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The automotive sector is seen as an important driver of industrial development, provider of technological capability, and generator of inter-industry linkages. Recognizing the importance of the industry in the country's industrial deepening process, the Malaysian government assumed a pro-active role in its development. In fact, among the ASEAN countries, it can be said that Malaysia has one of the most interventionist regimes to promote and develop the local automotive industry.

This paper reviews the role of government policy in shaping the automotive industry in Malaysia and the impact of the 1997 crisis. The industry's robustness has been put into test by the financial crisis that hit the Asian region in mid-1997. Although the crisis halted the rapid growth of the sector which started in the late 1990s, there are already signs of recovery and positive prospects for the near term.

The crisis has contributed both positively and negatively to the industry in Malaysia. The real test for the Malaysian automotive industry will come only when domestic protection is lowered and eventually removed as a consequence of market opening measures under AFTA and WTO initiatives.
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