

Used Car: What's The Use? A Philippine Experience Of Japan Surplus Vehicles

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Abstract

Philippine is known as the fourth automotive industrialized countries in ASEAN. Currently, it is also making its way as second major importer of used cars from Japan with US\$47 million in value. As the world becoming borderless for free flow of goods, influx of used cars is flooding the country since mid-1998, answering the relentless demand for low-value vehicles. However, the sector remain to be infantile making the used car sector wondering, is the Philippine economy ready to accept its presence in the automobile sector?

The main objective of the study is to propose definite actions on the well-being of used car market in the Philippines by providing a deeper understanding of Philippine scenarios of used car market, what is the industry all about, how is being done, and what might be done to buffer some edges in its existence in the automobile industry. The study focused on Subic Bay Freeport Zone (SBFZ) as the leading Philippine used car hub with operation increasing multi-fold over the year 1999-2001. If stakeholders come to pay more attention to the good point of used car sector, the whole industry's image and performance could be strengthen and develop.

Keywords: Used Cars, Subic Bay Freeport Zone, Trade Liberalization, Philippines, Japan

Introduction

Motoring is fun for people, however, some may afford it and some may dream about it. In developing countries like the Philippine is still seen as expensive investments and car stock is still far away from saturation. As the automobile industry tremendously growing from its first invention until now, numbers of car makers around the world are increasing and widening the flexibility of car for every purse and every purpose based on Alfred Sloan's central idea to cater heterogeneous customers. There are new and high technological models being created and introduced to the market every year. However, the law of business cycle must be adopted in every business undertaking especially for the existence of automobile industry that when new models are brought into the market and bought by the customers, the old ones must go through trade-in, selling and exportation.

Over the years of abiding this business cycle and the rise of trade liberalization, automotive industrialized countries consumers namely Europe, Japan, South Korea and United States will replace their vehicles more frequently in order to promote the countries automobile makers and old cars will be shipped to developing and third world countries led to growth of buying and selling of used cars throughout the world from small backyard shops to auto malls to cater people's demand for low price cars.

Since mid-1998 under former president Estrada administration, Philippine paved the way for importation of used car from Japan. However, the used car sector continues to be underdeveloped in spite of increasing demand and supply. This is the first study made a thorough attempt to define and understand the structure of Philippine used car by focusing on Subic Bay Freeport Zone as the hub for used car businesses. This research has been the outcome of the author's countless readings regarding the hassle and bustle of issues and controversies of used car existence in the Philippines. Is the Philippine economy ready to accept the presence of used car sector in the automotive industry?

The study has been carried out with fieldwork to used car traders and auction companies in order to get deeper how the trading of used cars have been done followed by intensive interviews and visits for viable information regarding the structure of the industry. Government bodies from SBFZ and Manila were also interviewed for data gathering. With the absence of data regarding used car industry in the Philippines, information is culled from various news articles, used car makers and government agencies database and car associations.

The main objective of the study is to propose definite actions on the well-being of used car market in the Philippines by providing a deeper understanding of Philippine scenarios of the market, what is the industry all about, how is being done, and what might be done to buffer some edges in its existence in the automobile industry. This study will provide an important contribution on the used car market which had been given little attention by many researches and economist on trade but enormous study are concentrated on used car as lemons in the automotive industry.

The usefulness of this study is not confined to the development of a single industry but relates to the whole automotive industry is facing in general. Even though the case area may be too small to allow general conclusions, the author believes that there are important lessons to be drawn from Philippine experience of Japan surplus vehicles.

The paper outlines the Philippine experience of used cars by discussing Subic Bay Freeport as used car hub, history of used car sector

in the Philippines, distribution structure of trading between countries, kinds of used car being imported in the country, character of Filipino in buying used cars, the opposing issues regarding used cars (health concern, emission standard, conversion issues), trade liberalization between countries, and government policies regarding the used car sector. The last section will concentrate on the conclusion and recommendation of the study.

Literature review and discussion

Surplus Vehicles Find New Lives on Subic Bay Freeport Zone, Philippine

Subic Bay Freeport Zone (SBFZ) was born following Republic Act 7227 mandating Subic Bay Naval Base to be developed into a self-sustaining commercial, industrial, financial, transshipment, and tourism center. It boasts four core investment areas: Central Business District, Subic Gateway, Subic Bay Industrial Park, and Subic Techno Park - that collectively serve as the cornerstones of its progressively dynamic trade and industry which provides a business haven that offers investors a competitive advantage in the global market. Figure 1 shows the major industries of SBFZ with Port related businesses ranking first with 37% followed by utilities with 18%. Table 1 shows Korean are the biggest investors with total investment of US\$ 11 billion as of August 2006 followed by British with US\$ 781 million.

In recent years, the outflow of used car exports are meeting the supply of resources from automobile industrialized countries to developing and third world countries has been expansionary trend. In 1990s, the heavy equipment auctioneer Ritchie Brothers operated in SBFZ. Philippines eased import restrictions and open the country for broad range of used industrial equipment including equipment utilized in the construction, transportation, mining, forestry, petroleum, marine and agricultural industries. Due to small market for used car in the Philippine, they tend to establish to other Asian market where acceptance of second-hand goods are more patronized.

In mid-1998, under former President Estrada Administration with former Rep. Felicito Payumo, chief of Subic Bay Metropolitan Authority (SBMA), opened the country for traders with large volumes of used cars from Japan appeared on the local market. In 1999 to 2001, more and more imported used cars were brought into the country, with the supply reportedly reaching unprecedented levels (Manuzon 2002), at a time when the objective of Estrada administration is to support the welfare of the public masses.

SBFZ has become a favorite place for people who want to own a used car with 71 trading companies and 3 used car auctioneers in operation increasing multi-fold over the years. It becomes the country's largest market for reconditioned vehicles. Despite the mushrooming of used car traders in Subic, sales are increasing.

