

**SPEECH BY TUN DR MAHATHIR BIN MOHAMAD AT LUNCHEON TALK AT  
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**“SHAPING A NATIONAL AUTO INDUSTRY: HOW NATIONAL CARS CAN  
CONTRIBUTE TOWARDS ECONOMIC DEVELOPEMNT”**

1. When the idea of a national car was mooted, it was met with widespread criticisms and cynical comments. We were a third world country and we know nothing about motorcar manufacturing. Our market was tiny. It would be a waste of our money.
2. It was easier to simply buy imported foreign-made cars. At best we could import CKD (Completely Knock-down packs) and assemble the cars here. That was as much as our agriculture-based economy could do.
3. But we did talk even at that time of industrialisation, of being an industrial nation. How do we become an industrialised nation if we have no industry other than assembling electronic components.
4. Malaysia has always been and it still is a trading nation. Buying things from foreign countries must result in outflow of funds. This would be bad for our balance of payment. Our trade would be in deficit. Trade deficits are not sustainable. We cannot generate enough wealth internally to pay for our imports. Our raw materials, such as rubber, tin and palm oil exports cannot earn us enough to pay for imports. We will be in deficit.
5. To prevent this we can do two things. We can limit imports or we can increase exports. Among the items which absorb funds in large amounts is the import of cars. The purchase of cars involves large sums of money. When we buy foreign cars there would be a big outflow of funds.
6. In those days we could not think of exporting Malaysian made cars in order to increase the inflow of funds and have a healthy trade balance. Still if we produce our own cars and our people buy them then much of the money would stay in the country. There would be less outflow, less tendency to have deficits.
7. But could Malaysian made cars compete in the domestic market against foreign imports? They could if the price is right. To ensure right prices the Government had to tax imports at a higher rate.
8. This was not going to be welcome by Malaysian consumers. But all countries wishing to promote local automotive industry had no choice but to make imported cars costly. Japan and Korea had done this. Other countries simply make it bureaucratically difficult for cars to be imported. Apart from taxes

on foreign cars, standards were raised in foreign countries so that imports find difficulty to qualify. The standards were raised periodically so that foreign cars wishing to enter the market have to be upgraded continuously.

9. Any nation wishing to go into an industry dominated by foreign imports will not be able to match the imports immediately. When, after World War II Japan decided to build cars, the design was atrocious and the quality inferior. The Datsun Bluebird seemed to be an inferior copy of the British Hillman. The car was imported into Malaysia but was not well accepted despite the low price.

10. But we all know how much the Japanese cars have improved. They not only meet the standards of European cars but are often superior to many of these cars. Today no one questions the quality of Japanese cars. Even though the price is no longer low they are able to penetrate foreign markets. Clearly it takes time to improve locally produced manufactured goods to match imported goods. To have an industry, especially automotive, time is required to achieve world standards and to be competitive.

11. The same can be said of Korean cars. Their Pony by Hyundai was of poor quality but now Korean cars meet International standards and are able to compete even with Japanese makes in developed markets.

12. Clearly when a country wishes to enter the car business, a lot of time will pass before their products achieve the quality level of established makes. If the industry is to grow it must be protected at least during its infancy. The protection must be reduced gradually.

13. The automobile industry requires big capital – usually in the billions of US dollars. This is so especially upon establishment. But Malaysia's national car had a capital of about RM400 million (about USD150 million). It borrowed from the Government 800 million Ringgit. It has since paid back this loan fully from internal sources.

14. Admittedly at the beginning it was not a roaring success despite lower prices. But at one time later on it commanded 80% of the local market and it built up reserves of 4 billion Ringgit. Since the beginning it paid directly and indirectly billions in revenue to the Government. It certainly reduced outflow of funds with its high market share.

15. Unfortunately for political reasons, the successful management was got rid off and then changed twice and the company **lost** money. At the same time Government decided to allow almost unlimited import of foreign cars from countries which effectively banned our Proton.

