

Chapter 1

Introduction

1.1 Overview

In July 1997, as Thai Baht plunged against the dollar, the currency crisis started in Thailand. The currency crisis subsequently to be termed a “contagion” or “Tom Yam effect”, spread rapidly from Thailand to other countries in East Asian region. There are three stages of East Asian currency crisis chronology. The first stage saw the other ASEAN currencies go one after another, while the Thai Baht continued to slide, the second stage where the North Asian currencies of South Korea and Taiwan came under attack and finally the third stage when Hong Kong was rocked by speculative pressure. This resulted in uncontrolled devaluation among the East Asian currencies. The currency crisis caused monumental financial and economic problems in these affected countries. To varying degrees, the crisis resulted in a significant wealth loss, declined in asset prices, sudden capital flight and threats to currency and banking system stability. Adverse consequences were reflected in corporate insolvency, rising non-performing loans in the banking institutions, declining output, rising unemployment and deflation (BNM, 1998). A lot of study and analysis have been done by local and international bodies to identify the potential causes and possible solutions (policy options) to overcome the currency and financial crisis faced by the affected countries.

In Malaysia, the currency and financial crisis became a crisis of a real economy. The Malaysia government undertook many policies to turn around its economy. The more significant policies are capital control and fixed exchange rate implemented in September 1998.

1.2 Research Hypothesis and Objectives

This research will mainly focus on lesson learned from the economy turmoil experienced by automotive industry in Malaysia as a whole and Proton as a case study. The impact of East Asian financial and currency crisis on Malaysia economy

will be studied as background information. Finally, a proposal on short term, medium term and long term goal will be provided.

The research hypothesis is to identify whether there are causes, consequences, and implications of the economy crisis on automotive industries as a whole and Proton as case study in Malaysia.

1.3 Scope of Study

The study comprises three main sections, namely cause, consequences and implications.

To elaborate causes, we will discuss in general some possible characteristic or weaknesses facing the affected Asian countries, leading to the currency and financial crisis including its contagion effect. Some important pre-crisis indicator will be discussed to deduce possible causes of currency and financial crisis facing by Malaysia.

Then, we will analyze the impact of the East Asian crisis in Malaysia economy. We will analyze key policies and responses from Malaysia government such as capital control. We will illustrate economy crisis impact on automotive industry in Malaysia as a whole and national car company, Proton as case study. Besides, some analysis on lessons learned by Proton will be conducted. Some evidence will be provided to support our analysis. We will include in this proposal on what Proton should do in short term, medium term and long term, in order to survive and compete with international car companies in the future.

1.4 Research Methodology

Information gathered for analysis in this research is mainly secondary data from various sources such as local and international newspaper, official publications like

Bank's annual report, Bank's bulletin report, Business magazines, text books, automotive magazines and internet web page.

Primary data will be obtained by conducted interview with Proton and EON personnel.

To ensure reliable information from internet, only article written by well known economists or published by international organizations' homepage such as IMF (International Monetary Fund), WTO (World Trade Organization), World Bank, Asian Development Bank (ADB), Bank Negara Malaysia and so on will be selected.

1.5 Limitation of Research

Study done in this research is based on information gathered in current situations happening in Asian countries, more importantly in Malaysia. Thus, the analysis of causes, consequences, and implications of the Malaysia government policy on automotive industry in Malaysia only reflect situation till the date of this study. Further development in recent months may prove otherwise.