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Opening Address By
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Deputy Prime Minister of Malaysia

Kelab Vendor Perodua Conference:
Malaysian Automotive Industry and AFTA: Are We Moving Forward?
7th March 2005; Renaissance Hotel, Kuala Lumpur

Distinguished Guests
Ladies and Gentlemen

1. Let me begin by expressing my sincere appreciation to the organizers for inviting me to open this morning's conference. I understand this is the first time that the Perodua Vendors Association is organizing such an event.

2. The theme of this conference (Malaysian Automotive Industry and AFTA: Are We Moving Forward?) is indeed timely given our obligations to fully comply with AFTA rules for the automotive sector in 2005. Looking at all the topics to be discussed and given the importance of the automotive industry to our economy, I am sure there the discussions will be both lively and informative. I am indeed pleased to be here with all of you and would like to congratulate members of the Association for their efforts.

Ladies and Gentlemen

3. As Malaysians we have every reason to be proud of our social, economic and political achievements over the past 47 years. The 5-year Development Plans introduced since early independence, together with the two 10-year Industrial Master Plans over the last 2 decades since 1984, have been important roadmaps for our transformation from an agricultural economy to a manufacturing-based economy. Together with Vision 2020 and a renewed emphasis on becoming a Knowledge Economy, we are progressing well towards the aim of becoming a fully developed nation.

4. Many of you may recall the Government's bold move in the mid eighties to introduce a rapid industrialization programme. Arising from these efforts, Malaysia's total merchandise trade grew to about RM310 billion in 1994, and the more than doubled to RM880 billion ten years later in 2004. International trade and an open global trading system have become vital to our economic well being and progress.

5. One of the many roles of Government is to ensure that Malaysia continues to be an attractive investment destination for the Foreign Direct Investments (FDI). And in this area, while we have been fairly successful in the past, we should expect that with the emergence of China and India as economic powerhouses of the new century, competition for FDI among developing economies will become more fierce and intense. Therefore, it is equally important that the Government promotes

Domestic Investments as a parallel engine to drive the creation of local industries, job opportunities, homegrown products and services. In this respect, the automotive sector has been identified as one of the strategic industries that the Government will continue to nurture and support. As we see today, the auto sector has regularly been the subject of great public interest. Many more Malaysians are now car owners.

6. Looking back, the local automotive industry has definitely come a long way since its birth in the early eighties. It is common knowledge that our former Prime Minister, Tun Dr. Mahathir Mohamad was a passionate and firm believer in our country's ability and need to develop indigenous automotive capabilities to meet the rising demands of a young and growing nation. His vision for this industry led to the establishment of the two national car manufacturing companies that we now know so well, Proton and Perodua. This bold step has had a significant and lasting impact in shaping the automotive industry landscape.

7. Today, the industry contributes significantly to the country's development in terms of creating skilled employment, deepening our R&D capacity, and strengthening our component manufacturing and assembly capabilities. The automotive industry has also played a catalyst role in the growth and development of other related industries.

8. In consonant to establishing a viable car manufacturing industry, the Government has also introduced policies and incentives to encourage the foreign and local manufacturers of parts and components to establish their operations in Malaysia. These measures are there to nurture the development of domestic local component and parts industries for domestic as well as export markets.

Ladies and Gentlemen

9. Our healthy growth trajectory has contributed to a significant increase in the demand for motor vehicles. Over the last 10 years, new Total Industrial Vehicles (TIV) registrations have grown from 200,000 annually to an estimated 500,000 for this year (2005). Our domestic motor vehicles market represents about 30 per cent of the total demand in the 5 largest ASEAN economies (Indonesia, Malaysia, Philippines, Singapore and Thailand).

10. This increase in domestic demand has mainly benefited domestic manufacturers and assemblers since imported vehicles were subjected to high import tariffs. This practice is not unique to our country alone. Other countries apply similar policies to protect domestic industries that they view as strategic. As an example, in the commercial aircraft industry, both Airbus in Europe and Boeing in the United States have benefited from financial support and protection by their respective Governments. Today, there is no credible competitor to these two companies as they divide the commercial aircraft market between the both of them.