In the Philippines, used car market were still dominated by first time buyers and used cars were seen as an opportunity to entice into motoring population those households unable to purchase a new car. Filipino buyers have become more aware of the importance of used cars with Japanese brand has been quite common. SBFZ used car traders had now a much wider choice of models, not only Japanese ones, but also some European models that were traditionally considered expensive brands. It were considered significantly cheaper than local used cars and a much larger range of specifications are available compared to the very limited ranges sold locally.

Based on the issues on used cars with regards to emission standard, health precaution and reconditioning issues, for the Filipino motorist, vehicle safety is not the most salient of concern, it is way down the list priorities in their car purchase decisions. They take the used car as the main consideration or for use as second car. It is because price priority is still the main factor.

Sources of Origin – Japan

The value of used car exports from Japan has dramatically increased since 2003 by 39.5% to US\$728 million, volume increased 26.6% to 189,000 units (Yoshida 2004). In comparison, Japan Automobile Manufacturers Association (JAMA) reported that new vehicle exports totaled 1,176,600 units during the same period. By 2004, the used car export from Japan is a large global business worth US\$2.7 billion annually compared to US\$0.7 billion annually. Given that the US car fleet is roughly 4 times that of Japan but Japan used car fleet is 16 times higher than the US (Zaun and Singer 2004).

Europe and United States both have sufficient domestic demand for used cars to drive strong domestic used car markets. Japan, on the other hand, attaches a negative signal of purchasing used cars with the presents of number of domestic automobile companies to promote. Therefore, Japan has a surplus of used cars, which cannot be sold on the domestic market. The result is they dominate exports of used cars because the other big car-producing regions have their own sizable domestic used car markets with 157 used motor vehicle exporters in Japan (JUMVEA 2006) and there are 10,948 member companies of Japan Used Car Sales Society Federation and 8,421 member companies of Japan Used Car Sales Commercial and Industrial Association as of 2005 (Ju 中販連 2006). According to Paterson (2005), "On Tokyo auction house reportedly moves 10,000 cars per day. From January to July 2005, Japan exported almost 350,000 used passenger cars worth almost US\$1.5 billion." Table 2 shows the total Japan's used car export from 1997 to 2005 that continuously increase in units from a half a million units to millions by 2005.

The Wall Street Journal (2004) traced the journey how Japan's second-hand cars make their way to Third World: "Three years ago, Michiya Ogawa bought a new Toyota Corolla station wagon for US\$15,800 to commute to his office in Japan's mountainous Yamagata prefecture. A year later, the 47-year-old graphic designer got in an accident and sold the damaged car. Since then, his white Corolla

wagon has traveled 7,000 miles around the world, first to a massive used-car market in the deserts of Dubai and now to the rugged streets of Nairobi, Kenya. Its new owner, 30-year-old Wilfred Gathai, bought the car for US\$3,400 to deliver fresh fruits and vegetables.” Table 3 presents the total used car export of Japan to neighboring Asian countries with US\$742 million with Malaysia, Philippines and Bangladesh ranking as the major importer of used car in Asia. The phenomenal breakthrough for the Japanese used car is that they were able to capture the market of left-hand drive countries.

Supply Chain

In Japan, there are restrictive policies regarding private vehicle sales. As a practice, almost all used cars are purchased from dealers or automobile auctions are very important elements of used car supply chain. On March 31, 2003, simplified and the elimination of procedures have stimulated used vehicle exports. The Export Control Order was revised to eliminate separate export licenses for each vehicle. In addition, it is no longer necessary to have the Japan Auto Appraisal Institute (JAAI) certify that each vehicle meets certain standards and is free from functional flaws (Yoshida 2004).

The distribution of used car would go through three to four exchanges:

Figure 2 & 3

- Exporters – Japanese used car dealers and auctioneers with a total of 157 members of Japan Used Motor Vehicle Exporter Association and there are 10,948 member companies of Japan Used Car Sales Society Federation and 8,421 member companies of Japan Used Car Sales Commercial and Industrial Association as of 2005 (Ju 中販連 2006).
- Importers or Traders - There are 71 used car trading companies in Subic Bay Freeport Zone and 3 used car auctioneers who buy abroad and sell to the Philippines.

• Figure 4 & Table 4

- Businessmen – These are small players who buy and sell or resell used cars, often on a one-off or opportunistic basis.
- End Users - Expenditure on used car purchase in the Philippines comes from two basic sources: household and corporate.

According to the used car traders in SBFZ, all used car transaction with customers are made in cash basis because no banks or loan institutions would like to make a connection because financial institutions would not take the risk to engage with used cars or second-hand commodities they are selling. However, for the 3 used car auctioneers, there is only one leasing company who tried to make connection, lending loans for buyers who prefer installment basis such as Orix Metro Leasing & Finance.

In Japan almost all used cars distribution change hands on the auction network. Cars are seldom sold privately, they are generally traded-in when buying new cars or sold to used car buying companies who in turn sell the cars on the auction network. Japan used car auctions are high-tech business and around 60,000 cars are put up for sale every week. Each car has an extensive inspection and is graded before being auctioned. There is a strict auction grading system which should give you piece of mind when you are choosing a car. Each car has an inspection and an auction sheet, what is written is very accurate and sometimes over exaggerated where a small dent will be given a lower mark that it deserves, this works in favor of the buyer. The used car will be shipped by the first available ship after receiving all funds from the clients and clients will receive shipping documents such as invoice, original deregistration and bill of lading by International Express Mail immediately after shipping the vehicles (Traders, 2006).

How to calculate the shipping fee:

Cubic meter (m³) = Length (m) x Width (m) x Height (m)

Shipping Cost = Cubic meter (m³) x Freight Cost (US\$)

In the case of Cost, Insurance and Freight (CIF) price, the seller will place insurance on the vehicle while it is shipped until it reaches a port of the country. The insurance only covers the total loss of the vehicle. The client pays the Free on Board (FOB) of the vehicle. Terms of Trade:

FOB: The freight must be paid for at the port of discharge.

