

Chapter 2

Performance of The Proton

2.1 Before PROTON

The motor industry began in 1926, when Ford Motor Company of Malaya was incorporated in Singapore. That was, however, a rudimentary operation, and it was only after independence in 1957 that the Malaysian government developed a policy in 1963 to promote an integrated auto industry, ostensibly to strengthen the country's industrial base. Separation of Malaysia from Singapore in 1965, upset these plans as the expected Malaysia common market was thus substantially reduced. Nevertheless, the government began processing applications for auto assembly and component manufacture¹. The government's main objectives in trying to create a viable motor industry were to promote import substitution, save foreign exchange, create employment and nurture the evolution of a supporting auto components manufacturing industry that would enhance overall industrial development through its multiplier effects.

The history of the Malaysian automotive manufacturing industry goes back to early 1960s where Malaysian government developed a policy to promote an integrated automobile industry to strengthen Malaysia's industrial base. The main objectives of the government in promoting an automobile assembly industry were to reduce imports, save foreign exchange, create employment, develop strong forward and backward linkages with the rest of

¹ In 1967, the first plant (Swedish Motor Assemblers) went into operation

Chapter 2

the economy and transfer industrial technology. The government's efforts were fully reimbursed – The industry managed to move into the manufacture of motor vehicles and component parts in the 1980s and 1990s from just a being fragmented and inefficient assembly base in 1960s and 1970s and fulfilled the above mentioned goal, to contribute significantly contributed to the national economy in terms of manufacturing output and employment. The automotive industry was led by the two national car projects (Proton and Perodua).

Despite much exhortation and numerous guidelines from the government, the Malaysian auto industry never progressed beyond minimal assembly operations and local content requirements, reflecting a low level of import-substitution industrialization. Progress was stymied by the large number of makes and models in a small market, weak local linkages and poor prospects for export. From the lone Volvo plant in 1967, the industry mushroomed to include 11 assemblers by 1980, which produced 25 makes of commercial and passenger vehicles, 122 models and 212 variants. This proliferation of makes and models made it very difficult for parts makers to achieve economics of scale. Consequently, local parts were expensive and local content in Malaysian-assembled cars dismal; by 1979, local content only averaged 8 percent and was largely limited to tyres, batteries, paint and filters.²

Project Kereta Nasional, Azmi Abdul Wahad.

Chapter 2 PERFORMANCE OF THE PROTON CAR

Conflicting government objectives did not help. The Motor Vehicle Assemblers Committee (MVAC) – an inter-departmental agency set up under the Ministry of Trade and Industry to oversee the automotive sector had a sweeping brief. Its regulatory powers included prices, local content, import regulations and control of the number of assemblers, makes and models. But the committee's efforts ran up against other government policies: 'jobs had to be created, investment was necessary and Malays had to be promoted economically'. Thus, the origin MVAC decision to license only six assemblers proved meaningless. Disqualified plants exerted political influence to engage in subcontracting assembly work, and in 1977, the MVCA licensed another five assemblers for whom criteria for entry were modified to favor Bumiputera assemblers.

Attempts to achieve greater local content also met with failure, at least initially. Again, this was not for lack of trying, for the government successively issued directives that included protection for parts producers, mandatory local content increase (rising from 10 per cent in 1972 to 35 per cent in 1982) and other indirect measures to increase local content; those failing to meet local content requirements were penalized. However, such measures were later abandoned for a number of reasons. First, the government felt they might conflict with an ASEAN regional complementation scheme. There were also fears that they would raise prices, which could cause a political backlash against the government. Finally, and this was especially significant, during the 1960s and early 1970s, foreign assemblers

and their local partners effectively resisted localization. The number of parts producers was small and few had much influence on policy making.

