

V. MALAYSIA*

A. Introduction

The automotive industry in Malaysia can be considered as one of the most important and strategic industries in the manufacturing sector. Compared with other industries in the manufacturing sector in Malaysia, the automotive industry has been earmarked to boost the industrialization process so that Malaysia can be a developed nation by 2020.

The history of the Malaysian automotive industry

Like Indonesia and Thailand, the automotive industry in Malaysia started in the 1960s. Prior to that decade, a majority of the cars used on Malaysian roads were imported in the CBU form.

In 1963 through the recommendation of the Colombo Plan experts, the Government of Malaysia began to encourage the establishment of the automotive industry. The policy of encouraging assembly for automobiles and the manufacture of component parts was announced in May 1964. Assembly plants were set up in the later 1960s in order to provide employment and to substitute imports of automobiles.

To further develop the local automotive industry and to encourage vehicles to be assembled locally, the Government has adopted a few policies. The policies include requiring a certain percentage of a vehicle to have parts and component that are manufacture locally, imposing import taxes and putting a tariff system on CBU imports.

Apart from the protective tariffs that was announced in February 1966, all distributors and dealers were required to obtain import licenses that had to be renewed every six months. In 1967, the Government approved the operation of six assembly plants and by December the same year, Swedish Motor Assemblies Sdn. Bhd. began its production.

Initially, the assembly plants were mainly joint venture projects between European automobile manufacturers and local partners were previously their local distributors. Apart from Swedish Motor Assemblies which assembled Volvo, there were also Asia Automobile Industries Sdn. Bhd. which assembled Peugeot and Mazda vehicles and Tan Chong Motors which assembled Nissan cars (then known as Datsun).

Even though there was a local content requirement to promote the growth of components manufacturing, the effort was not very successful. Until the early 1980s, there were about 15 assemblers that produce vehicles for European and Japanese manufacturers. There were too many makes and models, causing the demand for a particulars component to be low, leading to the difficulty for the manufacturers to achieve the economies of scale.

Imports were still very high as the inputs for the assembly plants came mainly from imported CKD form. The level of technology transfer was still low and so was the development of human resources in the industry.

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Thus the second phase of the development in the automotive industry was started with the launching of the National Car Project, Perusahaan Automobil Nasional (PROTON), in 1984. The project was conceived in order to guide the automotive industry in increasing the level of technology and the development of intellectual property of the industry.

The PROTON project, which was a joint-venture programme with Mitsubishi Motors Corporation of Japan, began its production with the PROTON Saga model in 1985. As it has integrated manufacturing facilities promote industrial linkage and having national brand, it was given preferential tax and duty rates.

After the success of the first national car, Perusahaan Otomobil Kedua Sdn. Bhd. (PERODUA) was established in October 1992. It was the result of an agreement between UMW Corporation Sdn. Bhd., Daihatsu Motor Co. Ltd of Japan, Med-Bumikar Mara Sdn. Bhd., PNB Equity Resources Corporation Sdn. Bhd., Mitsui & Co. Ltd of Japan and Daihatsu (Malaysia) Sdn. Bhd. PERODUA was set up to expand the automotive product range and to further support the components and parts manufacturing. PERODUA is the first car manufacturer in Malaysia to achieve the prestigious ISO 9002 and ISO 9001 certification awarded by the Vehicle Certification Agency (VCA) from the United Kingdom.

The Malaysian auto market is dominated by Malaysia's national cars, PROTON and PERODUA jointly accounted for 90 per cent of the vehicles sold annually.

B. Introduction to Malaysia

Malaysia is a federation of States governed by a constitutional monarchy with a two-house legislature consisting of a Senate (Dewan Negara) and a House of Representatives (Dewan Rakyat). The head of State is the Yang di-Pertuan Agong (Supreme Head of the Federation) and is selected by and from nine hereditary Sultans, or Rulers. Executive power is exercised by the Prime Minister, who is the leader of the majority party or coalition in the House of Representatives and is appointed by the Head of State. He governs with the assistance of appointed cabinet ministers.

