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Caution ahead

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THE Asean Free Trade Area (Afta), conceptualised in 1992, is the first comprehensive programme to reduce trade barriers in the region - to 0.5 per cent by 2003 for member countries. (The deadline has however been extended for the newly-joined members of Vietnam, Laos and Myanmar.)

Afta will certainly have an impact on the local scene, with the automotive industry expected to be among sectors that will be seriously affected.

A local analyst says that since the main objective of Afta is free trade, it would translate into higher quality products at competitive prices, something which would ultimately benefit consumers. Manufacturers would thus have to buck up and churn out quality goods at reasonable prices.

So what happens to the Malaysian car-manufacturing industry?

Proton and Perodua, the two main players, will have to gear up for direct competition with foreign marques. They will have to adopt more aggressive marketing strategies and provide more competitive pricing structures.

Industry observers say removal of the tariff advantage will certainly bring foreign car prices down, maybe to levels lower than that of Malaysian models. Consumers will also have a wider range to choose from as car-makers, from Japan's Honda, Toyota and Nissan to continental manufacturers like Citroen, Volkswagen and Fiat, step up their presence in the region.

Industry sources warn that this additional range will significantly cut into Proton's and Perodua's market share. 'With the cut-throat competition in pricing that is likely to result, Malaysians may choose foreign over local since they equate foreign with quality, be it product-wise or pertaining to after-sale service.'

Another analyst asks: 'Would you buy a Proton if you had other choices? Obviously the local industry has been protected thus far, allowing it to keep prices lower than those of imports, but when prices are competitive, quality becomes the major criterion for buying.'

He says as far as the national cars are concerned, Malaysia cannot afford to fail. 'The consequences are far greater than just losing market share to foreign competitors. Apart from the massive outflow of foreign exchange, other issues of manpower and unemployment will step in,' he says.

Proton has created over 6,000 jobs directly while spinning-off 100,000 employment opportunities in sectors like distribution, service and auto parts. These figures portray the extent of the car-maker's involvement in the local economy.

Some industry sources however believe that Perodua will actually benefit from trade liberalisation. Perodua, selling small and highly affordable cars, caters for a niche market. Being the only manufacturer in the micro-cars segment for the Asean region thus puts it on a strong footing to face Afta.

According to the Malaysian Automotive Association (MAA), Proton sold 87,115 cars from January to June 2000, representing 65 per cent of total passenger-car sales. This was slightly lower, percentage-wise, than the 70,126 units sold in the same period last year (66 per cent).

Total sales of Perodua passenger cars in the first half of this year was

36,203 units, a market share of 27 per cent, compared with 28,223 units or 26 per cent in the first half of 1999.

Foreign-car sales stood at 10,760 for the first half of this year compared with 8,491 units last year, with market share being maintained at 8 per cent.

MAA reports that overall production (including assembly) for the national and foreign makes in the first half of 2000 improved by 30 per cent to reach a total of 175,110 units compared with 134,486 units last year.

While production of local cars increased by 22 per cent to 143,768 units, foreign makes registered a hefty increase of 93 per cent or almost double to reach 31,342 units in the first half of this year.

Despite the 30 per cent increase in total production, only 64 per cent of the installed capacity was utilised in the first half of the year. MAA forecasts that total motor vehicle sales will be maintained at 350,000 units for the year 2000 (see Tables 1 and 2).

One of the main concerns expressed is the possibility of the collapse of Proton or Perodua. Should this happen, the results would be disastrous, perhaps with unemployment rising in a chain reaction. Even Prime Minister Datuk Seri Dr Mahathir Mohamad has voiced concern over the impact of Afta on the national car industry. The problem arises not least because of the lack of competitiveness by Proton and Perodua.

In economies of scale, the local automotive industry lags far behind the big boys in passenger-car production. In fact, Datuk Mahathir even suggested, and got, a deferment of two years, from 2003 to 2005, for the implementation of Afta in Malaysia's car industry.

MAA president Aishah Ahmad reiterates, 'We are still not clear to what extent the tariffs are coming down... the ways of liberalising the local automotive industry also remain unclear. We are still waiting for directions on certain matters.'