C&F: The freight is pre-paid without marine insurance.

CIF: The freight is pre-paid with marine insurance.

Vehicles exported to Malaysia and Indonesia had high unit FOB prices, putting these countries among the largest importers on a value basis. Vehicles exported to Pakistan, Hong Kong and Singapore also had high unit FOB prices. Cars exported to Asian countries were relatively expensive, in the US\$10,000 to US\$15,000 range, while those exported to Philippines were on the low end of the scale, priced between \$2,000 and \$3,000. New Zealand, UK and Russia imported vehicles in the \$3,000 to \$4,000 range (Yoshida 2004).

Figure 5

Importers bring regular consignment of vehicles, procuring them abroad and transporting them into Philippines. Importers vary in size, but traders of used cars said that the largest importers with whom they conducted business brought installments of some US\$1 million worth of vehicles at a time, although these installment were not regular. These traders estimated that a minimum of US\$400 thousand in

starting capital would be required to begin importing vehicles from abroad, as the logistics of doing so were difficult – involving visas and employment of local agents.

Filipino importers reported that after vehicles had been procured in Japan they are loaded onto 40 footer containers (2 TEUs) which may contain 2 to 6 used cars depending on their sizes to be shipped to freeports. From there they are transported overland, often still in containers or loaded on trucks. In SBFZ, there are 17 shipping companies catering to used car importation, however, most used shipping company is Maersk Filipinas Inc.. And there are also 29 freight forwarding and customs brokerages services for buyer and seller of used cars.

Figure 6 & 7

In 2002, SBMA paved the way for the establishment of Motor Vehicle Inspection and Emission Testing services on all imported used cars coming in through the Freeport with the advent of RA 8749 or the Clean Air Act of 1999. One of the pioneering companies since 1997 is Vehicle Inspection and Testing Corporation (ViTEC), a company that envisions for the country vehicles that are roadworthy, safe and pollution free with state-of-the-art machineries, and computerized testing equipments for motor vehicle inspection, testing and rebuilding. Presently, there are 4 companies providing inspection services for used car coming in through SBFZ to assure safety and security.

Table 5

Supply of used cars is dependent on a number of factors including sales of new cars in the previous years and the replacement policies of private and company car owners. These in turn depend, in some part, on the level of economic activity. There will, however, always be a supply of used cars entering the market and since these must be sold, prices will adjust to changes in both supply and demand. Not only has the market for used cars grown in both value and volume, but there has also been a gradual shift in the source of purchase. Used cars have always been sold in a variety of ways: private sales, auctions and retail services through dealers.

Surplus Vehicles in the Philippine Market

According to Kojima (2002; 5), “second-hand goods refers to products that have been used, which are then reutilized (reused) in their original form. Recyclable resources constitute of both recyclable waste and second-hand goods. Japan’s Fundamental Law for Establishing a Sound Material Cycle Society defines recyclable resources as those useful among waste, etc. and this definition is adhered to. The notes on this law define ‘useful wastes’ as ‘waste that can be used cyclically or that have the potential to be used cyclically’ which means that it is possible to refer to unused wastes that have been disposed of as a part of recyclable resources.” The growth of used car market and people increasing dependence on motor vehicles emphasize the importance of countering the unacceptable uncertainties of buying a used car. Used cars are second-hand goods, but it is not unreasonable for consumers to expect that only time, and reasonable wear and tear, separate used cars from new.

Japanese imported used cars found in the Philippines, the most popular brands are Isuzu, Mitsubishi, Nissan and Toyota. These imported used cars are cheaper than official Philippine used cars. The range of Japanese vehicles are rising all the time as Filipino see the affordability, impressive high specs, availability of parts, and low mileage Japanese vehicles on the roads. Each month new models are being imported by the dealers and rapidly become popular on the Philippine market.

Buyers of Surplus for Price

What’s driving the trend toward used vehicles sales? Is it the pooring of Philippines? Which would a Filipino customers prefer a new or used car? No wonder, everybody would prefer for the new car. Nonetheless, many people still buying used car. Price factor, the price driven mechanism that propels the sale of imported used cars via SBFZ and converted the steering wheel for the local left-hand drive market.

The price of used car is about half of a new car. It's still quite reliable to be used for 2 to 5 years. And the loss of depreciation value would be smaller than buying a new car. Such used car is still possible to be sold once more after using. The price then would be only 20%-30% of a new one. Moreover there are some older cars that even cost less, which costs only about 5%-10% of a new car (SBFZ Traders 2006).

Filipino preference for used cars with bigger seating capacity or a family vehicles like Asian Utility Vehicles (AUV) and Sports Utility Vehicles (SUV). According to CAMPI (2006), a most commonly imported used car, the Mitsubishi Pajero has a local selling price of US\$7,600 for a 1998 model. However, acquisition cost is just US\$450 which when added to the taxes, freight charges and conversion would translate to a total cost about US\$1,613. The result is a profit less than US\$6000. The growth of used car market in the Philippines emphasizes the importance of countering the unacceptable uncertainties of buying a used car in exchange for cheaper price and value for money. Consumers have the choice of buying either a new or a used durable, or of spending all their income on non-durables.

Table 6

Used Cars Rendering the Philippines as a Virtual Junkyard

Used cars are considered 'necessary evil,' it raises controversial issue and doubt of its economic significance and the existence could cause serious harm for drivers, passengers and general public. Used cars are believed to be worthless pieces of junk and it's always been the subject of criticism regarding environmental and safety issues.