16. All these resulted in a shrinkage of domestic market share of the Proton until today it makes up only 27% of the much enlarged domestic market. With

almost half the domestic market now taken up by imports, there is a huge outflow of Malaysian money.

17. Who gains? Certainly foreign car makers made much profit in Malaysia. Most of these cars come from countries where our national cars are not able to penetrate because of tax and other barriers erected against foreign cars including ours.

18. But we are very generous. When foreign cars do not meet our specifications we give them exemptions. Some 70 models have been given such exemptions, which reduced their cost and therefore increase their competitiveness against our cars. Why we decide that non-conforming imports are acceptable but our own cars must comply with our standards is a mystery. Surely we must know that this is not good for balance of payments.

19. Of some interest are the so-called free-trade agreements. There is much focus on automobiles. Import duties are to be withdrawn for national cars of member countries. A car is regarded as national if it has 40% local content. Foreign car makers are quick to take advantages of this simple definition.

20. They simply produce their cars in the member countries of the FTA with 40% of the cost incurred locally. With that they can access the markets of the FTA members and benefit from the tax-free status of national cars.

21. One has to remember that these foreign cars have been sold in large number in the manufacturers domestic market and in other countries. The cost of development would be amortised quickly so that even if the sale prices in the FTA countries are low, they would still be profitable.

23. Proton's local content is 90% and its sale is largely in the local market where it has to compete with imports. Even with reduced taxes it cannot sell well in FTA countries. The volume just cannot be big enough and it takes time to amortise the cost of development. In other words Proton is at a disadvantage in Malaysia and in the AFTA countries.

24. So why should we have an automotive industry!

25. Well, let's look again at the contribution made by a national car industry. First it creates jobs, thousands of jobs not just in producing cars but also in producing components and parts. It enables Malaysia to acquire engineering knowhow. If the country is to become industrialised, it must acquire engineering skills such as designing, modelling, prototyping, testing, tweaking, upgrading and updating and a host of other things required for the manufacture of cars. These skills contribute to the industrial sector. It will qualify us to become a developed country.

26. The oil producing countries have highest per capita incomes but they do not qualify as developed countries.

27. Much of the money expended and generated by the industry stays in the country, reducing the deficits and contributing to trade surplus. This money also contributes to the GDP when it is spent.

28. In fact the contribution of local industries to the GDP and economic growth is what enriches a country, what helps the country to develop. Importing goods, manufactures and services only contribute to outflow of funds and contribute towards imbalance in the trade.

27. The United States is an interesting study. It has 52 states and 360 million people. Basically it is a small world by itself, having raw materials, power and manufactured goods. The states can buy and sell all their needs between them. They really do not need the rest of the world. That is why they can survive even when they have trade and budget deficits. When short of money, they can borrow from their own banks, the Federal Reserve Bank, which can print money when it is itself short of funds.

28. We are not the United States. We need to trade with other countries because our domestic market is small and we need the raw materials and manufactured good of other countries. Trade should be balanced. But when we have to import all our needs we will be in deficit. We can borrow if we cannot earn money through exports. But loans have to be repaid especially loans by foreign banks. If all our money goes toward paying for imports we cannot repay the loans. We will be bankrupt like Greece.

29. Proton may not be earning much money through exports. But it is doing the next best thing, it is preventing money from flowing out to buy foreign cars.

30. Taking everything into consideration, the national car has contributed much towards Malaysian economy and its development. To know how much we save we can compute the total sum Malaysians pay for local-made cars and add that to our imports.

31. We sell roughly 600,000 cars a year. Half the number would be local-made cars. Assuming an average price of 40,000 RM, the total sale value would be about 12 billion Ringgit. That would be the additional amount that will flow out if all cars are imported. It would certainly increase the deficit.

32. The national cars clearly contributes much towards reducing our deficits. Additionally it has helped in the establishment of the engineering industry extending well beyond automobile manufacturing. It has certainly helped in qualifying us as a developed country.

33. The national auto industry must be sustained if we are going to have a positive balance in our trade.

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