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## Re-inventing the motor sector

THERE has been speculation, concern in some quarters even, that the Government would introduce various measures to protect the automotive sector upon liberalisation of the market under Asean Free Trade Area (Afta). Various reports, including some carried by this newspaper, have suggested that imported cars would not be immediately cheaper, not significantly anyway, come 2005. It is reasoned that there are a number of ways to maintain the competitiveness of the cars produced by Proton Bhd and Perodua Sdn Bhd for a while yet, for example by revamping the structure of the road and motor vehicle sales taxes to encourage Malaysians to "buy national". But among the assemblers and distributors of foreign makes, a potentially bigger issue is that import processes and procedures, for a start, may become more stringent, meaning the Government could resort to non-tariff barriers. And Prime Minister Datuk Seri Dr Mahathir Mohamad has had to stress that there are no such intentions, and that Malaysia remains committed to Afta.

But he also said there is a case for reviewing certain Afta terms of reference, especially the qualification of vehicles with just 40 per cent local content as "national products", hence granted free Asean-wide market access. The ruling will put Malaysia's own national cars which have achieved 90 per cent local content level at a severe disadvantage. In fact it is a very harsh penalty to impose on the country, ironically for having Asean's most developed automotive industry. An ever greater penetration of the Asean market by the global giants with their massive resources is a foregone conclusion. In the aftermath of the 1997-98 Asian financial crisis, most of the other member countries will be more than happy just to be a part of an assembly line. Afta was conceived, negotiated and implemented with one main objective in mind, which is to fast-forward the integration of the Asean-10 economy by pooling strengths and expanding the overall market for products from individual countries.

Not that the members were unmindful of the danger of Afta ending up merely serving as a vehicle for the rest of the world to exploit the region's potential, but events in the last few years have certainly heightened this prospect. A couple of members have even pursued bilateral free trade agreements with outsiders that could provide the latter with a backdoor into the common Asean market. For the Malaysian automotive sector, time is definitely running short. And asked why Malaysia has not started reducing duties for automotive products with the Afta deadline just over two years away, Dr Mahathir's response was characteristically cryptic. The sector should be more efficient and cost-effective by then, he told reporters after opening the 35th International General Meeting of the Pacific Basin Economic Council in Kuala Lumpur yesterday.

At the risk of reading too much into this particular remark from the Prime Minister, it ought to be noted that the Government's investment arm Khazanah Nasional Bhd has just purchased a sizeable stake in Proton from Petronas. There are indications that it will further increase its interest in the national carmaker, the bet being that the Government is preparing to spearhead a consolidation of the industry. If this proves true, it will confirm that the gravity of the situation is fully recognised. The sector cannot exist for long in its present form. It will have to re-engineer and re-invent itself, and fast. If ultimately, it is decided that the country's automotive product makers should regroup to concentrate on being

only niche players - by going strongly into car parts production, for example - it will not be a question of a scale-back in ambitions for the sector, but of facing up to new realities.

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