1. Geography

Geographically, Malaysia incorporates Peninsular Malaysia, Sabah and Sarawak on the large island of Borneo (Kalimantan). Approximately two thirds of Malaysia is forest, with the majority of it being tropical rainforest.

Malaysia lies between latitude 1 degree and 7 degrees North and longitude 100 degrees and 120 degrees East. Malaysia is 8 hours ahead of GMT (Greenwich mean time). The neighbouring countries of Malaysia include Brunei Darussalam, Indonesia, the Philippines, Singapore and Thailand.

2. Climate

Malaysia experiences a tropical climate with south-west and north-east monsoons. Malaysia has a very high humidity, with an average rainfall of 254 centimetres and temperature ranging from 21 °C to 32 °C.

3. Population

There are more than 60 ethnic or culturally differentiated groups can be found in Malaysia's population of about 23.3 million, but the most crucial population division is that between Bumiputera and non-Bumiputera people. The Bumiputeras are those with cultural affinities indigenous to Peninsular Malaysia and Borneo and the immediate region.

Malays constitute the principal Bumiputera group and account for around 55 per cent of Malaysia's population. Non-Bumiputeras are people whose cultural affinities lie outside Malaysia and its region – principally people of Chinese and Indian descent. Chinese constitute about 32 per cent of Malaysia's population and Indians about 8 per cent.

4. Infrastructure

Malaysia's developed infrastructure is one of the main attributes that have placed her among South-East Asia's most rapidly industrializing nations. New initiatives are constantly being taken to upgrade infrastructure development in line with the country's economic growth.

A substantial M\$ (Malaysian ringgit) 19.23 billion has been allocated to finance the development of infrastructure and utilities during the Seventh Malaysia Plan period from 1996 to 2000. An additional M\$ 68.29 billion is expected to be financed through privatized infrastructure projects.

Malaysia's highway network is the backbone of the country's transport system: 90 per cent of passenger and cargo movements are by road. Well-maintained roads link all parts of the country. This is complemented by railways which traverse the west and east coasts of Peninsular Malaysia. Malaysia has eight international airports and six major ports.

To cater for the needs of export-oriented industries, export-processing zones called Free Zones (FZs) have been developed where customs formalities are reduced to the minimum. Companies in FZs are allowed duty free imports of raw materials, components and parts, and machinery directly required in the manufacturing process. Similar facilities are also provided by licensed manufacturing warehouses.

5. Development

Malaysia's stability has enabled vast economic growth, particularly in the 1970s and 1980s. A decade or more of growth at 8 per cent raised per capita income to US\$ 4,000 in 1996 and transformed a commodities based economy into one based on manufacturing.

The Asian financial crisis caused the economy to shrink by 7 per cent in 1998. But a combination of lower exchange rate and the government's adoption of a recovery plan saw the economy bounce back with strong growth of 5.6 per cent in 1999 and 8.5 per cent in 2000. The recovery plan included the controversial adoption of selective exchange controls (largely on portfolio investment), and pegging the ringgit at 3.8 to the dollar. But it also involved a comprehensive reform of the financial sector and a far-reaching effort to tackle inter-corporate and inter-bank debts.

However, Malaysia's open economy (exports over 100 per cent of GDP) is heavily dependent on information and communication technology (ICT) exports to the United States and

Japan, and is now suffering the effects of the global slow-down. Growth for 2001 is officially predicted to be 1 to 2 per cent, though it may well be lower.

To head off the recession the Government announced a 3 billion ringgit fiscal stimulus in March 2001 and a further package of 4.3 billion in September 2001. The 2001 budget gave a further boost to demand with personal tax cuts of nearly 1 billion ringgit. Growth for 2002 is predicted to be 4 to 5 per cent.

C. The current status

The players of the automotive industry in Malaysia are:

- Manufacturers - 4
- Assemblers - 15
- Composite body/sports car makers - 3
- Parts manufacturers - 350

The vehicle assemblers and manufacturers have a total combined capacity of 570,000 units per annum. The capacity utilisation of the industry is 67.2 per cent in year 2000. The national car manufacturers PROTON and PERODUA had 71.4 per cent and 84.7 per cent capacity utilisation respectively in year 2000.

