

CHAPTER TWO

THE EARLY AUTOMOTIVE INDUSTRY

The motor-vehicle sector was already in existence fifteen years prior to the establishment of Perusahaan Otomobil Nasional Berhad (PROTON). The Department of Statistics of Malaysia in their publication of the Input-Output Table 1983, described the motor-vehicle sector (sector number 60) as being primarily involved with the manufacturing of motor vehicle bodies and the manufacturing and retailing of motor-vehicle parts and accessories. An analysis of the Input- Output Tables at basic values 1983 reveals the following :

* Appendix I indicates that the motor-vehicle sector had a comparatively low coefficient of value added of only 0.23296 . This means that for every \$1000 increase in the value of its gross output, this sector only contributes \$232.96 to the GDP of the economy. A cursory down Column 4 of Appendix I shows that the sector was behind many others in terms of the coefficient of value added.

* Appendix II shows that 68.93 % of the total input required by the motor-vehicle sector had to be imported. It also shows that for every \$1000 value increase in spending on this sector, there would be a leakage of \$475.70 out of the economy.

* An analysis of Appendix III shows that although the total spending on the sector ie. total demand for the output of this sector, was \$4,700,828,000 only \$2,778,610,000 or 59.10 % was supplied domestically. Thus, \$1,922,218,000 or 41 % leaked out of the economy and this had been a growing cause of concern to the Government. Appendix III also reveals that the bulk of the import spending was by the intermediate sectors (95 %) with the motor-vehicle sector itself consuming 65 % of it.

Therefore, the motor-vehicle sector which constituted the early automobile industry prior to the undertaking of the National Car Project had much room for improvement. As a manufacturer, PROTON would require raw materials such as iron, steel, rubber, glass and plastic to produce a myriad of automotive parts and components. Its existence would foster the development of auxiliary industries especially those components which are made of rubber, where there exists natural linkages; plastics of which the required skill and technology is already available and electronics since Malaysia already has a firm base in electronic manufacturing. This would make room for the growth of SMIs. Thus, the Government hoped to change the whole scenario with the launch of PROTON. In undertaking the National Car Project, the Government clearly spelt out the underlying objectives as :

- * to rationalise the local automotive industry
- * to spearhead the development of local component industry and to enhance the greater utilisation of local components

- * to encourage upgrading of technology emphasising technical and engineering knowledge and skills of the country
- * to assist and develop Bumiputera participation in the automotive industry

However, just like any other pioneer industry, it had its share of pre-conception problems. From the very beginning, there were oppositions to the idea of producing a Malaysian car. Understandably, these were based on the huge capital investment required to set up the industry and the lack of confidence in entering an arena that was in the past dominated by foreign veteran players. Then, there was the lurking fear that the Government might be ultimately burdened with another loss-making enterprise should the project fail. The experiences of the other heavy industries such as the cement and steel projects lent weight to this feeling of apprehension. In fact, there were doubts as to its reception by the domestic market. Nevertheless, amidst such scepticism, the determination and commitment of the Government saw the establishment of PROTON Berhad.