CHAPTER IV

IMPLICATIONS OF ESTABLISHING AN AUTOMOBILE ASSEMBLY INDUSTRY IN MALAYSIA

When discussing the possible implications of establishing an automobile assembly industry, we cannot, in the first place, predict exactly what the implications will be, and in the second place to what extent the consequences will carry. Predictions will no doubt have to be based on speculations which in turn will stem from experience in other countries, and secondly from logical deductions. It must be kept in mind that actual implications may fall short of what is predicted here, or may proceed beyond what can be imagined now. The automobile industry's contribution to the American economy is unmatched by any other private enterprise. And later in this chapter it will be said how the American automobile industry has contributed to its economy, together with examples of other countries. It may well be said, "Interesting perhaps, but that's in the States; what's that got to do with this partof the world?" The answer is, of course, that everything is proportionate. We cannot hope to match the high degree of American industrialization - however, we can still industrialise in proportion. In the same way, though we cannot hope to derive as much benefits to our economy from our motor assembly industry, as in the United States, we can still carry on with more modest expectations. With that we can carry on and list the possible implications of our pioneer motor assembly industry.

Diversification of the Economy

This is, of course, an obvious implication, but it must be noted that this is just one of many of the Government's programmes to diversify the economy, there by avoiding the precarious dependence on the tin and rubber industries for its prime source of sustenance. The Malaysian economy is heavily dependent on rubber. It accounts directly for about 18% of the combined national product, for over 20% of total employment, and about 35% of total exports. Rubber prices have fallen from a recent high of $1.06 a pound in 1960 to 71 cents in mid-1963, and later even lower.[1] They may fall still further during the next five to ten years as a result of greatly increased competition from synthetics. There might eventually be major technical advances in synthetics which could lead to even lower prices. The economy would remain

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[1] Rueff Mission Report on Economic Aspects of Malaysia, 1963.

vulnerable to this risk until significant progress is made in developing alternative sources of income and employment. Tin, which ranks second in Malaysian export earnings (15% of the total) is likely to remain stable at best because of supply limitations and competition from substitutes!

The motor assembly industry is but a small step in the diversification programme, but it is a sure step. We must not look at this feature for what it presently represents. This industry could exert "spread" effects in the form of "forward" and "backward" linkages which is discussed later. A few years of growth should give it greater significance to the economy than it can now assume. The subsequent sections, I hope, will serve to illustrate that this industry will make itself felt in the economy, and will be a step away from the traditional agricultural nature of the economy.

The recent growth of the manufacturing sector appears to have been quite rapid, particularly in Malaya; the net value of output in Malaya probably rose by over 30% between 1959 and 1961, accompanied by a rise of around 26% in salaries and wages paid and 25% in the volume of commercial bank lending to the manufacturing industry. Employment in the sector rose by about 15% in the same period. In 1961 roughly 22% of value added originated in primary processing, 42% in food and other basic manufactures, and 36% in the more capital intensive operations. The motor assembly industry should now contribute to the third category of manufacturing industry in Malaysia.

Development of Ancillary Industries

The final assembly operations of the motor industries of many countries are increasingly being performed in special plants not far from the dealers. The dealers, in turn, have located with an eye on potential markets. And with the migration of population to towns and cities in industrialised countries has meant a clustering tendency. This decentralisation of the final assembly stages has been for certain economic reasons like lower costs of transport in knocked-down condition. In Malaysia, the picture is not of decentralisation but rather of assembly plants being located in or in the vicinity of urban centres - Petaling Jaya, Batu Tiga and Sungei Besi. This location is because of necessity for large numbers of people to provide market, labour, some raw materials, and still other advantages. Many of the "raw" materials of the motor industry also are to be had most cheaply in areas of complex manufacturing activity and associated dense population, for the industry depends almost entirely upon other manufacturing to supply such materials. Without such materials being supplied, there can be no car manufacture. For example, we cannot have a car if there is no industry to produce tyres and tubes on which to run on. This is one of the "backward linkages" of the motor car industries. But again just a few of these will not do. As mentioned in the last chapter, the making of motor vehicles