Safety Protection– Driving on the Left or Right

Since 1946, Philippine is a left-hand drive, right-hand drive vehicles are banned. Starting mid-1998, importation of right-hand drive used cars are flooding the market and converted in Philippines, which raises the issue of adequate reengineering and proper quality control. "Cars even converted their steering to left-hand drive, it should consider the manner of conversion such as wrong wiper orientation which hinders driver's field of vision, wrong headlamp beam pattern which prevents drivers from seeing pedestrians, wrong door position on the left side which endangers pedestrians getting off vehicles, and wrong rear / side mirror placements. In short, they are not safe for road use in the country, even if they are converted (Rosales, 2005)."

The banning of used cars importation RA 8506 in 2004, RHD vehicles have been impounded by customs. This was a cause of considerable complaint from a number of importers, who reported that they owned RHD vehicles that were now stuck in the customs compound. Some RHD had been released after protests by importers. Importers also complained that the process of extracting legitimately imported vehicles from customs could take weeks. However, this does not prevent them from doing business and areas where vehicles are stored while they are undergoing customs procedures.

Emission Standard

One of the biggest environmental concerns in big cities around the world is air pollution. A major cause of this problem is combustion. When fuel is burned with oxygen, the carbon is converted to carbon dioxide or carbon monoxide. At the same time, unburned fuel produces hydrocarbons like volatile organic compounds that are harmful to human health (Gallardo 2003; Mohanty, Shimizu, Iida, and Uchida 2004).

Older vehicles like the used car burn more fuel, which carries the risk of increasing air pollution due to exhaust gas. The export of used cars from developed countries to developing countries that lack technologies to collect chlorofluorocarbon (CFC) may increase emissions of CFC, which destroys the ozone layer. (Kojima 2002, 11).

Studies have demonstrated that a number of characteristics such as engine size, vehicle age and weight and other factors have a significant effect on emissions rates (Echeverria, Johnstone, Mejias, and Porras 2000). The result indicate that a tax which increases the relative price of used cars will have significant environmental impacts, while others means of differentiation (engine size, and vehicle type) are much weaker. Moreover, since the present tax in Philippines is biased in favor of used cars, the case for neutralizing this bias on environmental grounds is likely to be stronger on efficiency grounds.

Health Alert

Urban pollution, particularly from mobile sources, is a growing problem in the Philippines as anywhere else in the world. Five major air pollutants such as carbon monoxide, sulfur oxides, hydrocarbons, particulate matter, and nitrogen oxides are found in urban atmosphere. Half of the total CO emissions and about 35 percent of hydrocarbon and NO_x emissions emanate from motor vehicles. Motor vehicles also emit particles and SO₂ although their contribution is much less than other sources. Figure 10 presents an accounting of several pollutants from various sources done by the Department of Environment and Natural Resources (DENR), particulate matter (PM), CO, NO_x and total organic gases (TOG) are derived mainly from mobile sources. Thus, most of the harmful pollutants found in Metro Manila come from mobile sources. The age of the vehicles was correlated with the pollutant's concentration since most cars are old and ill-maintained (Gallardo 2003; Mohanty, Shimizu, Iida, and Uchida 2004).

Figure 8

Previous study in Metro Manila (Engineering Science Inc. 1992) reveals that the exposure to air pollutants has caused several respiratory symptoms and ailments. Twelve leading signs and symptoms on workers exposed to air pollution, most of them working near heavy traffic conditions. They are headache, cough nasal discharge, abdominal pains, fever, low back pains, sore throat, tachycardia, muscle cramps, nape pains, frequent sneezing and decreased vision. Four chronic respiratory symptoms were found in drivers, commuters, policemen, and traffic aides, they are wheezing, shortness of breath, chronic cough, and chronic phlegm production. Used vehicles produce more harmful emissions than the more technologically advanced newer models. However, as well as posing a potential public health risk, the availability of affordable second-hand vehicles is important for livelihoods and economic growth across the developing world.

Trade Liberalization of Used Cars

As Reynolds (2002; 28) stated "the world is becoming borderless not because governments allow it but because government can't prevent it." Despite economist strong convictions, trade liberalization remains a highly controversial issue. Under the liberalization, the

automobile industry will be open to new market competition from the free flow of imports of completely built-up (CBU) and used cars, which may lead to exposing the whole industry to greater threat. On the other hand, the introduction of automobile varieties will satisfy the demand and enhance the well-being of the heterogeneous customers and giving more business opportunities for an individual to engage in the car industry.

One important outcome of trade liberalization would be the opening of the Philippine market to Japanese automotive makers. The possible role of used car if free trade is permitted, the relatively poor consumers would become a major source of demand for used cars from Japan and other exporting countries. This would substantially drive up the price of used cars and lead wealthier countries to trade in their old cars more frequently. In this case a more complicated trading pattern might emerge, with the increase in developed countries demand for new cars, while a large portion of Philippine demand is satisfied by used cars. A large supply of used cars could easily supplant any new vehicle production geared expressly for the low-priced Philippine market.

ASEAN Free Trade Area- Common Effective Preferential Tariff (AFTA-CEPT)

In 1992, ASEAN initiated a plan to create a free trade area by the year 2008, with tariffs of 0% to 5%, and in 1994, this target was brought forward to 2003. Regional efforts included the Philippines commitments to the ASEAN Free Trade Area (AFTA), which reduced intra-regional tariff rates to 0-5% from 1993-2002. These rates would be brought down to 0% by 2010 for original ASEAN members and 2015 for new members. Membership to the Asia Pacific Economic Cooperation (APEC) led to commitments for free and open trade and investment in the region by 2010 for developed economies and 2020 for developing economies (Aldaba 2000; Hirota, Minato 1999).

The adoption of AFTA-CEPT scheme will greatly reduce effective protection in the automobile industry. It will allow the entry of relatively cheaper CBUs, imported used cars and parts which expected to heighten the competition for domestic makers. The vision of a free flow of imported used cars that would be cheaper than the prices of domestic makes will be achieved, and benefits in variety of vehicles available in the market.

