

Proton automobile malaysia analysis



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Proton Malaysia Automobile

PROTON: To Liberalize or To Protect?

Establishment of Proton

The automotive industry in Malaysia is one of the most important and strategic industry in the development of Malaysia's economy and transforming Malaysia into industrialized nation. Malaysia has four national automobile industries; they are Perusahaan Otomobil Nasional Bhd, known as Proton, Perusahaan Otomobil Kedua Berhad (Perodua), NAZA, and DBR-HICOM.

These automobile companies are playing important role in the providing the opportunities of employment, upgrading the development of technologies and industrial skill within the automobile manufacturing industry and improving strengthen of international competitiveness of Malaysia. All of these was aim to reduce the country' reliance on foreign made import products.

In the early of 1980s, the former Malaysia Prime Minister, Tun Dr Mahathir Mohamed dreamed to has Malaysia national car which manufactured by Malaysian but nobody believed and thought he could. However, he sought a partner with an established automobile maker. During the visiting to the country by executives from Japan Mitsubishi Corporation in year 1981, Tun Dr Mahathir Mohamed proposed the creation of a joint venture to produce Mitsubishi designed automobile in Malaysia.

Then, Perusahaan Otomobil Nasional Bhd (Proton) was officially launched in May 1983; construction began on company's manufacturing facilities where

located at industrial area of Shah Alam and completed in year 1984, the plant which used majority of manual labor production techniques can produce eighty thousand cars annually (Perusahaan otomobil Nasional Bhd-Company History).

In July 1985, Proton used the tiger as brand symbols and launched the first car, Proton Saga, which is the model base on Mitsubishi Lancer. After fifteen years of expertise development, Proton produced its first in house model car, Proton Waja, which design and engineering were using own technology and expertise.

Since the establishment of Proton in 1985, Malaysia had succeeded in developing integrated capabilities in the domestic automobile industry, which include local design and styling capability, full scale manufacturing operations and extensive local participation in the supply of components. Proton is a Government Link Company, as known as GLC. So, Malaysia government wants a strong domestic auto industry until it can become internationally competitive such as Honda and Toyota in Japan.

Malaysia government has persisted in protecting its auto industry, a national automobile policy has been made by intervening and imposing import tax or duty on foreign cars from one hundred forty percent to three hundred percent (Chee. 2003). The tax and duty are trade barriers and the tax schedule is very complex. The completed import duty is shown in appendix (a). The import duty structure has caused an overall increasing by tax rate on most motor vehicles and the tax is depending on the different categories of motor vehicles.

For example, different car from different categories and different engine capacities have different import duties. The more luxury of car type and larger of engine capacity will tax higher. This tax structure will promote greater transparency in pricing. Malaysia government believed that this national will be a key measure towards driving the transformation of the domestic automobile industry to become viable and competitive than others.

Not only that, Malaysia government also intends to impose the special license known as approved permit (AP) and create anew kind of protective measure such as freeze on the import of new brand of automobile. The overprotection of the Malaysia government to Proton has caused many problem to national automobile industries' development, on the other hand, liberalization to domestic automobile market is believed will benefit to all industrial participants, domestic consumers and the Malaysia economy.

Overprotection causes problems

Proton was born into a well environment which design to protect it through its infancy and nurture into a company, meanwhile, Proton are able to develop its engineering capabilities so that it could become one of a handful of car maker which can build a car from scratch (Leela. 2007). In fact, the overprotected to Proton has caused the Proton growth become slowly from the last twenty two years and still cannot compete to even other domestic automobile companies such as Naza and also foreign car makers such as Kia from Korean and Honda from Japan.

Proton held the major domestic market share because Proton has long enjoyed protective trade barriers in its domestic auto market. The total sale

of Proton was 155, 419 units of car during the first half of the year 2007.

Proton was once the market leader in the Malaysia automotive market and used to control about sixty percent of the market share in year 2002, but Proton only has twenty three percent currently in domestic market share (Shanmugam. 2007).

In the year 2002 it was estimated that Proton dominated the Malaysian car market by accounting for sixty percent of local car demand; however, market share of the Proton has been declining as car imports start invading and snapping away domestic market share from the car manufacturer after year 2002 (Siow. 2007). High contrast in comparing between year 2002 and year 2006, Proton only commanded thirty percent of the domestic market share; Proton in domestic market share fell from thirty eight percent in year 2005 to thirty three percent in 2006 (Leela. 2007).