involves the putting together of some 15,000 semi-finished and finished materials into completed units. In our assembly industry it would involve the putting together of about 1,000 sub-assembled parts together. Therefore we find that the motor industry provides a means to link many industries within an economy, and they exist on a reciprocal basis. The existence of the motor industry, in fact, provides an incentive for other "backward" linkages to develop. For example, in Malaysia, the motor vehicle industry could link the rubber industry, the tin industry, paints industry, up-holstery industry, tyres, tubes and batteries, and so many others.

The result would be the creation of what is called "external economies" - the mutual connection of industries as a result of which investment in one direction makes investment in others more profitable. To stress how important ancillary industries are to the motor industry let me quote a few examples of what a motor car produced in the United States uses. Every car uses seven miles of electric wiring, and almost ¼ the radios produced in the States are on the road; in one year the United States vehicle industry uses enough plastic vinyl to cover 12 million living-room sofas, or one for every fifth household in the States.[2]

In fact in order to promote the motor industry and the subsequent manufacture of parts, components and accessories, the Government is intending to impose a progressive assembly tax on vehicles that fail to meet the local content requirement, to be imposed at certain intervals (Chapter II). This would be an added incentive for the development of ancillary industries.

At present 3 suitable parts are manufactured locally and supported by the Government : tyres, tubes and batteries. And although the assembly industry is not granted the pioneer status, the ancillary industries are to be given this treatment, provided that the Government is satisfied with the quality of the product.

To give an illustration of how the motor industry can stimulate local ancillary industries let us take the case of tyre manufacture. The present annual market for motor vehicles can be taken as 25,000 units. If these 25,000 vehicles were to use locally made tyres, then the annual demand would roughly work out to about:

25,000 units x 5 tyres (plus spare) = 125,000 tyres.

Of course not all 25,000 vehicles can be expected to be using local parts, but at the same time some vehicles (Lorries, trucks

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[2] Mr. I.G. Hopworth, Assemblers' Association.

and vans) use seven tyres (plus spare) instead of five, and, again, replacements for used-up tyres and blown-out tyres would also create demand. However, this demand should create incentive for local manufacture of tyres, which in fact is already being done by Dunlop's. The same can be said for tubes, and so many other parts of a motor vehicle.

Apart from tyres, tubes and batteries, there are some other parts that are being made locally. They are rubber-moulding for lining the doors, screws and bolts, bulbs (manufactured by Malayan Lamps Co. Ltd., Petaling Jaya), door visors, chromium ornaments, windscreen wipers and small sized coil springs. A host of other items that can be manufactured here were mentioned in Chapter II, which the Government hopes will be done, soon as assembly operations begin. It is surprising, the rate at which some countries have developed their motor industry.

In the Indian automobile industry, while the progress of the main automobile industry has been satisfactory, even more so has been the development in the field of manufacture of ancillary items. Schemes for the manufacture of almost every component and accessory in an automobile have been approved and are either in production or under implementation. Whereas in 1948, there was hardly any manufacture apart from the assembly from imported components incorporating the indegenous tyre, tube, battery and upholstery material,[3] the present average indigenous content in the automobile industry has surpassed 90%.[4] But one must not run away from the bleak side of the picture. According to the manufacturers, though the indigenous content is over 90%, it is of small significance because the required raw materials are not available from indigenous sources and large quantities have to be imported.[4]

In addition, producers of cars and trucks complain that the prices of indigenous components and ancillaries are nearly double those of imported items, and this is because of lack of indigenous raw materials, idle capacity in plants, and these plants being too small to reap economies of scale - fixed cost per unit is too high![4]

So, we notice that while ancillary industries can develop, and will, under the Government's policy, whether the whole project can run on an economic basis is a different question. As mentioned in the last chapter, the problem of volume of production, is indeed a very significant one! The ancillary industries will be hailed because of employment opportunities that will be

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[3] India - Industry & Trade - 1961.
"Indian Automobile Industry" - V.P.S. Menon.