Japan Philippines Economic Partnership Agreement (JPEPA)

The JPEPA is the Philippine most comprehensive bilateral agreement to date since the Laurel-Langley agreement of 1954, which become effective on 9 September 2006. Japan expects its export and investment opportunities in the Philippines with high-level liberalization in goods and services duty free but Japan is most interested in exporting its vehicles. The biggest threat for the domestic car makers is that JPEPA would levy zero or minimal duties on Japanese-made products including used cars that would pose competition and sudden death to Philippine auto makers (Bilaterals.org 2006). Additionally, they believe that JPEPA will transform the Philippines into a duty-free dumpsite for used cars.

Prohibition of Used Car Importation

Executive Order No. 156

The Bureau of Import Services (BIS) under the DTI is tasked with the enforcement of trade law and importer accreditation under the Anti-Dumping Law (RA 8752), Countervailing Act (RA 8751), and Safeguard Measures Act (RA 8800). The BIS issues import permits for: Import of used trucks and buses under EO 782. The importation into the country, inclusive of the Freeport, of all types of used cars is prohibited, except for the following:

- A vehicle that is owned and for the personal use of a returning resident or immigrant 'Balikbayan' and covered by an authority to import issued under the No-Dollar Importation Program.
- A vehicle for the use of an official of the Diplomatic Corp. and authorized to be imported by the Department of Foreign Affairs.
- Trucks with gross vehicle weight (GVW) of 2.5 tons and above covered by an authority to import issued by Department of Trade and Industry (DTI).
- Buses with gross vehicle weight (GVW) of 6 tons and above covered by an authority to import issued by DTI.
- Special Purpose Vehicle constructed or adapted, equipped with various devices that enable them to perform certain non-transport functions (i.e. fire trucks, crane lorries, mobile radiological units, mobile drilling derricks, concrete mixer lorries, ambulance, etc.) or a specialized type of motor vehicles used for the transport of persons or goods. Under MB 258 – donation of motor vehicles to charitable institutions, foundations and government agencies (BOI 2006).
- The importation of certain used vehicles is also allowed subject to compliance with emission standards and roadworthiness requirements as mandated under the RA 8749-Clean Air Act.
- It also banned the importation of all types of used motor vehicles, parts and components.

The collection of US\$10,000 as safeguard duty on imported used cars, which was the government's way of preventing the entry of used motor vehicles, caused the revenues of SBFZ from those items to dip by 97 percent, Customs Commissioner Alexander Arevalo said, the policy has effectively discouraged the import of second-hand vehicles. At US\$10,000, plus taxes and the cost of car, you would rather buy a brand new one.

Customs representative at Subic reported that they inspect the paperwork showing the origin of vehicles and waybills, while also checking that the frame and engine numbers match each other and match the documentation. They reported that they could process documents up to 100 or more vehicles a day. After checking documents, vehicles are referred to the customs office in Subic, where duties are paid. There is no pre-declaration of the value of goods by importers. This sometimes leads to disputes between importers and customs over the latter's valuation of the goods.

In spite of barriers made to restrict or prohibit, international market for used cars does exist and it can only get bigger as trade barriers are removed. Debates over the desirability of protection or free trade have raged more than a century. A key issue is whether to increase or reduce barriers to imports of particular products. This implies that the government is not inclined to open up the used vehicles market as it originally planned to do so. Even with such hindrance, the importers still continue doing business.

Methodology

The author had consciously adopted the descriptive method of research, a purposive analyzing data about prevailing conditions then making adequate and accurate interpretation of such data with or without the aid of statistical methods. Because of limited literature and data on the topic to be analyzed, heavy reliance had to be placed on direct interviews with and information provided by traders, government agencies, and customers. Data gathering used in this study are conducted as follows:

- Desk research on: (1). Data on Japan and Philippine used car industry, (2). Analysis of statistical data generated to associations, government agencies, and traders, and (3). Qualitative data using past studies and existing reports.
- Primary data sources: (1). Field work and interviews was carried in Subic Bay Freeport Zone (SBFZ), government bodies, users, and other sources.
- Secondary data sources: (1). Publications such books, articles, journals, and news clippings, and (2). Information available through actual observation and via internet.

Conclusion

This study tends to buffer some of the negative facet of used car market in the Philippines. A positive insight through used car market in the Philippines is presented despite the fact that it continue to raise controversial issue and doubt of its economic significance. It also confirmed that imported used car industry became part of the Philippine market since mid-1998, however, it never undergoes a drastic change where a definite direction for the industry to pursue. It still has many features of a sunset industry. Planning objectives are therefore as follows:

1. Legal framework of government bodies for regulation and supervision of used car businesses are deeply encouraged that will offer long-term investment security. The used car industry will not just always be sidestep sector because the used car industry will continue to grow as long there are new cars created, people demanded, and civilization enhancement, the cycle of 3 R's (reduce, reuse and recycle) will always be present.
2. For proper implementation of rules and regulation, strict adherence and implementation should be present among parties involved.
3. Trade liberalization policies for transparency of flow that will insure the promotion of both new cars and used cars market in constructive manner that will segregate benefits of both sectors in the Philippine economy.
4. Philippine promotion for motor vehicle inspection and emission testing services need to be encouraged for used car market towards realizing the Philippine vision of safe, roadworthy, and emission compliant vehicles to ply the Philippine road.
5. Formal training for mechanics regarding imported used car conversion from RHD to LHD toward enhancement of Filipino technical skills and providing public safety for the masses.
6. The need for solid used car data is encouraged, in recognition of the used car industry's importance to the economy.
7. Formation of membership-based association for importers towards more effective consultative and lobby group.
8. Access to credit financial institutions would allow small players to expand their businesses that would encourage small and medium enterprises.
9. Anti-competitive practices in trade of used cars should be addressed and given more attention in order to ensure the maximum realization of the benefits of free market competition.
10. An exchange of experience on technical standards of used cars between exporting and importing countries should be given focus.
11. Consumer protection from the government should be address for the unfair practices in the used car market to promote welfare gain.

