

## Chapter 7

### Economic impact on Malaysia automotive industry in 1999/2000

The Malaysian economy had recovered in 1999 from the severe deflationary impact of the regional financial crisis which had resulted in a 7.5% contraction of the economy in 1998. Real Gross Domestic Product (GDP), which had contracted by an unprecedented 10.9% and 10.3% in the third and fourth quarters of 1998, registered a significantly milder contraction of 1.3% in the subsequent first quarter before recovering with a positive growth of 4.1% in the second quarter of 1999. Refer to chart 1.1 in Appendix A for Malaysia Key economic indicators.

### Exchange rate

The performance of these regional currencies was influenced by the yen's strengthening against the US dollar as well as foreign inflows into their domestic equity markets. Refer to table 6 for later Ringgit performance against selected currencies.

Table 6 : Performance of Ringgit Against Selected Currencies

RM per foreign currency	End 1998	End-September 1999	% Change
US dollar	3.8000	3.8000	0.0
Sterling pound	6.3313	6.2495	1.3
Deutschemark(100 )	226.40	206.86	9.4
Japanese yen (100)	3.3141	3.5582	-6.9
Singapore dollar	2.2879	2.2317	2.5
Thai baht (100)	10.3613	9.2548	12.0
Philippine peso (100)	9.7064	9.2966	4.4
Indonesian rupiah (100)	0.0475	0.0462	2.8

Source : Bank Negara Malaysia, Economic Report 1999/2000

As show in graph 3 in Appendix A, exchange rate of the Malaysian Ringgit against other currencies in 1999 is quite stable since implementation of capital control in September

1998. Effort and numerous measures implemented by the government to stimulate an economic recovery and increased consumer confidence as well as a buoyant and improved stock market were showing positive results. Table 12 shown comparison of sales volume between first half of 1998 and 1999. It showed that sales volume of automobile correlated closely to GDP growth.

**Table 12 : Comparison of sales volume between first half of 1997 and 1998**

Type of vehicles	1 <sup>st</sup> half of 1998	1 <sup>st</sup> half of 1999	Percentage surged
Total Industry volume of motor vehicles	61,298	129,722	112%
Total Passenger cars	51,605	106,840	107%
Proton and Perodua	47,416	98,349	107%
Non-national cars	4189	8491	103%
Commercial vehicles	7,116	11,535	62%
4WD vehicles	2,577	7,116	340%

Source : Malaysian Motor Trades Association

The current performance is still about 35% below than 1997 level, but if the economy improve further, then the return to the 1997 performance could happen in 2000 or 2001 . The rise has been on a consistent upward trend since March 1998, except for month of September 1998, Jan and May 1999. The car sales volume hit more than 20,000 unit starting from Dec 1998 till September 1999. Light at the end of the tunnel? Some factors may be worth considering: the pegging of the Ringgit has seen it strengthening from a low of RM4.20 to the US Dollar to RM3.80 presently. This should see the health of motor companies improving as they would be able to price their cars more competitively as well as lock in some profits. The credit situation is easing up. Most financial institutions would be looking to more lending with the money accumulated in their books. With interest rates getting low again, people with money may have the urge to spend, perhaps to keep pace with perceived inflation, or because of the 'what-the-heck' attitude. The majority of car buyers may start questioning their wait-and-see attitude. And with the economy being pushed as hard as it is by the government there should be some

trickle-down effect from the revived construction industry, as well as the resuscitated stock market.

### Impact felt by automobile industry and Proton

The automotive industry has bounced back after plunging sales in 1998. Two words are closely associated with the local automotive industry in 1999, rebound and greater prospect. The signs are that TIV may match the record-breaking level of slightly over 404,000 units in 1997 as early as year 2000. Industry observers were taken by surprise; analysts' standard forecast growth figures ranging from a modest 10 percent to 40 percent with some projecting a 60 percent increase. The influential MMTA (Malaysian Motor Traders Association) had to review its forecast several times before arriving at the final 280,000 units, as the market gained momentum month after month due to improved economic climate, easier credit policy and lower interest rates. (New Straits Times 3 Jan 2000). MMTA statistics showed that overall sales volume stood at 233,549 units from January to October 1999. November, December and January are traditionally the best selling months due to the festive seasons.

Perusahaan Otomobil Kedua Sdn Bhd disagrees slightly with the MMTA. "The TIV (Total Industry Volume) will exceed the 280,000 units forecast by the MMTA. It is expected to be in the region of 285,000 units," Perodua director of sales and marketing Zainuddin Bahaudin said. "Surprising" is how UMW Holding Bhd chief executive officer and managing director Mohd Sallehuddin Othman described the overall sales performance. (New Straits Times 3 Jan 2000).

Toyota local franchise owner UMW Holdings, Nissan's Tan Chong Motor Holdings Bhd, among others, could smile a lot easier after suffering steep fall in sales volume in 1998. UMW Holdings, for instance is expecting more than 12,000 new Toyota vehicles sold at year-end, far exceeding its original projection of 8,000 units.