[4] Far Eastern Economic Review, April 28th, 1966.

created and because of the revenue that would be derived from them. But it seems that the public in general is going to suffer in the form of higher prices. And we must note that India's production is about 70,000 units per year, and even that produced in a situation where demand exceeds supply. And what with Malaysia's market of 25,000?

Now, to take the case of the Spanish motor industry. When this industry restarted production in the 1950's, was heavily dependent on imported components. However, the foreign element has been gradually reduced and to-day FASA (Fabricacion de Automoviles, S. .) and SEAT (Sociedad Espanola de Automoviles de Turismo), the two main car manufacturers in Spain, incorporate more than 90% of locally made components. That is, a rapid expansion in components manufacture within the short period of 14 years.

In Spain about 50 firms make motor vehicle components. In addition a larger number of workshops and small firms make limited quantities of spare parts and components for replacement in old and second-hand cars. The components industry has become more closely linked with motor vehicle manufacture and has expanded at much the same rate as vehicle production itself. The strong upward trend in component production since 1960 has been accompanied by attempts at greater standardization of components, but the industry still has a long way to go in this direction. Several foreign firms, including General Motors have shown interest in supplying parts from a local manufacturing base set up on their own or in association with an established Spanish manufacturer. However, at present the Spanish motor vehicle manufacturers are still dependent on foreign firms to supply components.

The expected increase in Spanish motor vehicle production will impose considerable strains on the components industry. Further development of this sector may require technical assistance from foreign firms on a wider front, and within the industry greater standardisation and rationalisation. Only in this way can the present relatively high costs and prices be brought down to levels that will stand up to international comparison.

Again we see that while a local assembly industry can be established which is fed by local ancillaries, the cost factor is one big problem. So it is a case where the good effects are weighed against the adverse effects,, and the Government has obviously thought that on the whole it is still worthwile to go ahead; after all we have to think of the long run implications.

Lastly apart from stimulating feeder industries to develop, the assembly industry can also stimulate other industries which are not in any way connected with it. This is done through the "spread effects". Let us assume that the motor industry is already in operation, with the assembly plant and the ancillary industries. By this, a spur is given to the general development of the community. Opportunities of employment and higher incomes

are provided for those unemployed before or employed in less remunerative way. Local business can flourish as the demand for their products and services increases. The market is widened, more industries are attracted, rising profits increase saving and more investment results. This, in fact, sets in motion a certain momentum in industrial expansion. The expansion process creates external economies favourable for sustaining the demand and level of profit.

Stability of Economy and Country

In the course of her economic development, Malaysia has developed an unfavourable balance of trade since 1961 and which stood at a deficit of $487.7 million in 1964. In terms of balance of payments on current account the deficit amounted to $651.2 million. Statistics of imported items whose value exceeded $ 1 - 5 million per annum show that there are considerable possibilities for setting up sizeable new industries designed for import-substitution. As soon as the big pioneer industries get into momentum, they would provide an impetus for local capitalists to participate in "essentially productive" ventures that would spontaneously form a set of "income-raising forces" yielding additional national income. Looking at the import figures for motor-vehicles, we find the value increasing year by year, the 1965 figure being $97,419,417. We cannot hope to save this amount of foreign exchange by starting local assembly and local components manufacture because our industry would still to a great extent depend on imported components or imported raw materials for many of the locally-made components.

The use of high tariffs on imported vehicles, in Spain helps to insulate the indigenous motor car manufacturer using locally-made components from external competition and to protect the expanding economy from balance of payments strains due to excessive imports of these highly desirable consumer goods.