12. Malpractice of some government officials should be eliminated and be given sanction in order to properly execute the solutions for used car industry problems.

If policy makers, government bodies, traders, industry related and individuals come to pay more attention to the good point of used car sector, the whole automotive industry's image and performance with the present of new car, domestic car and used car market could be strengthen and develop.

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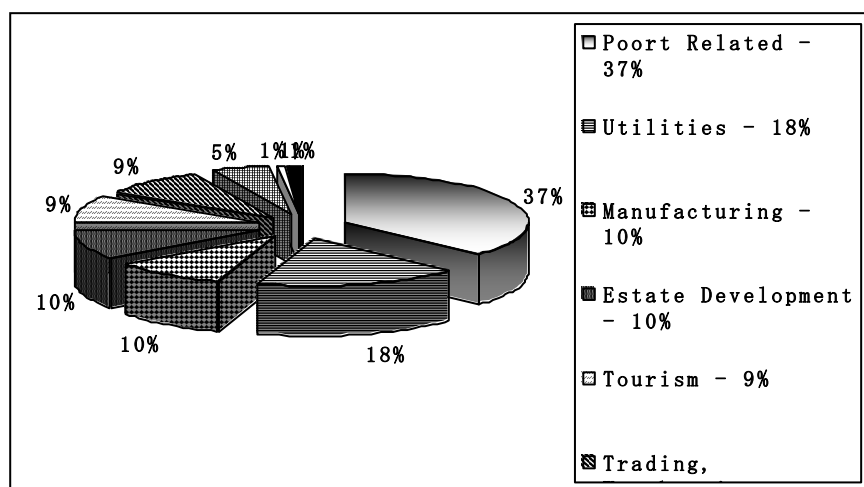
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Figure 1: Subic Bay Freeport Investment by Industry Sectors

Source: Subic Bay Metropolitan Authority (SBMA) (2006).

Table 1: Cumulative Breakdown of Investments (in US\$) by Nationality

Nationality	Committed Investments
Korean	11,005,493,480
British	781,118,464
American	730,469,961
Filipino	613,319,061
Japanese	224,895,808
Taiwanese	177,198,990
Malaysian	176,153,846
Austrian	78,279,284
Australian	62,139,948
Chinese	17,456,222
Finnish	9,033,642
Danish	2,985,175
Swiss	2,360,000
Pakistan	2,229,024
Swedish	960,000
Dutch	532,163

Source: Subic Bay Metropolitan Authority (SBMA) as of August 31, 2006

Table 2: Total Japan's Used Car Export 1997-2005

Year	1997	1998	1999	2000	2001	2002	2003	2004	2005
Total Units	429,331	468,200	460,034	482,975	512,856	606,559	712,968	837,782	940,552
Units (+/-)	-	38,869	-8,166	22,941	29,881	93,703	106,409	124,814	102,770
Percentage (+/-)	-	9.1%	-1.7%	5.0%	6.2%	18.3%	17.5%	17.5%	12.3%

Source: Japan Used Motor Vehicle Exporter Association (JUMVEA) (2006).

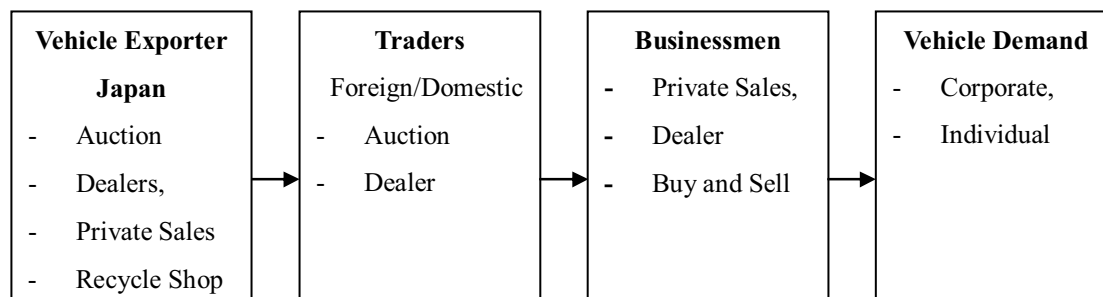
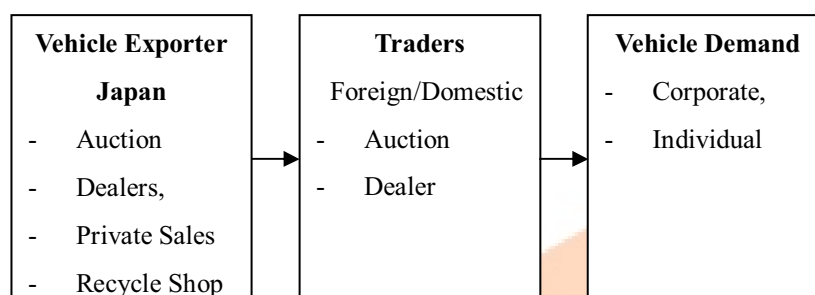
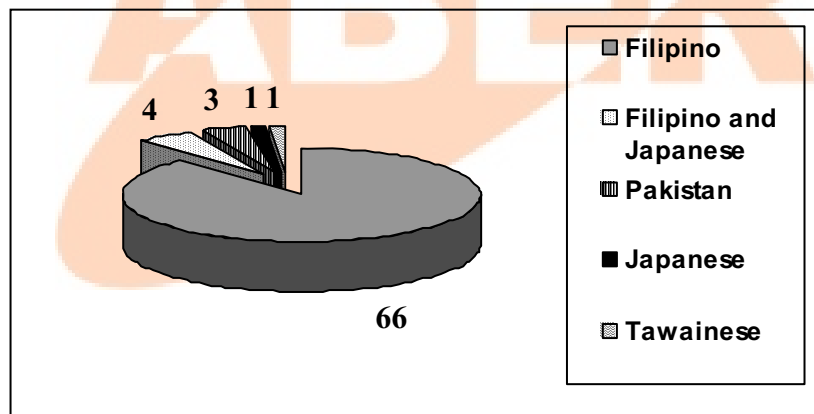
Note: Non-members of JUMVEA, there sales are not included

