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Venue : DEWAN TUN HUSSEIN ONN PUTRA WORLD TRADE CENTRE
Date : 23-05-2006
Title : KL INTERNATIONAL AUTOMOTIVE CONFERENCE 2006

YBhg. Datuk Aishah Ahmad, Organising Chairman for the KL International Automotive Conference 2006 and President of the Malaysian Automotive Association (MAA)

Encik Mirzan Mahathir, President of ASLI

YBhg. Dato' Dr Michael Yeoh, CEO of ASLI

Mr Mak Weng Kit, Joint Organising Chairman for the KL International Motorshow 2006

Distinguished guests

Ladies and gentlemen

1. It gives me great pleasure to be here this morning to officiate the opening of this inaugural KL International Automotive Conference 2006. I congratulate the organisers for thinking beyond the KL International Motor Show that will of course provide Malaysians the opportunity to admire the latest models from the leading international vehicle manufacturers. This conference leverages upon the Motor Show, and goes a step further in providing a valuable opportunity for industry players to discuss the latest trends and issues facing the industry, as well as the challenges they pose for Malaysia and the wider region.

Ladies and gentlemen

2. The automotive industry is important to Malaysia. Not only because of its direct economic contribution, such as the employment and revenues it generates, but also for the spin-offs that are the result of a home grown auto sector. Today, we can be rightfully proud of our core competencies in areas such as design and engineering and of the strong components sector that has developed to support vehicle manufacturers and assemblers operating in Malaysia.

3. This journey began in the early 1980s, with the decision to restrict the import of CBU vehicles to encourage local assembly. As a result, we saw the growth of some fifteen CKD operations during this period, set up between local partners and European and Japanese manufacturers. It soon became clear, however, that while these assembly operations provided important employment opportunities for Malaysians, they did not create significant economic contribution in terms of local value-added. This was due to the inevitable fragmentation of operations between multiple manufacturers and assemblers, each producing their own unique models, and as a result made it uneconomical to produce higher value parts and components

locally. There was simply insufficient scale in the domestic market to justify meaningful localization.

4. So Malaysia had to make the transition to a 2nd phase of the industry, in which we created a National Car project, via the birth of Proton. Proton was aimed at generating sufficient scale that would justify the investment in localising production of the majority of a vehicle's components within Malaysia. The price to achieve this was, of course, restrictions on CKD and CBU activities, in other words protection of the national manufacturer against imports, and government support for its development. From a modest start in 1985, Malaysia has today built up a real automotive industry, now with a handful of national manufacturers, a limited number of assemblers and an extensive base of automotive component vendors to support them.

5. But we must recognise that the world automotive industry has also changed over this period. Global vehicle production and sales grew relatively slowly from 1985 to 2000, until the Chinese and Indian automotive markets and industries began to liberalise and develop momentum. More importantly, the world's auto industry underwent a radical process of global consolidation. The number of global vehicle manufacturers – who collectively produce 85% of today's vehicles – shrank by over two thirds through acquisitions and mergers. The component industries grew substantially, as vehicle manufacturers increasingly outsourced to them responsibility for producing sub-systems. The components sector also saw massive consolidation in tandem with the global auto players. Achieving sufficient scale and efficiency in an increasingly cut throat industry was the dominant driving force behind the industry's reshaping during this period.

6. Against this backdrop of global consolidation, the Malaysian industry has in fact lost scale over the last two decades, not in absolute terms but relative to the global industry. Few countries can now sustain a complete automotive industry – the United States, Japan, Germany and France, the latter two within their enlarged home market of the European Union. Fewer still can expect to reach it on their own – most likely China and India, with their large potential markets. The reality is that Malaysia's automotive industry cannot by itself, within its relatively small domestic market, achieve sufficient scale to ensure its future survival and success.

7. We must therefore embark on yet another transformation. This time, it must involve building joint economic of scale together with the outside automotive world by a process of specialisation and interchange. This is the principle that underpins the National Automotive Policy that was announced in March of this year. No, we shall not simply tear down the protective barriers and immediately throw our national automotive industry to the wolves of unbridled competition. We have developed this industry at great cost and with great effort. What is clear, however, is that to continue indefinitely with a policy of shielding our domestic market in favour of our national players is not a viable long term strategy, and one that will only consume ever-increasing subsidies to no final purpose. It will serve neither the Malaysian economy nor Malaysian consumers.

8. We have therefore started on a process of controlled liberalisation, beginning with the implementation by Malaysia of the ASEAN CEPT agreements, thereby fully

integrating Malaysia's auto sector into ASEAN and making us an attractive stepping stone into the region for outsiders. We want to lift Malaysia from a national to a regional automotive manufacturing hub. But we must not do so by just becoming a larger version of our early days, by fragmenting our automotive industry again into multiple regional assemblers with low levels of national value-added. Our objective is clear: to assist the national manufacturers make the transition which will prepare them for the time when our domestic market is fully open. But what we require of them is equally clear: support will continue to be given but it will be targeted, finite and transitional, not open-ended and unconditional. We will reward those who make serious and concrete efforts to achieve the kind of scale, through domestic sales and exports, that will allow them to do more in Malaysia.

