

Acknowledgements

It is my great pride and a deep sense of gratitude I dedicate this research to all who have directly or indirectly contributed to the completion of this research.

My immense gratitude to my supervisor, Prof. Madya Dr Siti Rohani Hj. Yahya for her invaluable advice and guidance in the writing and preparation of this research. I would also like to express my gratitude to Professor Jomo in advising me on my findings.

Many thanks also to all my friends who had directly and indirectly contributed to this research by furnishing me with all the relevant data and information and constructive comments which form the basis of this research.

Finally, my heartfelt thanks to my family in particular my mum and dad who have always supported me mentally and emotionally throughout the challenges which I had encountered in the completion of this research.

Ng Ai Ling

Faculty of Economics and Administration

University of Malaya

February 2002



ABSTRACT

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.

Contents

Abstract	I
List of Figures	II
List of Tables	III

Chapter 1 Introduction

1.1	Market Summary	1
	1.1.2 Overview of Industry Performance	
1.2	Financial Crisis	3
1.3	Methodology of the Study	
	1.3.1 Objective of the Study	12
	1.3.2 Hypothesis of the Study	13
1.4	Organization of Study	14
1.5	Limitation and Problems	14

Chapter 2 Performance of Proton

2.1	Before Proton	15
2.2	Proton's beginnings	18
2.3	Proton and Tariffs in Malaysia	24
2.3.1	Tariffs	26
2.3.2	Positive Side of Tariffs	27
2.3.3	Negative Side of Tariffs	28
2.4	Exports and Imports	
2.4.1	Exports of Cars	34
2.4.2	Imports of Cars	36
2.4.3	Exchange rate policy	36
2.5	Assemblers	38

Chapter 3 Statistical Analysis on the Determination of the National Car Production

3.1	Introduction	41
3.2	Hypothesis	41
3.3	Setup Model	43
3.4	Results of the Study	44
	3.4.1 Regression Model	44
	3.4.2 Economic Criteria	48
	3.4.3 Statistical Criteria	51
3.5	Conclusion	57

Chapter 4 Discussion

4.1	Industry structure and performance	58
4.2	Impact on Automotive Manufacturers and Assemblers	59
4.3	Impact on Automotive Parts and Components Manufacturers	62
4.4	Impact of Government Policies on the Automotive Industry	63
4.5	National Economic Gains Versus Consumer Welfare Losses	65
4.6	Prognosis on Medium-Term Development	67

Chapter 5 AFTA: The Upcoming Challenges to the Malaysia Automotive Industry

5.1 AFTA and its Implication for the Malaysian Automotive Industry	71
5.2 The Ultimate objective of AFTA	72
5.3 Recommendations	73
5.4 Conclusions	75
References	IV
Appendices	V

List of Figures

G1.1 Asian Currencies: Asian Countries	5
G1.2 Asian Stock Markets	9
G4.5 The Long Run Average Cost Curve for a Protected Industry	66

II

List of Tables

T1.1 The Currency Flows: Malaysia Ringgit	6
T2.1 Import Duty for Passenger Cars	26
T2.2 Sales of National Cars Compared with Other Makes (%)	31
T2.3 Malaysia: Export of Cars	35
T2.4 Malaysia: Import of Cars	37
T2.5 Major Export Markets for Proton – Year 1998	38
T4.1 Production of Non-National Vehicles	61
T4.2 New Vehicle Registration/Sales, 1997-1999	69