Table 3: Total Japan's Used Car Export in Asia 2005

Country	Quantity	Value in US \$	Driving on the left or right
1. Malaysia	16,320	263,165,233	Right-Hand Drive
2. Philippines	10,234	19,882,425	Left-Hand Drive
3. Bangladesh	9,273	69,554,000	Right-Hand Drive
4. Pakistan	8,986	89,350,708	Right-Hand Drive
5. Hong Kong	8,299	60,153,641	Right-Hand Drive
6. Sri Lanka	8,205	40,363,825	Right-Hand Drive
7. Mongolia	6,936	14,458,575	Left-Hand Drive
8. Singapore	5,496	78,312,650	Right-Hand Drive
9. Thailand	2,285	28,576,991	Right-Hand Drive
10. Indonesia	2,003	55,029,808	Right-Hand Drive
11. North Korea	1,469	5,209,900	Left-Hand Drive
12. China	400	2,123,133	Left-Hand Drive
13. Macao	377	5,859,591	Right-Hand Drive
14. Afghanistan	334	665,175	Left-Hand Drive
15. Myanmar	281	3,212,675	Left-Hand Drive
16. South Korea	241	3,221,941	Left-Hand Drive
17. Maldives	178	560,991	Right-Hand Drive
18. Brunei	86	1,113,516	Right-Hand Drive
19. East Timor	85	355,166	Right-Hand Drive
20. India	51	495,200	Right-Hand Drive
21. Taiwan	51	142,325	Left-Hand Drive
22. Vietnam	46	115,908	Left-Hand Drive
23. Cambodia	8	65,425	Left-Hand Drive
24. Nepal	4	21,958	Right-Hand Drive
25. Bhutan	1	9,200	Right-Hand Drive
Total	81,649	742,019,966	RHD = 15 LHD = 10

Source: Japan Customs (2006).

Note: Exchange Rate Used for Conversion US\$ 1 = JP¥ 120.

Figure 2: First Pattern of Supply Chain from Japan to Philippines**Figure 3: Second Pattern of Supply Chain from Japan to Philippines****Figure 4: Subic Bay Freeport Trading of Motor Vehicles (TDM)**

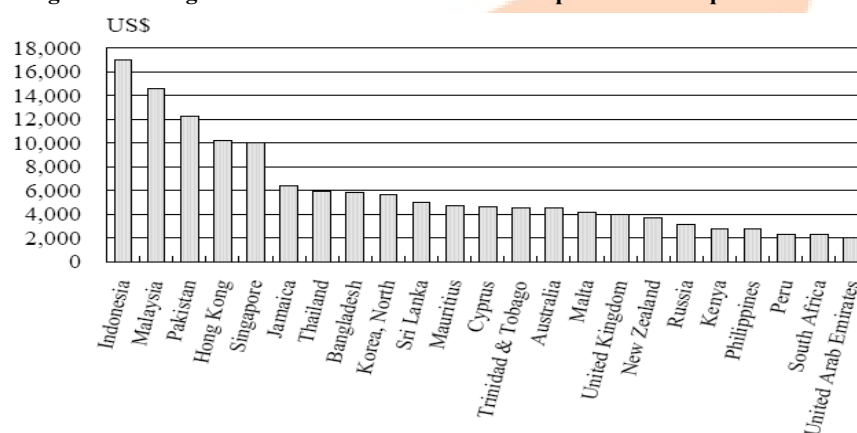
Source: Subic Bay Metropolitan Authority (SBMA), (2006).

Note: Operational – 71 Companies; Non-Operational – 2 Companies; Temporarily In-Operational – 2; Total of 75 Companies

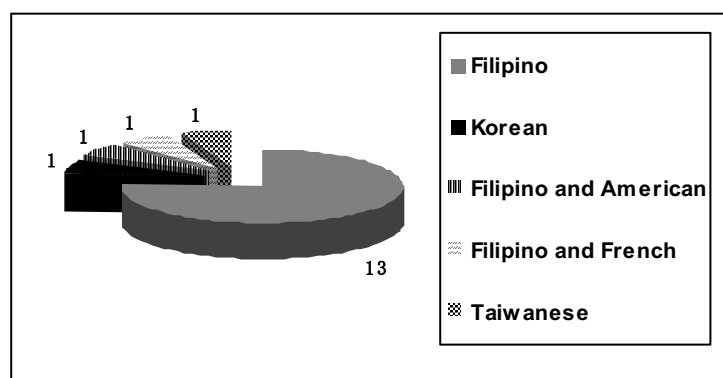
Table 4: Subic Bay Used Car Auctioneers

Company	Type of Business	Nationality
1. Asia Int'l. Auctioneers, Inc.	Transshipment, warehousing, trading & auction of industrial equipment, motor vehicles & parts.	Filipino no Hong Kong
2. Subic Bay Motors Corp.	Transshipment, warehousing, trading & auction of trucks, industrial equipment, heavy equipment, motor vehicles (except used cars unless for use within the Subic Bay Freeport subject relevant rules & regulations) construction tools & machines, recreational vehicles	Filipino no
3. United Auctioneers, Inc.	Trading, transshipment, warehousing & auction of industrial equipment, trucks, buses & construction equipment & machines, generators & the like excluding used cars except for use within the Freeport & intended for international transshipment.	Filipino no

Source: SBMA (2006).