However, the unfriendly tax structure takes away the benefit of liberalization. Foreign automobile makers and investors are fear because they needs fair trade. Another factor that foreign automobile makers and investors worry is the delay to set up the new tax structure for assembled or imported vehicles. The late and lack of information make foreign automobile makers stop to expand their investment.

Automobile manufacturers, assemblers as well as franchise holders need so much information about new national automobile policies of government to make proper plans to the market change, especially those related new products, local assembly programs, and demand of market.

Even though foreign automobile maker and investors know that the taxes among the ASEAN made cars will be no more than five percent, but they still need to know what kind of taxes they may have to pay and how to pay. They also concern about the new tax structure will cause the hardship to make them less competitive advantages.

What is the AFTA

The Association of Southeast Asian Nations or ASEAN was established on 8 August 1967 in Bangkok by the five original Member Countries. The member countries are Indonesia, Malaysia, Philippines, Singapore, and Thailand. Brunei Darussalam joined on 8 January 1984, Vietnam on 28 July 1995, Laos and Myanmar on 23 July 1997, and Cambodia on 30 April 1999 (About ASEAN. 2007).

Since the early of the 1990s, the ASEAN countries have armed themselves against a number of changes in the international environment, which were perceived as a threat. Among these changes can decline in foreign investment in the ASEAN countries.

The ASEAN countries, which have aim and lead to radical reductions of trade restrictions, to increase pace and transforming effectively in industrialization among the ASEAN countries, the share of manufactured exports was rising and an increase in intra-industry trade was also experienced (Naya et al, 2002).

AFTA is a short form of ASEAN Free Trade Agreement and it was establish in year 2002. AFTA is a collective effort by ASEAN member countries to reduce or to eliminate tariff or barrier on intra ASEAN trade. The purpose of AFTA

was to develop greater trade and industrial linkages among these ten of ASEAN member countries. Because of the combination of high population among ASEAN member countries can provide high potential and stimulation of greater economic collaboration (About AFTA. 2007).

With the aim of the liberalization of intra-ASEAN trade, AFTA is running the main entrustment which is a scheme called Common Effective Tariff (CEPT). This CEPT of AFTA aim to the import duties among ASEAN member countries will be reduced to between zero percent to maximum five percent by full implementation of AFTA in year 2010.

The AFTA also want to eliminate other non tariff barrier and the quantitative restriction such as import permit, approved permit or quota among the ASEAN member countries. Under the CEPT, the progressive transfer of products will base on each ASEAN member's capacity and capability (Trade under CEPT. 2007).

Meanwhile, Malaysia government must reduce the import tax or duty to maximum five percent on the CKD cars from ASEAN member countries.

There are two type of new automobile are be classified in the world, CKD and CBU. CKD is a short form of completely knocked-down; the CKD automobile is some component parts and accessories that are sourced domestically. On the other hand, CBU is a short form of Completely Built Up, which the automobile is fully import and completely built in other counties or out of ASEAN member countries.

According to the daily express, the CKD automobile which is imported from ASEAN member countries is no require to pay or charge import duty, in

contrast, the CKD automobile which imported from non ASEAN member countries is require to pay zero percent to maximum thirty percent. The CBU automobile which is import from ASEAN member countries is only require to pay zero percent to maximum twenty percent and CBU automobile which imported from non ASEAN member countries is require to pay minimum thirty percent to maximum fifty percent (Auto: Import Duty Down. 2004).

Comparing and analysis to overall new system, the automobile import taxation will have greatest change. The overall taxes will be lowered from the range of eighty percent to three hundred percent currently change to maximum fifty percent. In truth, Malaysia as a part of the AFTA agreement, the import duties should be lowered and trade barriers should be eliminated in year 2003, but Malaysia was managed to negotiate a postponement from year 2003 postpone to year 2005, and secondly postpone to year 2008.

Liberalization bring benefit

Liberalization to domestic automobile market to match AFTA can provide a clear and transparent direction to all of industrial participants and directly enable them to make the optimal plans and investment decision for the future. Then, foreign car makers may want to enjoy the benefit from AFTA and set up their automobile plants in Malaysia whichever manufacturing and assembling.

Beside the benefit of AFTA, more and more foreign investors will be attracted to invest or expand their businesses in Malaysia after the liberalization because of the stability of Malaysia politic, well infrastructure, and largest automobile market among ASEAN.

According to the Malaysian Automotive Association president, Datuk Aishah Ahmad, the Malaysian automobile industry players must look at the opportunities of AFTA that will arise and provide to benefit all ASEAN member countries, the majority of local auto industry players are currently tied with Japanese manufacturers (Khong. 2005).