The situation began changing in the late 1970s. A group of six large parts producers, which was led by Malaysian Sheet Glass – moved to rationalize their industries, and in 1978, the Malaysian Automotive Component Parts Manufacturers Association (MACPMA) was formed. In 1979, the government announced its decisions to move towards an all-Malaysian car through what it called mandatory deletions were backed by ample protection, incentives, and tariff protection for parts makers, duty exemptions and penalties for assemblers. Thus the local content levels increased more rapidly from 8 per cent in 1979 to 18 percent in 1982 and 30 per cent in 1986.³

2.2 Proton's beginnings

Malaysia's heavy industrialization strategy from the early 1980s has been closely identified with Mahathir's early years as prime minister. The heavy industries corporation of Malaysia (HICOM), set up to spearhead the drive, was established in 1980, during the tenure of Mahathir's predecessor as premier, Hussein Onn, when Mahathir was the Deputy Prime Minister and also Minister of the Trade and Industry. Mahathir first placed HICOM within the Ministry of Trade and Industry, and then took it with him when he became premier in mid-1981 to the prime minister's department, where it was really

³ Source of the percentage are from report of MMTA

activated. The proton or national car project was promoted as the answer to the problems of the auto sector, by bringing about the rationalization so badly needed. Politically, there was an additional spin-off, as opportunities for bumiputeras to pick up managerial positions and technical expertise would be created, in line with the expectation that state enterprise serve the government's ethnic redistribute targets.⁴

The Malaysian government started to show keen interest in developing the local automotive industry since the 1960s. Its involvement changed over time and is marked by two distinct phases: the period from mid-1960s to early-1980s is characterized by protective promotion of local assembly, while the period from mid-1980s to the present saw the state playing a more active part in the development of the industry.

Local content programmed assumed importance following the government's acceptance of the Walker Report (1970). The report recommended raising local content (computed by weight) over a 10-year period, from 10 per cent in 1972 to 35 percent in 1982, with penalties imposed for non-compliance. The purpose of the scheme was to standardize major components and to reduce the variety of vehicle makes and models. The local content programmed was however deferred following criticisms concerning the use of weight as criterion and the rising prices of automobile as a consequence of the oil crisis during 1973-1975⁵.

⁴ The making of the national car ; not just a dream (TL215 P96Tha)

⁵ Rasiab 1998

Moreover, the proliferation of assemblers in the early 1970s, (13 assemblers producing 38 makes of commercial and passenger vehicles) made it difficult to achieve economies of scale in production. As a consequence, locally produced parts were expensive and local content only averaged 8 percent by 1979. Dissatisfaction over the role of the private sector on the progress of the automotive industry prompted a state-led initiative to develop a "national car" in the early 1980s.

However, the idea of a made-in-Malaysia car was apparently first mooted in 1980 when Mahathir ordered the Malaysian Industrial Development Authority (MIDA) to carry out a feasibility study for the project. Aware that Malaysia could not possibly do it alone, MIDA began talks with Daihatsu Motors, which dragged on for nearly two years before breaking down; apparently, Daihatsu was only willing to put a body stamping plant and offer technical assistance. This was not the 'Malaysian' car that Mahathir envisaged then, although production of the second, smaller car- the Perodua Kancil from 1994 involves Daihatsu as the principle technology supplier.

In October 1981, our Prime Minister Mahathir and Mimura, Mitsubishi Corporation's president verbally agreement was reached that Mitsubishi would come in⁶. In February 1982, Dr Kubo, Mitsubishi Motor Corporation's chairman, visited Malaysia and reached an understanding with

⁶ Malaysian Business, 1 December 1984

Chapter 2

Mahathir on the type of car desired. In October 1982, Mahathir was able to announce Southeast Asia's most ambitious project to date, the manufacture of a made in Malaysia automobile. By all accounts, work started even before Cabinet approval had been obtained in December 1982. By then, the project team working under HICOM and had prepared a market feasibility study and Mitsubishi had flown a clay model for proton prototype, prepared in its Japanese factory, to Kuala Lumpur for inspection approval.

Officially, the project began with the incorporation of Perusahaan Otomobil Nasional Sendirian Bhd or Proton in May 1983. The Proton project was conceived of as the lynchpin of a broader state led effort to accelerate and balance the country's industrialization. The Automobile manufacture promised technological advancement, development of engineering skills, and generation of supply industries with export potential. State sponsorship for heavy industry was also seen as a way to strengthen the economic position of the indigenous Bumiputera to better achieve the ethnic redistribution targets set by the New Economic Policy (NEP).

The government made no attempt to improve its bargaining position vis-à-vis Mitsubishi by contacting other foreign or local auto firms, thus privileging Mitsubishi without any semblance of competitive bidding⁷. By all accounts, Malaysia seemed to believe that Mitsubishi was the best of the Japanese automakers when it comes to understanding Malaysian national

⁷ Asian Wall Street Journal, 8 July 1985

ambitions. Indeed MMC⁸ seemed not only the most understanding of Japanese firms as far as local sourcing was concerned, but also in complying with the South Korean national auto development programme by working with Hyundai. Unlike the other Japanese automakers, who apparently believed that the Proton project to be neither necessary nor desirable, Mitsubishi had come up with a specific proposal.

