Introduction

At the first APEC Automotive Dialogue in Bali, the Federal Chamber of Automotive Industries (Australia) was requested to develop a joint paper on behalf of industry members on effective automotive policies and barriers to growth. The following are recommendations on national policies that have proven to be conducive to the development of a healthy and sustainable automotive industry and market as well as practices that act as barriers to growth.

Of course the government of each APEC economy will make its own decisions on auto industry policy issues. In making these decisions it will consider the current and projected state of the industry, the impact on existing infrastructure and the economic, environmental and social needs of the economy as well as a myriad of other factors. However in considering all these factors, the governments should also consider the following policy recommendations as collectively prepared by the region's automotive industry as being important to developing a strong and growing automotive industry.

National Policies Conducive to the Development of a Healthy and Sustainable Automotive Industry and Market

The fostering of a healthy national automotive industry requires government policies at both the macroeconomic as well as microeconomic levels which promote the development of automotive production and sales.

1. Macroeconomic Policies Affecting the Auto Industry

In most countries, the level of automotive production is closely correlated to domestic or regional automotive sales. Also the level of automotive sales and production is closely related to disposable income levels, interest rates and finance availability, consumer confidence and other factors influenced by macro economic policies. Production in particular often has long lead times, so consistent and predictable economic progress is important. Therefore, national macroeconomic and monetary policies which produce stability and consistency in GDP per capita growth are generally very significant factors affecting the level of automotive sales and production.

The following are the macroeconomic factors found to encourage automotive production and sales:

(a) Stable national economic performance.

Producers need confidence to invest, and consumers and businesses need confidence in their future to purchase vehicle(s). They therefore all want to minimize uncertainty. Thus, wild fluctuations in economic activity should be avoided.

(b) Consistent national economic and regulatory policies.

Likewise consistent national policies are critical to investment and consumer behaviour. Inconsistent policies may inhibit investment and sales as well as generate potentially large fluctuations in economic performance.
(c) Transparent economic and regulatory policies.

Policies must be not only fair, but must be seen to be fair if external investment is to be encouraged. Thus great emphasis should be given to ways of maximising transparency. Simplicity of policies and regulations should be encouraged.

(d) Commitment by the government to the auto sector.

Automotive investment requires large amounts of capital, which must be committed for a long period. Investors want to minimise the associate risks, so they want clear evidence that the government is committed to the auto industry. Investors are likely to go elsewhere if they believe that a country does not seriously want auto investment.

(e) Monetary policies which promote low interest rates (affordability)

Both affordability of vehicles and availability and cost of capital are critical in developing a healthy demand for vehicles. Governments that rely excessively on monetary policy rather than fiscal policy can induce a large reduction in vehicle sales and production, if they try to control the economy through interest rate mechanisms.

(f) Stability in exchange rates.

The industry is global and thus subject to the vagaries of exchange rate fluctuations. However sourcing decisions are generally not flexible in the short term. Thus widely varying exchange rates can move an industry from a viable to a non-viable situation in a short period of time. A devaluation increases the cost of imported competition. This threat to viability can quickly eliminate jobs and productive capability built up over a long period of time.

(g) Improvement of automobile infrastructure (roads, parking lots and complementary public transportation).

An appropriate balance between automotive infrastructure and public transport investment should be sought. Good infrastructure is required to allow the benefits of motoring to be enjoyed by as many as possible. However if this is done at the cost of running down public transport infrastructure, chronic traffic problems may result.

(h) Low to moderate inflation.

High inflation inevitably leads to high nominal interest rates with a consequent reduction in consumer confidence and purchasing power

2. Microeconomic Policies Affecting the Auto Industry

While governments have a leading role in creating a positive macroeconomic environment for the automotive sector, the economies which have been most successful in building and maintaining a healthy auto industry are those in which governments have decreased their involvement at the microeconomic level and allowed market principles to operate.

The following examples of government policies which encourage sound development of a sustainable auto industry have been taken from economies with fully-developed automotive sectors to serve as a useful guide. However it
is noted that such examples may not always be appropriate or possible in developing economies where timing and other specific local circumstances may differ.