The introduction of the National Car Project has given a boost to the development of components and parts manufacturing. PROTON and PERODUA has successfully established their vendor programmes. The policy has brought certain definite advantages to the automotive industry, such as creating vendors totalling 350, investment amounting to M\$ 4.6 billion, employment to 30,000 persons, substituting imports with M\$ 2 billion with the production of 6,000 parts locally.

1. Production

Even though the economic crisis has badly affected the automotive industry, one advantage that could be found was that the depreciation of local currency has made local productions cheaper than the imported ones. This has made local production a little bit more competitive and slightly favourable in the export market.

The improvements in sales has boost the production of the automotive producers. Malaysia showed a dramatic increase in production as a direct result of increased sales. In 1998, although production tumbled by less than half that of 1997 to just 161,709 units, production exceeded that of Indonesia and the Philippines. Malaysia's automotive production increased by 97.7 per cent in 1999 to 303,719 units from 161,711 in 1998. The production has shown an upward trend in year 2000 and 2001.

Table 5.1. Production of the automotive industry

Category	1996	1997	1998	1999	2000	2001 (Jan.-Jun.)
Passenger cars	254 881	362 088	148 960	272 304	295 318	165 701
Commercial vehicles	84 899	150 306	12 751	31 415	63 877	34 707
Total	339 780	512 394	161 711	303 719	359 195	200 408

Source: Malaysian Automotive Association.

Table 5.2. Production of national cars
(thousand units)

Brand	Production								
	1992	1993	1994	1995	1996	1997	1998	1999	2000
PROTON	98.9	118.1	127.2	153.9	177.8	212.9	91.5	164.2	168.9
PERODUA	-	-		40.6	55.9	60.0	34.9	86.4	85.0
Total	98.9	118.1	127.2	194.6	233.6	272.9	126.4	250.6	253.9

The trend for the production of automotive component parts is similar to those of the vehicle production. During the economic downturn, decreased sales of PROTON and PERODUA have badly affected the vendors who primarily cater for the manufacturers.

Table 5.3. Production index of automotive components/parts
(thousand units)

Category	1996	1997	1998	1999	2000
Passenger cars	202.9	216.9	129.9	185.7	237.9

Source: Department of Statistics, Malaysia.

Table 5.4. Components and parts by local manufacturers

- Body panels such as safety glass, weather strips and body moldings
- Engine parts such as casting, manifold, filters, radiator, radiator hoses, air filter housing, spark plug, piston and piston liners
- Drive, transmission and steering parts such as a gear shift components, drive shaft, clutch, wheel, wheel nuts and studs, rack and pinion steering assembly
- Brake and suspension parts such as coil and leaf spring, U-bolt and shackle assembly, shock absorbers, brake drum, brake disk and brake parts
- Electrical parts such as battery, horn, wiring harness, alternators, starter motors, voltage regulators, wiper and washer assembly, instrument cluster, relay clock, fuse box, head lights and other lights
- Trim and upholstery such as carpet, floor mat, seat assembly, safety belt and melting damping sheet
- General parts such as paint and thinner underseal tyre and tube, air conditioner, radio, screw jack and tool sets, fuel tank, exhaust system, control and mirrors

2. Sales

Malaysia is predominantly a passenger car market and the industry is essentially domestic market-oriented. Most of the sales of passenger cars in Malaysia are done through financing.

The currency crisis that was experienced by the region and that had slowed the economic performance of Malaysia had left a very negative impact on the automotive industry. The pre-crisis estimation of the sales for the industry for the year 2000 was around 420,000 units. Due to

the crisis the estimation of the sales only reached 282,103 units in year 2000 which is far below the pre-crisis expectation. The peak of the industry was in 1997 when sales recorded an all time high of more than 400,000 units. In 1998 sales were down by 59.35 per cent to 164,000 units. The crisis has put the industry back by at least 5 years.

During the 1997/1998 financial crisis, most banks and finance companies were wary in giving out loans and consumer confidence had somewhat eroded. Government intervention came in the second half of 1998 to relax some financing requirement, such as increasing the duration to hire purchase period and increasing the percentage of car financing.