To secure MMC participation and financial viability for the project, the government assured market dominance for the new national car by granting Proton substantial protection, most important, by exempting it from a newly imposed 40 percent import duty on completely knocked down kits.

Simultaneously, it raised the CKD import duties for other brands by threefold so that the incidence of taxes to the landed price of CKD packs for non-sagas became almost 100 per cent. As a result, it has been estimated that the Treasury lost about RM120 million in foregone import duties in 1987 alone. Thus proton can import parts at prices 33 per cent cheaper than those paid by other assemblers. The price of Proton Saga has been 20 to 30 per cent cheaper than those for similar cars manufactured by other assemblers. In 1987, the 1300c proton saga price was RM21,000, while that of other 1300cc cars ranged from RM28,000 to RM29,000. Proton's market share increased steadily from 47 per cent in 1986 to 65 percent in 1987 and 73 per cent in 1988.

⁸ Mitsubishi Motor Corporation

Thus Proton was set up a joint venture between HICOM and Mitsubishi. HICOM contributed 70 percent of the total paid up capital of RM150 million, with Mitsubishi Corporation (MC), and its subsidiary, Mitsubishi Motor Corporation (MMC) each taking up 15 per cent stakes. Paid up capital was RM150 million in mid-1987, while the proposed total capital was RM400 million. However, most of the funds required for plant construction and operating equipment came from Japanese sources-Proton raised a total of some 33 billion-yen from Mitsubishi-related banks.⁹

The 900-hectare HICOM industrial estate in Shah Alam was purchased for a high RM88 million from a Sime Darby plantation holding subsidiary in 1983 and the factory built at a cost of US\$24 million. By mid-1985, a year ahead of schedule the first Saga was rolling off the assembly line. At the time, the plant was only running at 25 per cent of installed capacity, producing 105 cars a day. It was initially designed for 21.3 units per hour, with an output of 40,000 units per year on a single shift, or 120,000 cars a year over three shifts.

Unfortunately, the Proton Saga was not really a Malaysian car. In the words of Mitsubishi consultant, Hiroshi Satoh,

'Proton took a short cut. Instead of trying to start from scratch, we opted to use existing components and make modifications to the bodyline'

⁹ Japanese investment in Southeast Asia (HF1594.6 23J3 Hir)

The Proton Saga is essentially a four door Mitsubishi Lancer Fiore, in 1300cc and 1500cc engine size. Most of the car is shipped to Malaysia in Knocked-down kit form and assembled there. In any case, Mitsubishi was not spending very much. While HICOM profits were uncertain, Mitsubishi's profits were guaranteed by the turnkey project terms, at least from technical assistance, plant construction and the supply of equipment and parts. Initial increase in local content were achieved with the newly established body stamping plant build, equipped and run by MMC. Details of the contract are not public, but what is known is that Mitsubishi promised the following: construction of the plant, starting dates, equity shares, training of Malaysian personnel, and new design changes every two years, with model changes once every five years. Quite a few things were left vague, however, including future local content levels, CKD payments, royalties, the use of non-Japanese technology, technology transfer and exports-which seemed to provide Mitsubishi with significant advantages, and adversely affected Malaysia's subsequent bargaining position and capacity.

2.3 Proton and Tarriffs in Malaysia

The Malaysian auto market is dominated by Malaysia's national cars, Proton and Perodua, which in 1998 accounted for 90 percent of the vehicles sold annually. Some 25 other manufacturers compete for the remaining 10 percent.

In July 1998, the GOM approved a new national vehicle program to produce a national van, the Inokom Permas van. According to local press, the van will be based on the Renault trafic van and produced by a joint venture consisting of Berjaya Group Bhd (35 percent), Polis Diraja Malaysia Cooperative subsidiary Pesumals (M) Sda Bhd (30 percent), Hyundai Motor Sdn Bhd (5 percent), Hyundai Motor Company (15 percent) and Renault (15 percent). This van reportedly will be exempt from import duties on CKD components and will receive a reduction of 50 percent on the excise tax, resulting in a potential 20-30 percent price differential with other products in this niche¹⁰.