Malaysia may think the AFTA is a threat to domestic automobile manufactures but it is an opportunity to many Malaysian automobile companies. They can actually negotiate with foreign giants to invest in Malaysia and open up a joint venture company. With joint venture it would be a two win situation where both local and foreign companies can benefit from the project. For examples, the Honda Motor Corporation just formed a joint venture project with DRB-HICOM and Oriental Industries in July 2000.

Both local companies have 51 percent share while HONDA has 49 percent. DRB-HICOM is actually a domestic and parent company for Proton. They have formed an alliance with HONDA so that they are not out of the car industry (The upcoming challenges to the Malaysian automotive industry. 2007).

This is considered a good move because this joint venture project will benefit all parties involved. Malaysia government can think that some other companies will follow this footsteps to form a joint venture company with other well quality auto giants like Toyota, Ford, Volvo and others. If Malaysian automobile companies never offer themselves, then other ASEAN member countries just like Thailand or Vietnam will grab these opportunities of joint venture projects and gain most from AFTA.

The liberalization of domestic automobile market will cause of creation of spin off industries such as services, auto parts, auto accessory, telecommunications, and many others. Malaysian automobile companies will also benefit from technology transfer and may have an increased role to play in regional and global auto part supply chains.

Consequently, these components sectors will become viable. Their business volume will be higher and more networked into the global automobile industry. Liberalization will lead to reduce scope for import of the auto components, but genuine distributors will benefit from the increased of sales volume. It is a way for working o turn Malaysia into hub for automobile industry.

The higher levels of foreign direct investment which may be generated are expected to translate into greater two-way trade and Malaysia's economy should experience an expansion. Economic expansion should lead to the creation of more and better paying jobs for both countries.

Conclusion

In conclusion, my first opinion is the Proton has already started preparing for AFTA, but it may no enough to face the impact of liberalization. Sales will be projected to drop clearly for Proton after AFTA is implemented. One of the measures key taken by Proton is in research and development sector.

Although they have come up with first Malaysian design car which is a milestone in Proton, but Proton must also doing research and development with Lotus engineering and Petronas-Sauber Formula 1 team to come up with own engine. The research and development sector is very important for

automobile industry. After that, Proton can show their own identity to the world rather than copying prototype of Mitsubishi cars.

Second, local auto manufacturers and assemblers have to come with their own identity or brand if they want to penetrate the ASEAN market. In order to have own identity, they need to come out with their own model that is not available from other auto manufacturers. Third, all automobile companies should be taken action is cost competitiveness. Cost control is very important. Our local cars cost is very high compare to the actual price of foreign car without tax and tariffs. Even though many Malaysia urged Proton to cut cost of the local production if they want to be global distributor than their price should be competitive among car giants.

Even though the Proton's capacity is small compare to other car giants, but if they want to challenge them then they have to cut the cost. Proton has informed that the new model Proton WAJA parts are ninety percent locally made. This is a good sign for local part manufacturers. However are the local parts cheap compare to foreign suppliers. However they should get alternative choice to reduce cost. Maybe they can buy some parts from other countries that are significantly cheap compare to local parts.

Another main thing that Proton should consider is quality of the car and its parts. Currently the proton car quality is not as good as foreign cars. So how does Proton going to go global? Quality is very important because most consumers will look into the quality of the car before purchasing them. They should improvise their quality of car. They should be strict in quality control. Even to maintain the local sales, Proton has to maintain the quality and

upgrade them to be higher than foreign cars. Proton car owners knew the quality of Proton cars before they buy the car.

They didn't consider the quality because the cost was more important to them since Proton and Perodua was the cheapest car. Before penetrating other ASEAN countries, local manufacturers have to do a well planned marketing strategy to sell the car in the ASEAN region. They should come up with some partnership in these ASEAN countries to market their cars. Local distributors in ASEAN countries are more reliable and trustable since they know their market well. The collaboration should be enhancing the marketing strategy and method to penetrate this ASEAN region.

Promote strategic linkages with international partners is important. Scale and focuses are necessary to achieve greater competitiveness but in themselves, they are not sufficient. In addition, global best practices and industry linkage are other important key success factors for the automobile industry. Therefore, the Government will continue to encourage industry participants to collaborate with external parties to establish strategic tie-ups.

Apart from sharing scale and resources, such strategic tie-ups open up opportunities and provide access for domestic industry participants to enter the global automobile supply chain. Moreover, such strategic tie-ups also allow domestic industry participants to adopt best practice management, processes and procedures to deliver on higher quality standards that are necessary in accessing international markets. Finally, I want to mention that later is always better than never.

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