Of the four major auto producing countries in ASEAN, Malaysia showed the highest gain in sales, recording 84 per cent growth from 163,851 units in 1998 to 265,819 units in 1999. The growth in sales could be attributed to the positive steps taken by the Government to assist the automotive industry such as affordable loans offered by financial institution to the customers. Despite its smaller population, Malaysia sold a higher number of automobiles in 1999.

PROTON is the number one brand of car not only in Malaysia, where it commands a market share of roughly 70 per cent, but also throughout ASEAN. The market share breakdown of motor vehicle brands in ASEAN in the January 1999 - August 1999 period was as follows: PROTON (23 per cent), Toyota (22 per cent), PERODUA (13 per cent), Isuzu (9 per cent), Mitsubishi (9 per cent), Honda (6 per cent), Nissan (6 per cent), Other (12 per cent).

Table 5.5. Sales of the automotive industry
(units)

Category	1996	1997	1998	1999	2000	2001 (Jan.-Jun.)
Passenger cars	275 615	314 399	142 194	239 647	282 103	150 557
Commercial vehicles	89 173	90 438	21 657	26 172	61 071	15 578
Total	364 788	404 837	163 851	265 819	343 174	166 135

Source: Malaysian Automotive Association.

3. Export

The automotive industry is already a well-established trade. Established global manufactures especially from Japan, the United States and Western Europe are right now dominating the export market of the world. Malaysia began exporting in 1986 with the export of PROTON Saga. In 1993 the volume of export has increased to 20,226 units but dipped down again to around 15,000 units in 1994.

Malaysian total export has shown a steady increase from that year onwards until 1998. The economic slump had triggered a drop in the export figures. The automotive industry is basically domestic oriented. Between 85-90 per cent of the production of motor vehicles by PROTON and PERODUA are sold locally and only 10 per cent of commercial vehicles (assembled and manufactured) are exported.

During the economic doldrums recently, only Malaysia showed a heavy decline in export figures while foreign manufacturers that heavily invested in Indonesia and Thailand changed their strategy from domestic sales to overseas exports.

Table 5.6. Exports of the automotive industry
(million Malaysian ringgits)

Category	1996	1997	1998	1999	2000	2001 (Jan.-Jun.)
Passenger cars	479.4	566.7	734.2	539.0	321.5	86.9
Commercial vehicles	19.4	283.1	512.1	87.7	56.8	14.6
Component parts	192.9	225.7	298.2	396.6	465.9	256.2
Total	691.7	1 075.5	1 544.5	1 023.3	844.2	3527.7

Source: Department of Statistics, Malaysia.

Malaysian manufacturers faced difficulties in exporting their products. In addition to the difficulty in export penetration, low production caused by high prices of imported components and parts also contributed to the low figures in exports.

According to the industry, the export market is increasingly competitive due to the following reasons:

- Existence of global over capacity of 20 millions units;
- Consumers preference for cars that meet increasingly stringent standards on ergonomics, safety, pollution and performance;
- Increasing trend towards vehicles using environmentally friendly materials such as recyclable and biodegradable plastic materials;
- Introduction of new models and product enhancement more frequently; and
- High cost of production making local products not competitive.

(a) Export of PROTON

The first PROTON car was exported in 1986. The number has increased steadily and in 1998 Malaysia exported a total of 18,422 units to countries and areas, including Argentina, Australia, Bahrain, Bangladesh, Belgium, Brunei Darussalam, Chile, Cyprus, Egypt, Fiji, Germany, Jordan, Kuwait, Lebanon, Libya, Maldives, Mauritius, Oman, Philippines, Qatar, the Russian Federation, Saudi Arabia, Singapore, Slovenia, Sri Lanka, Taiwan Province of China, Turkey, United Arab Emirates and United Kingdom. The models being exported include Wira Sedan/Aeroback, Satria and Putra

PROTON's exports are the most successful in the United Kingdom. This is due to its competitive pricing strategy and its buyback arrangement with car rental companies in the country. PROTON also benefited from the Generalised Preferences Scheme that made it easy for them to enter the United Kingdom. market. PROTON has introduced a few upgraded models with higher engine capacity and sporty design to establish its presence.

