

Last-mile connectivity

for Proton

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“LAST-mile connectivity” Used in the telecommunications industry, this phrase sums up Proton’s plight. Despite months of talks with some suitors, the national car manufacturer remains unhappily single. Without a partner to provide cash, technology and marketing heft, Proton is an end-user without last-mile connectivity.

In telecommunications, “last-mile connectivity” refers to the final segment of the physical connection that links the end user to the network provider. “Last-mile connectivity” is critical – without connectivity, an end user will remain detached from the network and denied the benefits of linking up.

The dilemma that Malaysian policy-makers face is this: should foreign car manufacturers like Volkswagen or PSA Peugeot Citroen be allowed to take a controlling stake in Proton’s manufacturing unit? Some would argue because Proton is a national asset, majority-ownership and management of even a Proton subsidiary should remain Malaysian.

Since the launch of the National Automotive Policy (NAP) in October 2005, Malaysian policy-makers have made some hard decisions. Rebates on excise duties that gave national cars like Proton and Perodua a significant price advantage

were reduced. And in March last year, import duties on all vehicles from other Asean countries were cut from 15% to just 5%, one year ahead of schedule.

Liberalising Malaysia’s auto sector, however, has had a dramatic impact on Proton – a slump in its market share from a high of 65% previously to 30% currently, a copious flow of red ink and a rapidly depleting pile of cash.

All this suggests Proton’s need for a partner is urgent.

Malaysian policy-makers may be delaying making a decision about Proton’s partner for several reasons. First, opposition from vested interests

may be strong. Second, the likelihood of long-term gain, however bright, may not be sufficient to offset the probability of immediate pain.

Third, and more worrying, the inertia in decision-making may be due to complacency. If Malaysian policy-makers assume a decision on Proton’s partner can wait because this country still has more to offer foreign investors than its neighbours, their assumption is misplaced.

Data published by the United Nations Conference on Trade and Development (Unctad) show Malaysia’s ranking in attracting foreign direct investment (FDI) fell

one step to seventh position in 2005. While the drop in ranking appears minor, what is noteworthy is Indonesia overtook Malaysia to assume sixth position, the first time this has happened.

For far too long, Malaysian decision-makers have been cocooned in their belief that compared with Indonesia, this country is more attractive to foreign investors. To be sure, Malaysia enjoys a better track record of political stability, superior infrastructure, less burdensome red tape and a lower level of corruption. That Indonesia is now ranked higher than Malaysia should be a wake-up call to Malaysian policy-makers.

Unfortunately, Malaysia’s drop in the rankings is not a one-year phenomenon but a medium-term trend. This country’s share of FDI flows into South, East and Southeast Asia has tumbled from a high of 18.4% in 1991 to a meagre 0.5% in 2001. Although Malaysia’s share has perked up, it remained in the 2-4% range during the 2002-05 period.

Moreover, competition for FDI is heating up. When semiconductor giant Intel decided to build a US\$1 billion (RM3.5 billion) plant in the region, Malaysia was bypassed in favour of Vietnam.

And the number of Asian countries aspiring to become major global players is growing. China and India, the two fastest growing auto markets in the world, are now ranked second and 11th in

terms of car production globally. Thailand already claims the mantle of being the “Detroit of Asia”.

Further down the road, Lifan, a China automaker, plans to make Vietnam, its hub for Southeast Asian sales. Last month, Vietnam joined the World Trade Organisation (WTO) and began cutting auto tariffs. This move, together with its rapid economic growth and accelerating consumer income is likely to enhance Vietnam’s attractions for foreign car manufacturers.

A report by *The Economist* predicts that by 2020, Asia will

account for almost 40% of global car sales and 55% of production. This suggests that over the next 15 years, the battlefield for foreign investment in auto manufacturing and for export markets will be in Asia.

It also suggests that Malaysian policy-makers may not have the luxury of unlimited time in selecting a partner for Proton. To be sure, there is no need to hit the panic button. But if Malaysia consistently slams shut the door of opportunity, further down the road, it may find itself standing on the threshold of regret.

Views expressed in this article are the personal opinion of the writer and do not reflect that of any organisation she is associated with. She can be contacted at schoo@noordinsopiee.com. Comments: feedback@thesunday.com



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