(a) Open trade and investment environment to foster economically rational decisions based on market principles, rather than government policies.

Some governments in APEC economies have historically adopted auto policies focussed on local content requirements, high import tariffs, and investment restrictions which have resulted in a fragmented and relatively inefficient auto industry.

An openly competitive market is most effective in providing the region with world class manufacturing technology, market access for vehicle and component exports, high quality products at reasonable prices and long-term job creation. These ingredients can lead to the development of a healthy and sustainable auto industry in APEC.

APEC economies should foster economically rational decisions through an open trade and investment environment for developing economies, a suitable and evolving transition timetable may be necessary to reduce the risk of damage and to progressively introduce open trade through market influences.

(b) Consistency, transparency and nondiscrimination in automotive policies.

Potential investors need a clear and predictable understanding of the competitive trade and investment rules that are applied to the automotive industry in order to make sound business decisions. APEC economies should enhance the transparency of their respective regulatory regimes and eliminate the distortions that create uncertainty and impede free trade and investment.

Regulating authorities should ensure that industry is provided sufficient time and opportunity to comment on the rulemaking process. The use of APEC IAP’s will assist in monitoring progress.

(c) Harmonisation and Modernisation of Customs Procedures.

Clarity and openness in customs policy with a key objective of simplification of processes is highly desirable. Harmonised regulations and full utilisation of electronic interfaces will boost integrity and business confidence. For example, adoption of UN / EDIFACT electronic highway, further harmonisation of automotive tariff conventions, and the adoption of the WTO's valuation and TRIPs agreements will help.

Customs administration utilising modern risk management techniques and automated processes can facilitate the reputable traders and assist in combatting illegal activities. Further work is being undertaken by the APEC Automotive Dialogue, in close coordination with the APEC SCCP. Additional and more detailed recommendations are forthcoming.

(d) Harmonisation of automotive safety and emissions standards and certification.

Recognising the auto industry is heading towards "one standard, one model" concept for ultimate efficiency, the careful regard of harmonising standards and desiring a compatible time schedule with other economies will assist this process.
Progress towards harmonisation can best be achieved within the UN/ECE Working Party 29 and economies are encouraged 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. Further work is being undertaken by the APEC Automotive Dialogue, in close coordination with the APEC Road Transport harmonisation project. Additional and more detailed recommendations are forthcoming.

(e) Regional integration to Achieve economies of scale.

The development of a regional industry based on open market principles tends to lower manufacturing costs and maximises 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 Co-operation Scheme) and full implementation of AFTA should be actively encouraged.

A good example of regional integration is Mexico. In 1994 Mexico joined the United States 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.

(f) Reducing distortion impact of duty and commodity tax policies.

Some economies see high taxation of the automotive industry as a means of raising revenue to meet fiscal requirements. In certain cases, this taxation is excessively high relative to other forms of consumption expenditure. Motor vehicles are sometimes taxed excessively as luxury goods whereas they should be taxed like other consumer items. Thus it acts to divert the potential customer away from purchasing a vehicle, inhibiting the natural growth of the industry.

A few governments have used the tax or duty system to favour one vehicle type or size over another, for example, commercial vehicles compared with passenger cars. Historically, commercial vehicles were considered necessary for economic development whilst passenger cars were classed as luxury goods. This process can distort the natural market, as passenger cars are necessary to economic development.

Government policy makers should avoid the distorting impact of high levels of taxation and tax policies favouring one vehicle type or size over another.

(g) Tax policies which encourage consumption, rather than penalise purchase.

The "user pays" principle is better served if the taxation is based more on vehicle use and less on vehicle purchase. Low purchase taxes will encourage the industry to grow, while governments can still get their fair share of revenue from the industry through various user taxes.

(h) Ease and availability of consumer and investment financing.
Restrictions of finance availability can be a hindrance to growth. Because motor vehicles are among the more costly of general consumer purchases, access to financing entities and the terms of financing instruments allowed are major factors affecting the scope of potential vehicle sales in any national market. The majority of the consumers of automobiles and trucks rely on the ability to finance the purchase and repay over a longer period of time, and financing is an essential determinant of affordability. Policies which allow both the freedom to offer such financial services and encourage financial practices which allow consumers access to the widest range of financial options is an important contribution to maximising the growth potential for the automotive industry in any market.