Despite the fact that Proton had not successful start due to the 1985-86 recession which caused the decrease in demand and increased vehicle prices because of the Japanese yen appreciation against the national currency, the recovery of the Malaysian economy contributed to the increase in Proton's production and market share, making it the best selling passenger car in Malaysia, with market share of 73%. The success story of Proton can be directly attributed to the government policy, which is said to be the most interventionist regime among the ASEAN countries. The national car manufacturers enjoy a certain amount of protection against foreign competition in the form of tariff and other non-tariff barriers. Below is the detailed information about the specific measures:

¹⁰ This program is the likely replacement of a third national car program which was considered during 1994 and would have involved Citroen

Chapter 2

2.3.1 Tariffs

T2.1 The import duty for passenger cars is between 1,400-3,000 percent, based on engine displacement¹¹

Passenger cars	CBU	CKD (Completely Knocked down)
Engine capacity (cc)		
Less than 1,800	Q	Q
1,800-1,999	170%	42%
2,000-2,499	Q	60%
2,500-2,99	250%	70%
3,000 and above	300%	80%

The import duty for 4WD and MPVs ranges from 60-180 percent

4WD and MPVs

	CBU	CKD
Engine Capacity (cc)		
Less than 1,800	60%	10%
1,800-1,999	80%	20%
2,000-2,499	150%	30%
2,500-2,999	180%	40%
3,000 and above	200%	40%

¹¹ New Diesel cars (Complitley built up, CBUs) are charged a rate of 120 percent, while used diesel cars are charged the same rates as gasoline engine vehicles (T1.2).

Chapter 2

The import duty for vans ranges from 42-140%

Vans

	CBU	CKD
Engine Capacity (cc)		
Less than 1,800	42%	5%
1,800-1,999	55%	10%
2,000-2,499	100%	30%
2,500-2,999	125%	40%
3,000 and above	140%	40%

Commercial Vehicles

CBU	CKD
30%	Nil

2.3.2 Positive Side of Tariffs

High import tariffs have contributed significantly to developing Malaysia's NCPs. By relying less on imported automobiles, Malaysian has to a certain degree reduced its balance of payment deficit. The impact of high tariffs on imported vehicles have resulted in protection of the domestic automotive industry in such a way that local producers on national cars earn higher profits due to their higher prices and increase in production; reduced foreign exchange outlays. That is tariffs reduce demand of imports as the price

differential make imported automobiles unaffordable for many people; higher government revenue – unlike quotas, which benefit the importer or exporting country, revenues from tariffs are collected by the government of the importing country.

Malaysia's protectionist policies have also accelerated the development of automotive components and parts manufacturing. The VDP for national cars has created new players as well as has given component parts manufacturers the scale of production necessary to become viable. Some of these vendors have also ventured into original equipment manufacturing (OEM) activities for other automotive makers and started exporting their products. Another significant feature is the creation of second and third-tier subcontractors and suppliers.

2.3.3 The Negative Side of the Tariffs

Despite the fact that high tariffs have succeeded in developing the local automotive industry, they represent obstacles to international trade because they distort markets and result in welfare losses to consumers. They promote inefficiencies among local producers and deprive consumers of affordable imports of higher quality products. The local content programs and high import tariffs on CBU and CKD units undoubtedly lead to high production costs, and these are passed on to consumers in the form of higher prices.

Prices of motor vehicles have increased steadily since the introduction of first NCP in 1984 and are now beyond the reach of a sizeable proportion of the population. Therefore, consumers have view that the loss in static welfare outweighs any dynamic gain to the industry.

The introduction of the first national car, Proton, in 1985 resulted in massive structural changes in the automotive sector. Proton emerged as the market leader of passenger car ever since. Initially, Proton focused its niche in the 1300cc-1500cc car market. Since then, Proton had extended its product range to cover the 1600cc (Wira). and 2000cc (Perdana) models. In August 1994, the second national car, the Perodua Kancil- a 660cc car modeled after Daihatsu Mira, was developed as the second national car project. Through proper planning and focus, Perodua has provided Malaysians with the opportunity of owning a compact, affordable and reliable vehicle, whose standard and quality is second to none. Since its establishment in 1994, the domestic market share of Perodua was approximately 25%.