It seems the question of foreign exchange savings is a very controversial one, and should not be gone into unless one is an authority on that subject. Suffice it to say here that if we cut down our imports without decreasing our exports at the same time, then our balance of payments position would be enhanced.

India feels justified in granting protection to the industry on the grounds that the achievement of self-sufficiency regarding transport vehicles was of great importance to the economy and that even in regard to passenger cars the consumer would have been far worse off, if in the present difficulties regarding foreign exchange there had been no domestic industry. For example in countries like Malaysia and India if balance of payments conditions became very acute the Government might be forced to restrict imports of motor vehicles or components. But if there is local industry which is self-sufficient, then the public will not be deprived of this precious commodity.

Going again to India, the industry plays a vital role in the life and economy of the country. Its contribution to the national economy and the resources of the Government are increasing year by year thereby contributing to overall national development. The contribution of the automobile manufacturers to the exchequers of the Union and State Governments by way of Custom's Duty, Excise Duty, and Sales Tax, etc., has increased ten-fold over the last seven years, and was estimated in 1961, to be over Rupees 20 crores, per year. The automobile industry has pride of place among those industries considered essential in the national economy of any country, particularly in a large country like India. The industry has a voluminous capacity for employment.

Last, but not the least, is the flexibility of the industry; it could easily be switched over to other items of production in any national emergency not only by virtue of the means of production at its disposal but also the superior technical talent acquired by its personnel. This is of strategic importance to any nation, especially in these troubled times.

To sum up, the industry helps to maintain a favourable balance of payments while conserving foreign exchange, helps to achieve self-sufficiency in transport, contributes to the exchequers of the nation, and lastly, develops technical skills and provides employment opportunities. Of military importance would be the strategic implication of the industry. We must now discuss a little more of the employment opportunities the industry has to offer and the skills to be developed.

Employment Opportunities and Skills

When building a car, it has to be properly assembled to the exact specifications of the source manufacturer. Apart from the 1,300 component parts to be assembled, they have to be made to work to safety standards and quality standards. It takes an average of 80 man-hours to assemble a car and the men have to be found and trained.

The Government, in implementing this programme, had in mind the First Malaysia Plan's 450,000 employment target, and has claimed that this industry will offer "tremendous" employment opportunities. The Assemblers' Association has said that if all of its ten members were allowed to assemble, and in the combined market of Malaysia and Singapore, employment opportunities would be created for 2,000 at the most.[5] With the exclusion of the Singapore market let us deduct 25%, which leaves us with 1,500 jobs at the most. This does not seem so "tremendous" after all. The Mercedez Benz truck assembly plant in Petaling Jaya has an output of between 1 and 2 units a day and employs 18 people. The

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[5] Straits Times, June 14th, 1966.

Volvo plant which is being set up in Batu Tiga is to employ 135 workers.

But then, when considering the employment opportunities that the industry will offer, we must look more widely than just at the assembly plants. First of all there will be the jobs directly related to assembly. But with gradual increase of indigenous content more and more ancillary industries will be created and these again will mean more employment opportunities. In 1961, it was found that 5% of Malaysia's population was found to be below 19 years of age.[6] This means that we have a very youthful population and that jobs have to be found for these people soon. At the same time, of the economically active population in 1960, in Malaya 6.4% were found in manufacturing industries, while for Malaysia the figure was 4.7%. This is a very small percentage by western standards, and it is with industries like the one we are considering, that improvement can be brought about in the distribution of the working population.

To illustrate the extent to which the motor industry can provide jobs, let us examine the situation in a few countries. First the United States, the country where the motor industry is most advanced, the industry provides jobs - directly or indirectly - for 1 of every 7 gainfully employed persons. The United States produces ½ of the world production of automobiles i.e. 10 million units out of the world production of 20 million units.