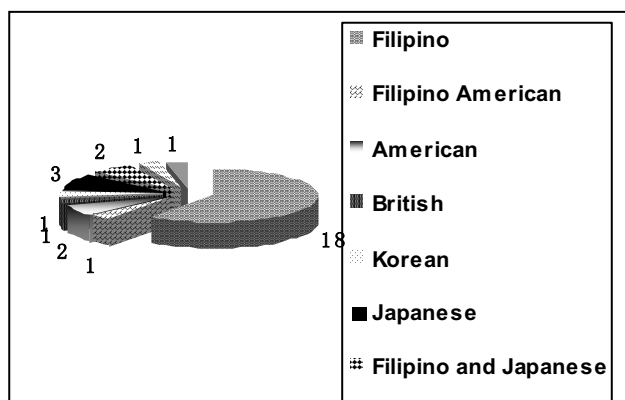
Figure 5: Average Unit FOB Prices of Used Cars Exported from Japan

Source: JETRO Yoshida (2004).

Figure 6: Subic Bay Freeport Seaport Related – Shipping

Source: SBMA (2006).

Note: Operational – 15 Companies; Non-Operational – 2 Companies; Temporarily In-Operational – 2; Total of 17 Companies.

Figure 7: Subic Bay Freeport Freight Forwarding

Source: SBMA (2006).

Note: Operational – 29 Companies; Non-Operational – 2 Companies; Temporarily In-Operational – 2; Total of 31 Companies.

Table 5: Subic Bay Freeport Motor Vehicle Testing Centers

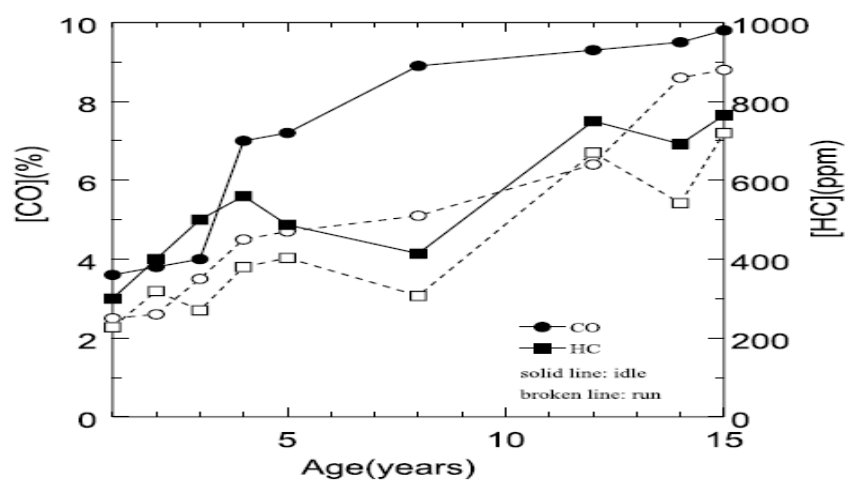
Company	Type of Business	Nationality
1. Subic Bay Motor Vehicle Inspection Center, Inc.	Motor vehicle inspection & emission testing & remanufacturing, rebuilding of used commercial, industrial equipment/ machinery, heavy equipment and all types of motor vehicle &/or transport related vehicle in Subic Bay Freeport.	Filipino
2. Testing and Reconditioning Automotive Center, Inc.	Establish an automotive testing and reconditioning center with a comprehensive heavy duty safety & emission lane.	Filipino
3. Universal Vehicle Inspection and Emission Control, Inc.	Vehicle emission testing, remanufacturing & refurbishing, wheel alignment and balancing, brake testing, side slip testing, turning test, camber correction, engine analysis, engine rebuilding and all under chassis works.	Filipino
4. Vehicle Inspection and Testing Corp.	Motor vehicle inspection and emission testing, facility and remanufacturing, rebuilding, rehabilitation of used commercial, industrial equipment/machinery, heavy equipment and all types of motor vehicles and/or transport related vehicles and the import.	Filipino

Source: SBMA (2006).

Table 6: Prices of Imported Used Car Models in the Philippines

Brand	Model	Type	Price (US\$)	Brand	Model	Type	Price (US\$)
Toyota	Lucida/Emina – 2000	Station wagon	4,960	Mitsubishi	Space Gear – 2004	Station wagon	7,560
	Noah – 2004	Station wagon	6,800		Pajero – 1998	SUV	12,960
	Hi-Ace – 2002	Van	7,360		Mini Pajero – 2002	SUV	6,800
	Land Cruiser – 2004	SUV	7,560		Delica – 2003	Van	4,500
	Estima – 2002	Station wagon	5,400		Sports Gear – 2002	SUV	5,000
	Prado – 1994	SUV	6,400		Eclipse – 1998	Sports car	4,200
	Previa/Lucida – 2002	Station wagon	4,760	Nissan	Montero – 1997	SUV	11,600
	Townace – 2003	Van	4,800		Terrano – 2004	SUV	9,760
	Hi-Lux Runner Surf – 2002	Compact Pick-up truck	5,800		Serena – 2001	Station wagon	4,800
	Surf – 2002	Compact Pick-up truck	6,760		Mistral – 2004	SUV	8,560
Mazda	Bongo – 2002	Van	5,000		Largo – 2004	Station wagon	5,160
	Miata – 1996	Sports car	8,600		Preairie Joy - 2004	Station wagon	11,700
Isuzu	Bighorn – 2002	SUV	8,900		Caravan – 2002	Van	5,200
	Trooper – 1998	SUV	8,560		Patrol – 2001	SUV	23,000
	City Bus 45 Seater	Bus	15,600		Safari – 1993	SUV	8,760
	Axiom – 2002	SUV	6,800	Honda	Odyssey – 2000	Family sedan	6,300
	Mu 4x4 – 2002	SUV	6,360		Step wagon - 2000	Station wagon	11,000
Lexus	450 LX - 2005	SUV	25,600		Accord – 1997	Passenger car	6,360

Source: Subic Bay Traders of Used Car (2006) and Car Finder (2006). Note: Exchange Rate Used for Conversion US\$ 1 = PHP 50.

Figure 8: Age vs. CO and HC level of cars

Source: Gallardo (2003).