Whether the two-year deferment will make a difference remains to be seen. In the meantime, other issues that need to be sorted out include the threat of global car companies taking over the local car industry and whether the Malaysian Government should continue tariff protection for Proton and Perodua.

Industry sources concede that protectionism for core sectors is vital; so far the local automotive industry has been enjoying a liberal dose of that. But the question is, how long should protectionist policies be continued?

An extreme example of such policies gone awry would be India's car industry. Hindustan Motors Limited has been churning out improvised 1954 Morris Oxfords as new Hindustan Ambassadors for decades with the theme 'New Technology, Enduring Values'.

Lack of competition has left the Indian automotive industry complacent and lacking in research and development, with minimal changes being incorporated in the manufacturing of automobile parts and models.

Proton is certainly far from this scenario but the question that comes uppermost in mind is, can we afford the luxury of stagnating, a quality that protectionism tends to breed? The obvious course of action for the industry's success, maybe even survival, is to be able to change with the times, to be competitively priced, and to offer quality and good after-sale service aimed at wooing the wider, global market.

A recent Malaysian Automotive Industry Report highlights that protectionist policies have transformed and strengthened the position of national assemblers but concurrently promote inefficiencies among local producers and deprive consumers of affordable imports of higher quality and better variety products.

A new phenomenon is emerging in the auto industry - the Asian or Asean Car. This project, which has been going on for quite some time, involves different components being manufactured and assembled in different Asean countries. Future exemptions in tariffs would increase the competitiveness of the Asian Car.

Honda City, Nissan AD Resort, Nissan Serena and Nissan Terrano are some examples of the Asian Car. While the AD Resort, Serena and Terrano are competing in different segments, Honda City is a major success in the passenger-car segment.

Oriental Holding (distributor for the Honda car) figures show marked increase in the sales of Honda City, marketed as a niche product and an alternative to Proton Wira and Proton Iswara.

'Perodua and Proton should learn from Honda City's Asian Car programme. They should resort to manufacturing parts at the cheapest locations and then assemble the final product locally to take advantage of lower production costs,' says Aishah.

For the Asean region, Malaysia has to compete against three other nations - Thailand, Indonesia and the Philippines. While Indonesia's and the Philippines' automotive industry remain lacklustre, Thailand is set to compete head-on with Malaysia. Recent press reports even tout Thailand as 'the Detroit of Asean.'

Compared to protectionist Malaysia, Thailand has a free-for-all policy. Car manufacturers from Japan and the United States have made it the regional headquarters for some of their models. The US Big Three (General Motors, Chrysler and Ford) have set up assembly plants in Thailand, a recognition of the country's potential as an export hub to the Southeast Asian region (see Tables 3 and 4).

On the bright side, Afta presents an excellent opportunity for Malaysian car manufacturers to venture more aggressively abroad. The Asean markets of Thailand, the Phillipines, Vietnam and Indonesia offer some strong prospects of sales for Malaysian-made cars.

Sales figures for the Asean region look very promising this year compared with 1999. Aishah projects a total figure of 1,059,913 motor-vehicle sales in 2000. Proton could benefit from the opening of the region.

'Proton is fortunate to share Mitsubishi's platform,' explains an analyst, referring the tie-up between Proton and the Japanese car-maker. 'Mitsubishi's exports to the Asean region is relative low compared to Japan's Big Three - Nissan, Toyota and Honda. This allows Proton to compete head on with other makes directly. Imagine a Mitsubishi Colt-Lancer and Proton Wira competing together in Asean markets. Who would have the better lead?'

Currently, Proton is aggressively looking for tie-ups with foreign manufacturers to give it the edge for the future. Apart from Proton's partnership with Britain's Lotus, the company is exploring other avenues with carmakers like of Honda and possible new engineering tie-ups with DaimlerChrysler, Ford and General Motors.

Afta presents member countries an excellent warm-up as preparation for globalisation under the World Trade Organisation (WTO). With keener competition, Proton and Perodua will be forced to improve efficiency, lower production costs and increase exports.

Besides triggering improved sales strategies, stiff competition would induce better research and development (R&D). Surely this would result in a slimmer Proton but certainly one leaner in many aspects.

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