This was follow by Satria (the third national car and a Proton variant) on 25-11-1995. In April 1996, the fourth national car, Proton Tiara (a 1100cc version of the Citroen AX model), rolled out. The local car market is now under siege by several low-priced national cars. As Malaysian car buyers are mostly cost conscious, the majority prefer lower priced cars. For the non-national car distributors, it meant a smaller slice of the car market.

Chapter 2

But Proton is not the only player in the market. With close to 20 players, the local passenger car market can roughly be group into three parts: -

- a) National Cars (Proton, Perodua and USPD-Proton),
- b) Major players, and
- c) Specialized suppliers

Since 1986, national cars (comprising Proton, Perodua and Proton variants) had been the nation's best selling passenger car by a wide margin with an annual market share ranging form 61.1% in 1990 to as high as 91.8% in 1998. Much of Proton's success can be attributed to its price advantage over its competitors (as per discussed above) and more importantly government backing. Proton pays only 13% import duty on its completely knocked-down (CKD) kits as compared with 42% by other car assemblers. In 1997, Proton car sales (excluding Proton variants) attained an all-time high of 140,968 units in Malaysia. For 1998, Proton maintained its position as Malaysia's most popular car with an increased market share of 49.1% against 45.8% in the previous year but on sharply reduced volumes¹². Table 2 shows the market share of Proton versus other makes from 1984 to 1998.

¹² Description based on the Table T1.2

Table 2.2 Sales of "National Cars" compared with other makes%

Year	Proton	Perodua	National Cars	"Big Japanese"	Others
1984	0.0	0.0	0.0	N/A	100
1985	18.8	0.0	19.8	N/A	81.2
1986	46.8	0.0	16.8	41.8	12.4
1987	64.8	0.0	64.8	23.5	11.7
1988	73.2	0.0	73.2	16.4	10.4
1989	65.6	0.0	65.6	28.4	6.0
1990	61.1	0.0	61.1	33.4	5.5
1991	64.2	0.0	64.2	31.2	4.6
1992	67.4	0.0	67.4	29.0	4.6
1993	73.5	0.0	73.5	31.7	4.8
1994	71.0	5.7	76.7	15.2	8.1
1995	62.5	17.7	80.2	13.2	6.6
1996	63.9	17.0	80.9	13.0	6.1
1997	63.9	18.9	82.8	12.1	5.1
1998	63.5	28.3	91.8	5.4	2.8

***Big Japanese = Toyota, Honda, Nissan, Ford Japan**
Source MMTA

As a rough guide, new car sales in Peninsular Malaysia constitute about 90% of the total market in Malaysia.

However, Perodua Kancil is Malaysia's second most popular passenger car. Since 1995 (its first full year in the market) Kancil is the only passenger car that managed to increase its market share from 17.7% in 1995 to its highest ever of 28.3% in 1998. Its success is due to its position as the cheapest car in the new passenger car market and the shift in demand for cheaper cars as a result of the economic downturn. Among Perodua's shareholders are UMW (38%), Daihatsu Motor of Japan, Med Bumikar Mara (20%), PNB Equity Resources Capital (10%), Mitsui (7%) and Daihatsu (Malaysia) (5%).

Currently, Usahasama Proton-DRB (USPD) is Malaysia's third largest car distributor. DRB and Proton holds 51% and 30% interest respectively in Usahasama Proton-DRB(USPD), the joint venture company involved in this project. Originally, USPD manufactured and distributed the Satria. In April 1996, USPD took over the distributorship of the Proton Wira Aeroback from EON. The effect of this move is that EON's monopoly as the sole distributorship of Proton cars had now been broken. As a result, USPD's now distributes 3 national cars – Satria, Tiara, Wira Aeroback and Proton Putra. Proton Putra was launched in late December 1996. Currently, USPD owns 84 sales outlets.

All the Major players in this category are Japanese makes comprising Honda, Toyota and Nissan. In 1998, Honda maintained its position as the best-selling non-national car for the eighth consecutive year with a reduced market share of 3.0%. In terms of overall ranking in the car market, Honda

maintained its fourth rank, behind Proton, Perodua and DRB-Proton. The two other major players, Toyota and Nissan, registered market shares of 1.4% and 1.0% respectively for 1998. As a matter of interest, Nissan's ranking and market share in the car market declined substantially from the third best-selling car in 1990 to the sixth best selling car in 1998.