While passenger cars continued to be the hot sellers, pick-ups and sports utility vehicles are shifting to a higher gear. Ford courier pick-ups recorded a strong sales, the 2.5 litre Ranger and the new Land Rover Discovery had also attracted quite a warm response.

Japanese, Korean and continental vehicle franchise holders reflected their confidence in the market with continuous new models launched, a situation very rarely seen during the mid-1997. Tan Chong Motor was the early bird when it launched two new Nissan Cefiro variants, a three litre Brougham and a two litre Excimo in January, followed by Earning Link Sdn Bhd with Korea's Kia Sephia car in March. Other new launch included three new Mercedes-Benz S-class models (S280, S320, S430L) by Cycle & Carriage Bintang Bhd, a face lifted 1999 Toyota Corolla and a new Hilux pick-up variant by UMW Holdings, BMW 3 Series saloon (318I and 328I models) by Auto Bavaria Sdn Bhd, Xsara car by Directional (Malaysia) Sdn Bhd, Audi TT Coupe by Auto Dunia Sdn Bhd, Honda City Type Z by Kah Motor Co Sdn Bhd, and Renault Scenic car (RXE5 1.6 16V automatic by Quasar Carriage Sdn Bhd.

The strong sales also propelled parts and component manufacturers' activities. They should see their business improve by an average 60 percentage in 1999 in tandem with the growth in vehicle sales. (New Straits Times 3 Jan 2000).

However, the immediate concern will be the negative effect from the strengthening of the Japanese Yen and the dampening effect on demand if they continue to raise their prices to absorb the increase in cost. (Smartinvestor issue 107).

On the downside, the lack of incentives for the automotive sector in the 2000 budget tabled on Oct 29 could likely be the only letdown in the industry in 1999. The MMTA which largely groups non-national vehicle franchise holders, had made several proposals to the Government in a bid to bring down costs and ultimately make non-national vehicles more competitive. (New Straits Times 3 Jan 2000).

However, Malaysian automotive companies are expected to post a sharp rise in net profits for 1999, fuelled by a 76% jump in motor vehicle sales and the suspension of income tax last year. Sales of passenger and commercial vehicles had risen to 288,547 units in 1999 from 163,851 in 1998. Edaran Otomobil Nasional Bhd (EON) is expected to post a record net profit of about RM500 mil for 1999 compared with RM49.4 mil in 1998. EON has a transfer pricing agreement with national car maker Proton which allows it to pocket a fixed margin for each car sold, leaving Proton to absorb any cost fluctuation.

On the other hands, Honda vehicles slumped after the company distributor Oriental hiked prices by about 20% to 25% in 1999. (The Star, 18 Feb 2000)

### **Proton responses to economy crisis**

Though the sales volume of Proton cars was in an increasing trend, some of the initiatives implemented by Proton in 1999 such as cost cutting exercise still continue. Besides, its QCC, vendor partnership programme, skill enhancement, retraining, image building (both EON and Proton), JIT and Kenzei, R&D and IBD (International Business Division to focus on export market) should carry on.

To better-support Proton's product development initiatives, all local vendors have been encouraged to set up their respective CATIA design stations, which will allow for direct communication with Proton's R&D design team.

Proton needs to be innovative and more committed to advertising and promotions to strengthen sales and after-sales services to ensure success. They need innovative marketing strategies in drawing buyers. EON is doing quite a good job in promoting Proton cars. Nevertheless, Proton second distributor, USPD is competing with it on the same product. This might not be healthy in view of both are reporting to the same chairman, but adopt different company policy and management style which conflict with each other.

To expedite the transfer of technology, Proton has increased its match-making program with more reputable foreign technical collaborators. At September 1999, Proton has signed up 134 technical assistance agreement, out of which 75 are from Japan and 2 out of 10 purchase agreement from Japan. Refer to table 16 in Appendix A for collaboration arrangement detail.

For the new model programme, Proton have initiated the concept of System Integration and Modular approach from Design Development through to manufacturing. The concurrent design and engineering concept reduces the overall design to manufacturing time and eliminates the need to duplicate engineering resources at the vehicle manufacturer and the component suppliers. Besides, Proton has improved the panel quality to reduce the noise level while die setup time has been reduced from 8 to 10 minutes to 4 to 6 minutes. In addition, through Rapid Prototyping facilities, Proton aims to reduce component design time by 50 % and cost by 70%.

The local car industry can not be protected for long when Asean Free Trade Area (AFTA) and World Trade Organization (WTO) go full swing in year 2003. The economic protection and barriers will have to be loosen to foster market openness and globalization and tariff on foreign made cars have to be dropped. When this happen, according to Datuk Wira Salleh Sulong, to remain globally competitive, Proton has to cut its costs by 30%. National car companies will needs to prepare for year 2003 tariff changes and be competitive as other car companies.