9. Malaysia can continue to support a limited number of national manufacturers, with a full set of capabilities for designing, engineering and building vehicles. Because of their limited size, however, they will not be able to afford to develop a full line-up of vehicles, to satisfy all segments of market demand. The solution is, as I already mentioned, specialisation and inter-exchange with chosen global partners. The idea is that the Malaysian partner will concentrate on one platform, from which a variety of models can be derived. It must be able to sell these cars to its enlarged home market of ASEAN but also, in much larger volumes than ever before, to other export markets beyond ASEAN. Again, this cannot be achieved by Malaysian manufacturers on their own, as distribution channels and the infrastructure to look after vehicles once they are on the road, are very costly to build. The solution is to have a powerful foreign partner, which will open the door for Malaysian made vehicles to its own larger markets. This will, of course, only be of interest to the foreign partner if the Malaysian product complements and extends their own product range, rather than competing with it.

10. In return for this collaboration and partnership, the foreign partner will, through its Malaysian counterpart, have access to the large and fast growing ASEAN market, which is expected to reach 2 million new cars and light commercial vehicles per year by 2010. As entry to the ASEAN market will continue to be restricted for CBUs in the medium term, the Malaysian partner's manufacturing facilities, local knowledge and channels will provide an indispensable stepping stone for the foreign partner's vehicle range into the ASEAN market.

Ladies and gentlemen

11. The move towards increasing sustainable localization is another corner stone of the National Auto Policy. The components industry is at least as important, if not more important, as the vehicle manufacturers themselves. The strength or otherwise of the components sector determines to a considerable extent how good the final vehicle is, in terms of performance, quality and cost. Malaysia must have a viable and internationally competitive vendor sector, if it is to play a serious role in the global automotive industry. This cannot be achieved by merely supplying for a fragmented domestic market. Component vendors must specialize and inter-trade with the wider automotive world. By getting the national vehicle manufacturers to limit their product range, focus on volume, and exporting via a global partner's network will greatly help component vendors to achieve the required scale. But they

themselves and their overseas partners will also have to make choices about components supply.

12. In some components sub-sectors, Malaysian vendors will take the lead and not only supply the domestic vehicle manufacturers but also develop substantial exports. In others, foreign suppliers will be invited into Malaysia. In yet other cases, we shall use imports.

13. We should expect the national manufacturers to achieve a local content of at least 60%. But this need not be the same across all vehicles they build. For their high-volume vehicles, built on their own platforms, they could well exceed this local content target. For their lower-volume vehicles, built on their partner's platforms, we should expect more components to come from the partner's own network of suppliers, and therefore lower local content. The principle in all instances is to tap into the largest available scale. A key requirement of the foreign partners is that they should facilitate this process in the components sector, by assisting Malaysian vendors to develop relationships with members of their overseas supplier base. The government will provide the appropriate incentives under the Industrial Adjustment Fund to encourage the components sector to develop greater international linkages.

14. In addition to the national manufacturers, the NAP provides for a limited number of up-line or niche foreign manufacturers to assemble a higher volume of vehicles in Malaysia for the ASEAN market. The economics of up-line and niche vehicle production allow these to operate at a somewhat lower level of localisation. What we are not encouraging, however, is a proliferation of separate, disconnected, CKD-type operations, with low levels of localization, which contribute little to the development of the Malaysian automotive industry and economy.

Ladies and gentlemen

15. We shall continue to support our national automotive industry in this next phase of its development. Government support will not, however, be aimed at defending the status quo. Instead, it aims to foster adaptation to the new regime of achieving scale, specialization and inter-exchange. It will support the development of critical skills and capabilities within the industry. It will therefore be project-based, rather than company-based. The granting of support and incentives will be linked to the achievement of measurable outcomes. Submissions will be assessed based on expected outcomes and on the contribution of projects to the Malaysian automotive industry, skill base and economy. They will be considered in any part of the industry, from advanced vehicle technologies, through vehicle and component engineering and production, to the efficient distribution and maintenance of vehicles.

Ladies and gentlemen

16. I have just outlined the government's vision for our national automotive industry, the challenges that we currently face and the steps we must take to ensure its continued viability and success in an increasingly open market. I would urge all industry participants to begin this next step of preparing for a more challenging environment. We must consolidate what we have achieved at home, and prepare ourselves well to seize opportunities abroad.

17. Malaysia has come a long way in the last two decades, and what we have achieved in the automotive sector since 1985 has earned us much admiration and respect in the developing world. I am confident that we have the right strategy and the capabilities to make the next quantum leap for our automotive industry, in order that we more fully integrate with the global automotive sector and achieve the long term sustainability required. Let us make that leap together, and secure a vibrant and dynamic future that we can all be proud of.

Thank you.