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Use more local parts, Dr M tells carmakers (HL)

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NATIONAL carmakers still have much room to lower production costs, especially by reducing their reliance on imported components, as part of their preparations for heightened competition under the Asean Free Trade Area (Afta).

Many of the car components are currently still imported, with only the casings of these parts being locally manufactured, Prime Minister Datuk Seri Dr Mahathir Mohamad said.

"Until we can reduce production costs, we cannot compete. We must produce all these components. If we put in the effort, we can do it," he told reporters in Kuala Lumpur after launching the Perodua Kenari yesterday.

Under the Afta, Malaysia's two national carmakers, Perusahaan Otomobil Nasional (Proton) and Perusahaan Otomobil Kedua (Perodua), will be pitted against industry giants from Japan, Germany and the US, among others, in an open market by the year 2005.

Asked about this, Dr Mahathir said: "We do not know how the road will be. Perhaps we are on a cliff. We will try our best. We are living in a hostile world. If you are big, you can swallow others."

"We are going to face problems of course. But we are going to tackle them. We do not run away from our problems," he said.

To a question whether the Government will allow greater foreign equity interest in national carmakers, Dr Mahathir said stakes cannot simply be handed out to foreign investors as this may lead to the demise of the national car sector.

If ever increasing stakes are offered to foreigners, there will no longer be a national car.

"It will be a foreign car," he said.

The Prime Minister said the carmakers must step up preparations to operate in a liberalised economic environment by improving product quality to a level that is at par with the best.

"They should try to find a niche market. Unfortunately, the 'world car' is also in the 1000cc category. We are going to face stiff competition in that area," he added.

In his speech earlier, Dr Mahathir said tariff cuts effected under the Afta will favour foreign car companies as they can produce in larger volumes.

This means that if national carmakers do not become cost-competitive, their businesses will decline and eventually end up being acquired these global giants.

Malaysia is fortunate to have started pursuing development of its automotive industry in the early 1980s and 1990s, he said.

"If we were to move in only now, we might fail totally because the industry is currently undergoing a merger and acquisition process that will see it being controlled by car giants."

Their huge resources allow them to undertake costly research and development on a continual basis to improve their cars, raising quality standards with every passing year, Dr Mahathir said.

"We won't be able to compete...our business would be restricted, eventually we won't have a place in the industry at all," he added.

"Though they may agree that we design our own car, over the long term we will end up being mere car assemblers. We will not be able to learn and

attain our own engineering capability."

Therefore, if the national carmakers are not careful and start improving their competitiveness now, the industry will vanish along with the supporting sectors, the Prime Minister said.

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