Next, Australia. The total number of vehicles in Australia is expected to increase by 60% in the next 10 years. The automotive industry has become Australia's greatest single employer of labour with a production capacity of 375,000 vehicles a year in less than 2 decades. More than 1/10 of the nation's 4.4 million wage and salary earners are engaged in the manufactur,assembly and distribution of vehicles, supply parts and components and the manufacture and distribution of fuel and lubricants. This example alone gives us a picture of the wide variety of functions involved in the motor industry. The range of more than 400,000 types of motor spare parts and accessories made in Australia is the most extensive in the world to-day.

In India, the salary and wage bills of the main manufacturing units have gone up over 8-times between 1954 and 1960.

These examples serve to show the great potential of the motor industry for employment opportunities. But, again, to match these examples there must be the demand to stimulate the growth of the industry. With our modest market we cannot expect to match the situation in the countries mentioned, but then we can do so in proportion. After all, Malaysia is a highly motorised nation, much more than India.

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[6] Reuff Mission Report.

Apart from employment opportunities, this industry also serves as training ground for various skills. For example the manufacture of the motor vehicle and assembly requires the services of motor mechanics, painters, welders, electricians, etc. Apart from those workers there will also be the need to develop enterpreneurical skills for the managing of the assembly plants on the one hand, and the manufacture of components on the other. Therefore the establishment of the assembly industry will at the same time be an inducement for the developing of various skills in the community. According to the 1961 report on the Indian motor industry, each year the workshops of the manufacturers are providing technical training to 1,300 apprentices. Locally, in conjunction with the Volvo plant to be established in Batu Tiga, technical assistance and production management will be provided by the factory in Sweden. Selected Malaysians will be trained in Sweden, by the company. That is one example of training to be provided to our Malaysians. In the same way, other plants to be opened up here will have similar plans for technical training for our local people. The Montfort School, for example, knowing that there is demand for such skills, could intensify training in this field and could develop as an important source for technical workers.

The end result could be the development of various technical and managerial skills which with time could spread to other sectors of the economy. The fact that so many parts have to be manufactured would act as training ground for other mechanical and engineering industries. For instance a person having experience in manufacturing motor vehicle parts could also be employed in other engineering industries.

Question of Revenue

Surely and certainly there is bound to be some change in the revenue that the Government derives from motor vehicles in this country. From the present import of vehicles in C.B.U. condition the Government derives revenue through the AVRF (Ad Valorem Registration Fee). We shall not consider the Road Tax in this context because no change is anticipated, and it is in no way connected with the establishment of the motor vehicle assembly industry. As I said there is going to be change in revenue, but whether that means an increase or decrease is beyond our guess, or calculations.

With the establishment of the motor assembly industry, 2 more forms of revenue come into play. They are the import duty and the assembly tax. The import duty will be imposed within 18 months of February 24th 1966, while the assembly tax is to be imposed at intervals, the first being 2 years from February 24th 1966.

With the implementation of the import duty, the Government will increase its revenue because in addition to the AVRF, it

will also gain the import duty levied at the rates specified in Chapter II, on C.B.U. and S.K.D. vehicles. No doubt the C.B.U. and S.K.D. vehicles imported will decrease with time both because of the duty and because of the quota restrictions, but still it would mean additional revenue to a certain extent which the country did not previously obtain.

Further, all those locally assembled vehicles which could not meet the Government's requirement of local content will be subject to an assembly tax. How much this would amount to is beyond our prediction at the moment, but it would, again, add to revenue for the Government.

These two items indicate that there is bound to be some increase, on the whole, in the revenue. But now let us consider the A.V.R.F.. The table below indicated 1965's import of motor vehicles and the A.V.R.F. obtained.