Among the specialist, in 1998, Mercedes is currently the strongest with a 0.8% market share followed by BMW (0.5%), Volvo and Peugeot (0.3% each). In total, the specialist managed to garner a mere 1.4% of the overall car market.

Currently, the non-national passenger car market is very competitive as there are close to 20 new car distributors competing for 8.2% of the total car market. The crowded car market had certainly not discouraged new players from entering the local car market. Renault and Naza Motor are the new entrants. Naza claims to have the largest showroom for luxurious and exotic imported cars.

So far, only two companies are involved in the export of cars, Proton and Perodua. Currently, Proton exports to 50 countries although export accounts for 16.5% of its output. Proton's major markets in are the UK, Germany, Australia and Singapore. Proton's advantage lies in its low price in UK as it is eligible for tax breaks under the European Union's Generalised System of Preferences, which grants lower duties to exports from designated

developing countries. UMW began exporting the Kancil to Brunei in March 1996. Below are the brief discussion on Malaysia's exporters and importers.

2.4 Exporters :

2.4.1 Export of Cars

Malaysia's cars are currently exported to over 50 countries in Europe, Asia and South America including Australia, Turkey, Russia, India, Laos, Egypt and Argentina. Malaysia's first export of cars started in 1986 and amounted 25 units to Bangladesh. In 1987 the export markets expanded to Brunei, Malta, New Zealand and Sri Lanka. The number of units exported in 1987 totaled 443 units. The first exports of Proton to Europe started in 1988 with 540 units of Proton Saga to the Republic of Ireland. A year later, in 1989 Proton started exporting its cars to UK, Singapore and Jamaica. Sales to UK and Ireland totaled 10,500 units during this year and since then the UK is the largest export market of Proton.¹³

Proton's distribution in the UK is handled by its subsidiary, Proton Cars (UK) Ltd. UK export market significantly contributed to the improvement of Proton's sales from just 25 units in 1986 to 20,269 units in 1993. From these 20,269 units total exports to the UK and Ireland amounted to 17 440 (86%) units.

¹³ The Proton Bomb: Malaysia struggles to export the national cars, Nick Scaward

Malaysia's total exports of Proton fell below 15 000 units in 1994 following a crisis between the Malaysian and the UK governments over the Pergau dam and certain defense contracts¹⁴. During that year, exports of Proton to UK fell to 10,169 units (about 68% of Malaysia's total exports) and since then and up to 1995-97 Proton's exports to UK and Ireland accounted to 10 000 units. But the sales volume dropped to 7,000 units per year during the 1998-99 when proton exported less to the UK in order to minimize the lower margins of its sales to the country. In UK, Proton is eligible for tax breaks under the EU generalized system of preferences but it has still to enter into such car markets as Germany, the US and Japan.

The table below shows increasing trend in exports since 1994 up to 1997, rising from 14,813 units to 25,900 units. However, in 1998, a year when the economy was down in recession export of cars significantly dropped and this trend continued in 1999.

Table 2.3 Malaysia : Export of Cars(Completely built up-CBU)(new)

	Units	RM m (FOB)
1994	14,813	314.9
1995	20,718	412.4
1996	22,572	469.1
1997	25,900	532.1
1998	21,771	535.6
1999	18,117	492.5

2.4.2 Import of Cars

Imports of cars, which were on a high trend during 1995-97, fell in 1998 due to the economic slowdown that caused the low income in the country. During this year, imports of completely knocked down (CKD) motorcars, which usually make up more than 95% of the total import value of cars in the country fell to 145,217 units representing a decline of 60% from 1997's total of 363,201 units. As for the completely built-up (CBU) motorcars, their imports slowed down to 1,352 (comparing to 5,649 in 1996) due to the mentioned economic crisis. This has significantly increased to 5,470 units due to economic recovery. Imports of CBU and CKD cars together constituted about 85% of the total imports of motor vehicles in the country.