(b) Export of PERODUA

The Kancil, with an engine capacity of 660 cc offers a compact car. The car was first exported in 1996 to Brunei Darussalam, Cyprus, Malta and Mauritius with a total number of 283 units. In 1997, PERODUA penetrated into a new market segment, that is a Multi Purpose Vehicle marketed as the Rusa with a capacity of 1.3 cc. By the end of 1998, PERODUA exported 2,322 automobiles and the destinations included the Comoros, Cyprus, Egypt, Fiji,

Jordan, Lebanon, Malta, Mauritius, Qatar, Singapore, Sri Lanka, the United Kingdom, and Yugoslavia.

4. Import

A majority of the imported automotive products are in the form of CKDs and parts. CBU vehicle imports are low due to the high tariff that is imposed especially on luxury cars (more than 2500 cc).

Although local content requirements have somewhat reduced imports of parts and accessories, a sizeable portion of intermediate inputs and automotive child parts are still imported by component manufacturers for local production and value-added activities. Along with the increase in vehicle production, the imports of CKDs and parts has increased accordingly.

Table 5.7. Imports of the automotive industry
(million Malaysian ringgits)

Category	1996	1997	1998	1999	2000	2001 (Jan.-Jun.)
Passenger cars	4 279.6	3 084.3	1 314.5	3 371.8	3 755.8	1 762.6
Commercial vehicles	1 680.5	2 820.8	767.2	424.8	770.4	463.6
Component parts	956.1	1 416.8	815.8	773.2	1 034.4	551.8
Total	6 916.2	7 321.9	2 897.5	4 569.8	5 560.6	2 778.0

Source: Department of Statistics Malaysia.

5. Quality standards

In addition to the ISO 9000, some automotive companies in Malaysia also adopt the QS 9000, which is a standard adopted by the American automotive industry namely Ford, Chrysler and General Motors.

Table 5.8. Automotive-related companies certified under ISO 9000 series and QS 9000
(as of June 2001)

Sector	ISO 9001:1994	ISO 9002:1994	QS9000	ISO 9001:2000
Automotive	5	105	18	-
Industry Total	208	2 052	47	12

Source: SIRIM QAS Sdn. Bhd.

Although adoption of international standards, such as ISO certification, is one of the steps being encouraged by the Government in enhancing Malaysia's competitiveness in the domestic as well as international market place. For the small and medium industries, the Government, under the Small and Medium Industries Development Corporation (SMIDEC) has set up the Industrial Technical Assistance Fund (ITAF3) to help companies to be certified.

According to PROTON, the current Wira, Satria and Waja models comply to Euro III emission regulations but after 2002 only the Waja will survive the very stringent crash and safety requirements set by the EU. However, PROTON cars comply to all requirements for Gulf Cooperative Council (GCC) regulations for its Wira, Satria and Waja, which can be marketed for a good number of years to come.

D. Production elements

1. Technology development

Previously, before the manufacturing and the assembly of cars started in the country, component and parts manufacturing primarily concentrated on the replacement equipment manufacturer (REM). Along with the setting up of the car manufacturing companies, the government created a policy of developing the automotive components and parts manufacturing companies.

Since its establishment, PROTON has developed 186 suppliers and invested about M\$ 600 million in upstream activities. The activities include casting (M\$ 200 million), machining (M\$ 110 million) and R&D (M\$ 283 million). Before the 1997/1998 crisis, PROTON and its vendors were gearing towards 300,000-350,000 units of production to reach its economies of scale.

Since 1995, the recorded number of Technical Transfer Agreements signed between Malaysian companies and their foreign technology partners is 98. These includes Technical Assistance; Licensing and Patent; Trademarks; Services; and Sales and Marketing/Distribution.

The primary objective of the technical transfers is for the local manufacturers to acquire the necessary core competence.

The technology transfers do not come cheaply. The overhead cost for the component manufacturers are still high as they are still highly dependent on foreign technology and thus passing the cost to the end user.

Table 5.9. Technical transfer agreements

	1995	1996	1997	1998	1999	2000	2001 (Jan.-Aug.)
Transport industry	9	15	23	10	15	15	11
Overall	102	116	86	107	126	131	111

Source: Malaysian Industrial Development Authority.

