

CHAPTER VI

CONCLUSION

Industrialization has been resorted to by the Government to diversify the economy, to raise the standard of living, and to create greater employment opportunities. So far the kinds of industrial projects ventured upon range between the processing of raw materials and foodstuffs to manufacture of light consumer articles like paint, toothpaste, soap, etc., and more recently tyres, tubes, batteries, bulbs and many other articles.

Now, the Government has just launched a programme to start the motor vehicle assembly industry. This industry, as experienced in other countries has favourable potentials, especially in relation to development of ancillary industries, employment opportunities, and the development of technical skills. Members of the motor trade in Malaysia are in favour of this programme, and the Government has accorded certain incentives in the right direction. The encouragement comes in the form of protection by import duty on C.B.U. and S.K.D. vehicles imported and quantitative restrictions to the import in C.B.U. form. Further, all assemblers who meet, the local content requirement are exempted from assembly tax. These incentives are necessary to influence the buying public away from imported vehicles, because at the moment, the country lacks the technical knowledge locally and also lacks a motor engineering tradition and skills. This being the case, the local products are not likely to be able to face competition from imported C.B.U. vehicles. The would-be assemblers have considered these measures of protection adequate for the moment. But apart from technical problems there are other factors that are going to make it difficult for the industry to establish itself and grow here. As mentioned, the size of the market is of paramount importance. This industry requires heavy capital expenditure which means that fixed cost are bound to be high. It is volume that would determine the fixed cost per vehicle; a small volume of production would necessarily mean, therefore, a high cost final product.

With the combined market of Singapore and Malaysia, the market is already small, but not impossible with adequate protection. But the situation is one where each of these economies is developing its own motor vehicle assembly industry. What could have been a combined market where the benefits could have been reaped by both by reaching some form of agreement, is now a case where both are competing against each other. The situation would have been bad enough for both without competing, in the first place. Political

considerations have adversely affected the economic viability of our motor industry. With the restricted market of some 25,000 the indeterminate factors and difficulties mentioned come into full play.

The small market would not only mean higher cost, but also perhaps lower quality. Small volume would mean less equipment and also poorer essential equipment, which in turn means that the product would not have the high finish that we have been used to in our imported vehicles. In short, with a common market for motor vehicles both the territories would benefit, but without it, both stand to lose.

Further the Malaysian Government has not announced its intention to restrict the number of assemblers. This could develop into too many units producing vehicles at high cost. The imposition of a limit to the number of assemblers is conducive to a more economic motor industry in the country, with few plants producing vehicles in larger volumes, and so, lower costs.

Coming to the implication of the protection, it is no doubt necessary. It is generally understood that the benefits of protection are concentrated and confined to a small group of people, but the losses are broadly spread over the whole society in the form of higher prices of the protected articles. But because protection holds out the promise of a higher and more stable income, it will attract resources into the country and industry. But both tariff protection and quantitative restriction should gradually be removed to bring down the relatively high costs and prices to levels that would stand up to international comparison. Therefore it is a matter of short-run and long-run considerations. In the short-run the protection helps to give a foothold to the industry, and the gradual development of it, but in the long run the industry should be able to stand on its own, otherwise, it would be a liability to the economy as a whole. The timing and size of tariff reductions and quota increases will be a major factor determining the future course of the Malaysian motor industry. A small first stage reduction in the tariff in the near future would probably have a salutary effect. The continuation of the present high tariff for long, or a large reduction in the near future would be detrimental.

The buying public will no doubt suffer for some time because of higher prices and smaller choice, but the Government must ensure that these disadvantages should not be greater than is really necessary.

However, this exercise has been written at the time when the implementation policy is still in its infancy, and changes in the programme are still forthcoming. It is possible that even at the time of reading this exercise, changes have occurred which would render this piece of work out-of-date. Therefore it is hoped that this exercise will be judged, based in its true perspective.