2.4.3 Exchange rate policy

On September 1, 1998, as part of a broader effort to reflate the economy and stabilize the currency, the Government took drastic action by fixing the exchange rate of the ringgit to the U.S. Dollar at RM 3.8 to US\$1 and instituting selective capital controls. Malaysia's principal objectives in instituting the controls are to eliminate offshore trading in the ringgit and insulate the domestic economy from external risks posed by short-term capital flows. The exchange controls reduce the ability of nonresidents to engage in ringgit transactions, require settlement of imports and exports in foreign currencies, discourage short-term capital inflows by requiring them to remain in the country for at least one year, restrict Malaysian investment overseas,

¹⁴ see <http://www.keller-ge.co.uk/pergau.html> ,
<http://www.solidaritetshuset.org/fivas/rettsskr/pergau7.htm>

Chapter 2

and limit the amount of foreign currency individuals and corporations can take out of the country. The government has stressed that the measures maintain general convertibility of current account transactions, and do not impair repatriation of interest, profits, dividends and commissions on investments. The government has also stated that the controls are temporary and will be lifted once the international financial infrastructure addresses destabilizing capital flows, which the government blames in large part for recent economic difficulties¹⁵.

The table below shows the total imports of cars under two categories.

Table 2.4 Malaysia: Imports of Cars

	Units	RM m (CIF)
Motorcars completely knocked down (CKD)		
1994	181,052	1,934.0
1995	262,125	3,043.0
1996	290,268	2,795.0
1997	363,201	2,795.3
1998	145,217	1,173.8
1999	263,696	2,244.4
Motorcars completely built-up (CBU)		
1994	2,079	54.2
1995	2,461	87.5
1996	5,649	196.2
1997	3,551	120.6
1998	1,352	93.5
1999	5,470	146.8

¹⁵ for detailed information refer to <http://www.worldbank.org/html/extdr/pos98/dmm100498.htm>

Table 2.5 shows the major export markets for Proton for year 1998.

Table 2.5 Major Export markets for Proton - year 1998

Country	Value (RM million)	%of export value of motor vehicles
UK	335.8	45.7
Turkey	74.9	10.2
Australia	51.2	6.9
Hong Kong	44.7	6.1
Germany	37.2	5.1
Others	734.2	26.0
Total	734.2	26.0

2.5 Assemblers

Currently, there are 17 motor vehicle assembly plants in Malaysia. Of these, five plants manufacture only motorcycles and eight plants manufacture both passenger and commercial vehicles. Proton only manufactures passenger cars. Proton is the largest assembler of motor vehicles with two plants. The largest non-national vehicle assembler is Assembly Services (ASSB), a subsidiary of listed UMW.

Proton's Shah Alam plant has an installed capacity of 230,000 units annually. Its ambitious Second Plant Project in Proton City, Tanjung Malim originally planned to manufacture 500,000 units a year and even planned to increase capacity to 1 million units by the end of 2020. However, the project has been deferred and will be reviewed periodically for start-up.

Following the completion of a new assembly line for its Rusa models in April 1997, Perodua's production capacity in Serendah has increase to 120,000 units. Perodua is the second largest assembler in the country. Perodua range of motor vehicles assembled includes passenger cars, vans and FWDs. Perodua planned to invest RM800 million on a second production line in Rawang to boost its production by 80,000 units. The second production line was scheduled to be operational by mid-1999. However, this plan has been deferred.

ASSB is the third largest assembler followed by Oriental's subsidiary, Oriental Assemblers (OASB). Kinabalu Motor Assemblies (TCMA). Some assemblers like ASSB, TCMA and TMB assemble both passenger as well as commercial vehicles. OASB and KMA only assembler passenger cars.

The national car project in Malaysia has also contributed to human resource development. According to the terms of their joint venture agreement, Mitsubishi Motor Corporation (MMC) was responsible for plant construction, training and supervision of preparations for production and technical assistance in localization. The national car project has required that all Proton staff (engineers, researchers, designers, managers, mechanics) be trained according to Japanese standards and procedures. Malaysian employees of Proton — from production workers to managers — have been sent to MMC in Japan since 1983 for training. Up to 1991, around 500 had been to Japan for training, while another 178 went in 1992. Proton employees have received training in various aspects of car manufacturing such as production control,

Chapter 2

welding, painting, trim and final, maintenance, tooling, stamping engineering and quality control. The Proton workforce has been trained in Japan as well as in Malaysia, and is still supervised by Japanese. Many specialists from MMC have also been dispatched to the Proton plant to train Proton employees in Malaysia. In 1991 and 1992 alone, about 200 Japanese specialists from MMC were in Malaysia to provide training under the Technical Assistance Agreement with Proton.