PROTON has also taken great steps in positioning itself in the international market. The acquisition of Lotus International Ltd. and Michigan Research Institute is aimed at giving PROTON a boost in the R&D department. The buying over of DRB-HICOM shares in PROTON by Petronas is also seen as a strategic move by PROTON. The strategic alliance between Petronas and Sauber is expected to help PROTON in producing high quality vehicles.

PERODUA, in its effort to develop its products, has formed strategic alliances with Daihatsu Motor Co. and Stola (Italy) to be their main technology provider.

PERODUA's R&D investment have focused on developing its capabilities in automotive technologies ranging from testing, design and styling engineering to ultimately manufacturing engineering skills. Towards this end, PERODUA has invested substantially in manpower training, computer related facilities and equipment, to provide the necessary basic infrastructure for R&D work.

2. Manpower

The trend of employment in the automotive manufacturing sectors reflects the trend of vehicle productions and sales. With the demand for automobile reaching its peak in 1997, vehicle producers and parts makers were forced to increase and deploy their manpower in the most optimal and effective manner.

In general, the operations of assemblers of national cars are more automated than those of the assemblers. Non-national vehicle assemblers utilize more labour intensive processes and foreign contract workers to meet output when the demand reach its peak.

Table 5.10. Employment in the automotive industry

Category	1996	1997	1998	1999	2000	2001 (Jan.-Jun.)
Motor vehicles	15 879	18 945	12 800	13 600	15 216	16 393
Parts & components	16 131	18 156	13 067	15 848	20 408	21 857
Total	32 010	37 101	25 867	29 448	35 624	38 250

Source: Department of Statistics, Malaysia.

E. Market access factor

1. Prices and margins

Currently vehicles that are manufactured by Malaysian companies such as PROTON, PERODUA, Inokom and Malaysia Truck & Bus (MTB) are priced lower than comparable vehicles that are produced by the assemblers and especially that of the CBU imports. About 90 per cent of the cars sold in Malaysia is produced by the local manufacturers, namely PROTON and PERODUA.

Though there are some advantages to the implementation of local content policy, it has also increased the cost of cars especially for low volume models (below 100 units in a month) such as Peugeot and Citroen. The increased cost varies from 10 to 20 per cent of the total production cost. This is due to low sales volume that foreign cars have in the country.

2. Import restrictions on motor vehicles (tariff and non-tariff barriers)

(a) *Tariff barriers*

In 1998, the fiscal year budget increased tariffs on a range of motor vehicles, and these rates continue to apply.

Although the specific tariff depends on engine capacity, in general, the currently applied tariffs rates for CBU and CKD vehicles are as follows: 140 to 300 per cent for automobiles (CBU); 80 per cent for automobiles (CKD); 42 to 140 per cent for vans (CBU); 40 per cent for vans (CKD); 60 to 200 per cent for four-wheel drive/multipurpose vehicles (CBU); and 40 per cent for four-wheel drive/multipurpose vehicles (CKD).

On Malaysia's commitments under the AFTA, it will be phasing in all the deferred 218 automotive products into the CEPT on 1 January 2005. This means that all imported automotive products from the ASEAN countries that comply to the 40 per cent ASEAN content will have duty rates of at most 20 per cent. Currently 210 products in the automotive industry are already in CEPT. The policy and the modality of deferment is still being formulated.

(b) *Non-tariff barriers*

Table 5.11. Tariff reduction exercises, 2002-2003

No.	Products to be removed	No.	Remaining products
1.	Coil spring	1.	Air filter
2.	Exhaust system	2.	Alternator & voltage regulator
3.	External body protective moulding	3.	Battery
4.	Flasher relay	4.	Carpet & underlay
5.	Fuel tank	5.	Horn
6.	Glasses	6.	Leaf spring
7.	Melt damping sheets	7.	Mud flaps
8.	Seat & slide assemblies	8.	Radiator
9.	Seat pads	9.	Radiator hoses
10.	Shock absorbers	10.	Seatbelts
11.	Windscreen washers	11.	Sparkplugs
		12.	Starter motor
		13.	Tubeless tyre valve
		14.	Tubing for brake clutch & fuel
		15.	Tyres
		16.	Wheel NUTS
		17.	Wiper motor
		18.	Wire harness
		19.	U bolt assemblies comprising of spring pins & shackle pins/bolts & shackle assembly for commercial vehicles.

