scheme should be based on equitable balance of trade value within each product group (motorcycle or automobile).
4. Local content treatment for existing components and/or mandatory sourcing for new components not previously available for the two countries can be granted, subject to mutual bilateral agreements and as long as they are not harmful to their national interests.

### **Decision-Making in the Private Automotive Sector**

The private sector has also its own area for decision-making because it must produce some proposals for transmittal to the government, particularly the BMI. The Federasi Otomotif gets its input of problems and proposals from the private sector through its member associations which are composed of automotive parts and product manufacturers. Their proposals which had been agreed upon by consensus are discussed and their decisions as to who will participate in the complementation or as to what parts of the ASEAN vehicle will be complemented by Indonesia are forwarded to KADIN which is a member of the ASEAN-Chamber of Commerce and Industries (ASEAN-CCI) or directly to the government, specifically the BMI. Federasi Otomotif and KADIN also receive proposals from the affiliates of industries that have been licensed by foreign principals. It is always the case that there are conflicting interests among the private industrial sectors. For example, base metal producers would like to have high import duties to protect their products. But metal manufacturers do not want high import tariffs because their industries need to import raw materials at the least cost. These

conflicts are settled by consensus at KADIN where all the industries are represented.

Consultations are held between the government and private sectors frequently in order to be assured that the car parts manufacturers comply with the provisions of the decrees of the Ministry of Industry which direct the use of domestic/locally made components in the assembly of commercial motor vehicles.<sup>6</sup> The decisions that are made by Federasi Otomotif and KADIN form the basis of the proposals to the Directorate for Development of Existing Industries of the BMI, which then will hold its own hearings of the proposals, until a consensus is reached. The BMI transmits this to ASEAN's COIME. The Federasi Otomotif follows the official policies of the government during the formulation of the proposals for the automotive complementation since the commitment to national interests should precede other considerations. However, the Federasi Otomotif is certainly exploring common interests in ASEAN as the basis for regional co-operation.

Both the government and private sectors work closely in arriving at decisions. Motor parts and products manufacturers believe that without government facilities the burden for the private sector will be very heavy. The government must issue regulations to maintain standards through quality control, to buffer the industry which struggles with the costs penalties due to the mandatory local content rules when world market prices go down, and most of all, to help the local manufacturers to produce as many parts as possible so that by 1987 the whole vehicle can be produced in Indonesia. The government, being convinced that co-operation which is based only on technical co-operation is not feasible and is in fact impractical, conducts also informal but important consultations with the mother companies of the locally



licensed companies because their behaviour is influenced or even controlled by the principals whose headquarters are in the developed state.

### **Decision-Making in the ASEAN Automotive Federation**

It is useful to see at this point how the AAF makes decisions.<sup>7</sup> The first AAF Council Meeting in 1976 created the Technical Committee for discussing in detail the automotive industry and submitting its proposals for ASEAN co-operation. The Technical Committee looked at the four-wheel motor vehicle unit and organized all the products, parts, and components that go into its making, into eight product groupings. A separate sub-committee on motorcycle was also formed to cover two- and three-wheelers.

The four-wheelers grouping, together with the convenors designated for each, are as follows:

1. Suspension system - Indonesia
2. Steering system - Indonesia
3. Power train system - Malaysia
4. Electrical system - Malaysia
5. Engine and parts - Philippines
6. Rubber, glass and miscellaneous parts - Philippines
7. Brake system and wheels - Singapore
8. Body parts - Thailand

The study and identification of parts and components for regional co-operation have been delegated by the Technical Committee to the respective convenors. The Technical Committee also created