11. As I mentioned earlier, Malaysia is a firm believer of the benefits of trade liberalization and open markets. In the auto sector, we have adopted a progressive, liberalization approach in opening up our domestic market. This approach remains consistent with our international and regional obligations. We have made important commitments to further liberalize trade under various multilateral, regional and bilateral trade agreements. Malaysia is a signatory to the WTO. We are a leading player in the ASEAN Free Trade Area (AFTA) process, and we are actively seeking bilateral Free Trade Agreements with several of our most important trading partners.

12. ASEAN itself is moving towards deeper economic integration. In 2003, ASEAN leaders in Bali agreed to establish the ASEAN Economic Community (AEC) by 2020. The AEC goal is for a single market and production base with free flow of goods, services, skilled labour and investment capital.

13. While AFTA provides market access to 530 million people – with already enormous trade, investment and economic benefits – ASEAN is looking further for even greater market access through Regional Trading Agreement (RTAs) with China, Japan, Korea, Australia and New Zealand. ASEAN trade agreements with these countries will create the world's largest RTA serving a combined population of more than 3 billion people. It is vital that Malaysian companies begin to plan to take full advantage of these linkages that are in the pipeline, and look well beyond our own shores.

Ladies and Gentlemen

14. Binding international trade negotiations are crucial to ensuring transparent, predictable and open markets. Malaysia has and will continue to be committed to a regime of progressive liberalization via multilateral, regional and bilateral trade agreements. For the automotive sector, we must ensure while we open up our own local markets to others, Malaysian players also benefit by gaining access to foreign markets and are able to effectively sell their products and services abroad.

15. While Malaysia's tariff rates are generally low, we do have a number of strategic goods and sectors with high tariffs that have been put in place to achieve national, socio-economic objectives. Besides the service sectors, the incentives granted to domestic automotive and components manufacturers is an area of interests to our negotiating partners.

16. In anticipation of further liberalization of the auto sector, I call upon local automotive and components manufacturers to significantly strengthen competitiveness in terms of quality, cost and delivery. It is more critical now as automotive products have been fully phased-in into the Common Effective Preferential Tariff Scheme (CEPT) of AFTA beginning 1 January this year. Existing tariff rates will have to be further reduced to less than 5 per cent beginning 2008. In addition, the automotive industry is one of eleven priority sectors identified for integration under the proposed ASEAN Economic Community. I am confident that our objective to make Malaysia home to a viable and vibrant automotive industry can be achieved if the domestic players work towards upgrading their capabilities in design, engineering, assembly, distribution and service.

Ladies and Gentlemen

17. The road ahead is full of challenges. The reality is, whether we like it or not, the automotive sector like many other industries globally, is becoming more complex and competitive due to industry consolidation and rationalization. In this challenging environment, I call upon national automotive and components manufacturers to avoid unhealthy competition but instead explore potential areas of cooperation and synergies.

18. I am pleased to note that the automotive vendors have benefited from the success of Proton and Perodua. Currently, there are 350 vendors supplying over

4,000 parts and components worth well over RM4 billion annually, compared to 140 vendors in 1994 supplying products worth RM2 billion. In the light of progressive liberalization of the automotive industry, vendors should take full advantage to expand their sales into the rest of ASEAN and other markets. Also, we will have to ensure the home base is secure for the manufacturers and vendors. While the Government continues to encourage small and medium scale players, there may also be a need to consider steps to consolidate among the many vendors in the automotive industry, in order to gain scale, financial strength and managerial talent to expand internationally.

19. It is important that the Government reaffirms its commitment to the automotive industry as laid out in the 2nd Industrial Master Plan (IMP). I understand that there has been regular dialogue between policy makers and industry players. This open channel is important and should be continued on a regular basis. The Government will regularly review current policies and where necessary, make relevant adjustments, particularly in the 3rd IMP which is currently being prepared. This is to ensure that our investments in the national car projects result in long and lasting economic benefits from a national perspective.

Ladies and Gentlemen

20. Let me conclude by once again congratulating the Perodua Vendors Association for their efforts in organizing this Conference, and bringing together policy makers, automotive manufacturers, their vendors, representatives from the financial and technical support institutions. Participants should capitalize this opportunity to share problems and discuss issues relevant to automotive manufacturers and assemblers, including Proton and Perodua. I am also pleased that you also have representatives from Toyota and other foreign participants, whom I hope will share their valuable insights and experience. I wish all of you a very fruitful discussion.

Thank you.