TABLE 10

REVENUE FROM AVRF IN M.I.M., 1965

Origin	Description of Vehicle.	1965		AVRF Rate	Revenue($)
		Quantity	Value ($)		
Commonwealth	Passenger Vehicle	9,143	43,182,954	10%	4,318,295
Commonwealth	Commercial Vehicle	1,528	8,801,410	Nil	
Non-Commonwealth	Passenger Vehicle	9,694	43,032,215	25%	10,758,054
Non-Commonwealth	Commercial Vehicle	483	2,402,838	15%	360,426
Total		20,348	97,419,417		15,436,775

We can see that the largest contribution in the A.V.R.F. comes from passenger vehicles of non-Commonwealth origin, which in fact contributes about two-thirds of the revenue in the form of A.V.R.F. Under the assembly programme, all locally assembled vehicles which meet the local content requirement would be charged the preferential rate of A.V.R.F., that is, 10% for passenger cars, and nil for commercial vehicles. That means all vehicles of non-Commonwealth origin which before paid the A.V.R.F. rate of 25% and 15% for passenger cars and commercial vehicles respectively, will now pay the greatly reduced preferential rate. This of course means

a loss in the form of revenue derived from A.V.E.F. source. The greater the number of vehicles of non-Commonwealth origin that are assembled locally, the greater will be loss in revenue.

Now, the question is whether the increase in revenue from the import duty and the assembly tax will more than make up for the loss in A.V.E.F.? Or, will they exactly balance each other, so that there is no net gain or loss. Or, will the loss be greater than the gain. These are questions that cannot be answered. Only time will tell. This is because, over time, costs of vehicles can change, tooling costs can change, models in the market can change, and this could possibly result in a change in the consumer's choice of vehicle, not forgetting a possible change in the consumer's taste. Therefore any attempt at computation of revenue from those sources would be unrealistic. If, despite the import duty, people continue to prefer imported vehicles, then perhaps the revenue could increase, or the losses in revenue reduced. There is also the question of whether local assemblers will be able to meet the local content requirements, or whether they will be penalised. Also, to what extent will non-Commonwealth manufacturers assemble in Malaysia. All these variables can affect the revenue position.

All that can be said now, is that there will be change in revenue, but not, in which direction.

All this while we have been discussing the implications of the assembly industry on the economy as a whole. Now we shall consider how the all-important consumers will be affected.

How the Local Assembly will Affect the Consumers

A very important question that the man-in-the-street will ask, when informed that cars are to be assembled locally, will be, "Will that mean that cars are going to be cheaper?" In fact most laymen would expect lower prices for two main reasons. Firstly, that because vehicles are being assembled locally, local labour is used. And it is well known that local labour is cheaper than that in Europe, North America or Australia, and so this should bring down the cost of locally assembled cars. Secondly, formerly cars were shipped to Malaysia in built-up condition. But now that they are to be shipped down in knocked-down condition, the transport costs are lower, and therefore the vehicles should be cheaper.

These facts are no doubt true, but these two items, labour and freight charges do not constitute a large portion of the cost of the vehicle, and so any difference in such costs are negligible. The facts that do matter very much are volume of production, local content and technical know-how.

We have already established the fact that the minimum output for economic assembly is 3,000 units a year. But it looks like many of the plants are going to produce less than that, which

means that fixed costs per car is higher which ultimately leads to higher price of the car. The Volkswagon is manufactured in Europe at the rate of about a million a year; in such a case fixed costs per car is quite negligible. The Volvo plant to be established in Batu Tiga is supposed to have a full capacity of 2,500 cars. However, initially the production will be 1,500 units a year.[7] Here is one example where production is to be carried on below plant capacity. The idle capacity is going to be reflected in higher prices. Mr. H.G. Oaten, retiring joint general manager of the Weurno Brother Group, at a Press Conference forecasted that without a Malaysian - Singapore common market arrangement, the cost of locally assembled vehicles would increase.