TRIMS is one of the mechanisms used to achieve trading and liberalization that is developed under WTO. Under TRIMS, participating countries are required to abolish unfair trading practices that includes abolishment of rules and policies by government in the compulsory usage of locally produced inputs for manufacturing of traded goods.

As a participating country to the abolishment of TRIMS, Malaysia is required to phase out several measures that are considered unfair trading practices to protect the local automobile industry that includes Local Material Content Policy (LMCP) and Mandatory Deleted Items (MDI).

As a result of the 1997/1998 regional financial crisis, the national car industry requires additional time to become competitive internationally. Thus Malaysia has requested additional time before reducing or abolishing these measures.

Malaysia has received an extension of the phase-out period for local content requirements in selected auto industry sectors that is inconsistent with its obligations under the WTO Agreement on TRIMS until 31 December 2001.

In requesting another two years extension, until 31 December 2003, Malaysia has agreed to abolish the LMCP Program and remove 11 products for which the local manufacturers have achieved international competitiveness from MDI beginning 1 January 2002. The remaining 19 items from the MDI list will be removed on 1 January 2004 (see table 5.11).

3. Joint ventures

In gearing up for the automotive sector liberalization under the TRIMS Agreement and AFTA, the Malaysian Government has somewhat relaxed its equity restrictions.

There is an increasing trend nowadays for the foreign partners of Malaysian vehicle producers to increase their stake in the companies. These joint venture projects would be a win-win situation where both local and foreign companies can benefit from the project. Honda Motor Corporation just formed a joint venture project with DRB-HICOM and Oriental Industries. The local companies have 51 per cent share while Honda has 49 per cent. Companies such as Ford Motors, Scania, MAN, and Volvo have gotten the approval to increase their shares in their respective local assemblers/distributors. Daihatsu Co. is awaiting approval for the increase in shares in PERODUA.

Table 5.12. Project approvals for the automotive industry

Category	1996	1997	1998	1999	2000	2001 (Jan.-Jun.)
No. of projects approved	36	41	44	30	41	20
Investment:						
✧ Domestic (RM mil.)	629.2	258.5	805.6	150.4	317.0	97.1
✧ Foreign (RM mil.)	221.4	84.3	239.4	208.7	266.2	115.7
Total	850.6	342.8	1,045.0	359.1	583.2	212.8

Source: Malaysian Industrial Development Authority.

4. Government plans

Regular consultations and briefings with the business sector, academia, NGOs and the relevant stakeholders will continue to be undertaken towards formulating Malaysia's strategies in the automotive industry policies.

Future market opening measures will continue to be based on inputs from the private sector, and with consideration of the country's long term economic and socio-economic interests.

The Government will continue to assist the manufacturers to export their products via various trade missions and participation in international affairs. In 2002, the Malaysian External Trade Development Corporation (MATRADE) will be participating in 15 international fairs and exhibitions, including the Malaysian Products Exhibition in Lebanon, Nairobi and Jeddah. MATRADE will also be publishing the *Malaysian Automotive Components Parts and Accessories 2002* early next year.

The Malaysian Government will also be involved in international forums such as APEC and WTO to discuss issues and challenges facing the automotive industry, especially pertaining to the prospects and growth potential in the midst of global and regional liberalization.

F. Measures to create favourable atmosphere for joint ventures

- Promote relocation of components manufacturers
- Promote technical tie-ups and sub-contracting
- Promote Malaysia as a base for specialty parts, including electronic components
- Promote cross border investments.

G. Conclusion

The automotive industry has played an important role in the development of the manufacturing sector in Malaysia. With the successful implementation of the first National Car Project, the industry has to widen its perspective to take on the challenges ahead.

Besides gearing up its operation to meet the anticipated growth in the sector, the industry has to strengthen its competitiveness through greater emphasis on product and market development. The industry also has to carve a niche in the export market and foster closer linkage with the target destinations.