3. National Policies that Act as Barriers to Growth in the Auto Industry

The following are macroeconomic and microeconomic policies, generally found as part of government-directed industrial auto policies that act as barriers to the long-term growth and development of a healthy automotive industry.

These policy recommendations are presented from the viewpoint of developed economies. Again it is recognised that such policies may have to be considered for gradual introduction by developing economies, given the individual circumstances of the local auto industry and its historical development. Unnecessary protection and regulation may impede competition and hamper industrial development.

(a) Restrictions on domestic and foreign investment.

Investment restrictions prevent new global investment and hence new market entries, and at the same time protect what may be considered to be inefficient domestic auto industries. From the perspective of protecting the consumer, who wants to receive high quality products at reasonable prices, investment restrictions should be abolished, and a free and competitive market should be realised. Investment restrictions should be abolished according to WTO rules.

(b) Domestic content requirements.

Local content requirements tends to protect the local industry. Because it may detach the industry from international competition, it may not be able to be internationalised.

In the mid- to long-term this may not result in higher quality and increased competitiveness of the local auto industry. As a result, local content requirements most often does not effectively or efficiently contribute to industrial development.

(c) High tariff walls.

In the time of globalisation, the objective of the WTO is to bring benefit to countries through increased trade, achieved through free trade. Excessively high tariffs are against the spirit of the WTO and thus should be lowered.

However, tariffs are the only rule abiding means provided under the WTO. There are opinions that to successfully expand an auto industry still in its developing stage, there is a need for a certain level of tariffs.

It should be noted that excessively high tariffs will hinder growth, but hastened liberalisation will most likely bring about damage to the industry and market of
the developing country. A gradual liberalisation is recommended taking into consideration the development stage of each economy.

We note that ASEAN countries have committed to an AFTA. We also recommend that high tariff economies should develop a step by step approach to automotive trade liberalisation.

(d) Auto export requirements.

By requiring exports from a country which is yet to become internationally competitive, it will diminish the chances for the industry to reach this goal, and for the market to grow. Therefore such auto export requirements should be abolished.

(e) National production to sales ratios.

Such ratios restrain the natural industry development and growth and serve no long-term purpose.

(f) Distribution controls.

These controls prohibit free conduct of business, which may lead to competitiveness being lost in the long term, and therefore should be abolished.

(g) Quotas and licensing requirements that significantly restrict imports.

With restrictions such as quotas, the entry of high-quality products at lower prices may be prevented, thus resulting again in loss of competitiveness and loss of economic benefits.

(h) Government approval for product related decisions, including vehicle make, body type, engine size, etc.

Efforts to harmonise type approvals and standards for autos should be continued. Restrictions imposed by governments to restrict product related decisions reduce the ability to harmonise and supply consumer demand, and thus should be avoided.

(i) Special government categories for auto taxes.

It is widely recognised that excessive and distorting taxes on automobiles such as "luxury tax" reduces demand and artificially restrains natural industry growth in both market and production. Whilst these taxes may be favoured by some governments in raising revenue, they distort demand and stifle true market demand.

4. **Recommendations to Governments for the development of a healthy and sustainable automotive industry.**

(a) Stable national economic performance.

(b) Consistent, transparent and non-discriminatory economic and regulatory policies.

(c) Open trade and investment policies which foster rational decisions based on market principles.

(d) Removal of domestic content requirements
(e) Lowering of high tariff walls
(f) Removal of quotas, licensing and distribution controls
(g) Monetary policies which promote low interest rates, exchange rate stability and capital availability.
(h) Good availability of consumer finance.
(i) Reduction in distortion impact of auto duty and tax policies.
(j) Harmonisation of auto standards - engineering, safety, emission and customs.
(k) Improvement of infrastructure - roads, parking, complementary public transport.