Next, the prices of locally assembled vehicles can be expected to rise because of local content. Normally, if we import the vehicle in knocked down condition, we expect the cost of the "deletion allowance" (in our present case, tyres, and batteries) by the basic manufacturer to be what they would cost locally. But this is not so. As an illustration, let us take a hypothetical example of a car whose five tyres (plus spare) cost $35 each, five tubes costing $5 each, and the battery costing $40. The sum of those items would be $240. So when we import the car in knocked-down condition we expect the "deletion allowance" to be $240. But this far from the case. The value of the deletion allowance may be far short of $200. say about $160. This is because the basic manufacturer gets his component parts much cheaper because those items are produced in mass quantities, reaping the economies of scale, and the final price is very much lower. The car might originally have cost $6,000. With the deletion allowance it would come down to $5,840. And finally, when local parts are added to it, the car costs $5,840 plus $240, which amounts to $6,080 - $80 more than original price! This example should serve to illustrate that local content would mean higher prices.

The reason why locally manufactured parts are expensive is because they are produced in small quantities, with inferior technical know-how, and in some cases using imported raw-materials. Lockheed brakes, for example are produced by the thousands in Britain and therefore reap the economies of scale. The deputy chairman of Champion Motor (M) Ltd., Mr. R.E. Butcher, pointed out that the more local content that was used in a car, the higher would be the price of the car.

Mr. I.G. Hopworth admits that "no local assembler can exist profitably and economically in a market where Built Up Vehicles enter freely. The importation of Built Up Vehicles is definitely cheaper and more economical in an unprotected market."[8]

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[7] Straits Times, July 5th 1966.

[8] Straits Times, June, 14th 1966.

Under a market of 33,000 and provided agreement is reached on the internationally accepted Category "A" pack, the Assemblers' Association is of the opinion that the cost of locally assembled vehicles will increase by approximately 10% over those imported Built Up. But we do not have a market of 33,000, and also the question of definition of the C.K.D. pack has not been settled. With these problems the costs of locally assembled vehicles would be even higher.

A number of prospective assemblers, at a public hearing of the Tariff Advisory Board, gave evidence to the fact that price increases for locally-assembled cars would range from 10 to 15 per cent. The price increase for Opel cars is expected to be 15 per cent, cost of Volvo to rise by 10 to 15 per cent, Fiat price to increase by 13 per cent, and Volkswagon and Landrover prices to increase by about 4 to 5 per cent. And these are the increases provided the firms can meet local content formula. If they do not meet the requirement, prices could very well be even higher because of the assembly tax.

To add to these problems, the (then) Chairman of the Tariff Advisory Board, Mr. L.A.D. Williamson said at the meeting of the Board that the impression he gained from some prospective assemblers was that they were using tariff protection "to put car prices up." The Deputy Chairman of the Board, Mr. D. Miller, said that from figures submitted by the company, Cycle and Carriage Co. (M) Ltd., he had found that the firm would be making $1,000 more in profit from each locally-assembled car than from the imported one. A spokesman of the firm, replying, said that the assembly plant would be a new company, and as such the investors expected some profit for the firm![9]

This all adds up to one fact, that far from having cheaper cars in the market, Malaysians will have to prepare themselves for higher priced cars in the future, which could be due to higher costs, higher mark-up, or both!

Another factor that will affect the consumer will be the choice of models in the market. At present there are over 490 different types of models of cars and trucks in Malaysia. But now because of the small market, those makes that sell in small quantity will have to retire from the market because it would be uneconomical for them to assemble here. The only way for these makes to remain is by catering for those few people who would not mind paying the import duty - plus price. Some models of cars like Jaguar, Alfa Romeo and Lancia seem to have a bleak future in Malaysia. A few could remain as 'quality cars' for the rich. However, experience in other countries has shown that there will always remain some demand for imported cars. In spite of the

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[9]Straits Times, June 15, 1966.

increasing number of locally made cars, there is a growing demand in Spain for imported vehicles, and distributors have been unable to satisfy it on the basis of the present system of quotas and bilateral arrangements. A high percentage of Spaniards continue to prefer imported cars, even at a higher price. Imported vehicles amounted to about 12% of passenger cars and 8% of commercial vehicles produced in Spain in 1962.

Finally we find that the consumer will probably pay more for his motor vehicle in a market that has a diminished choice.