

<研究ノート>

The Proton National Car, unique model for industrialization in Southeast Asia.

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Currency turmoil and depreciations across Southeast Asian countries, which were triggered by the Thai baht tumbling in July 1997, have cooled off their economies and have forced some countries to revise the growth rate. But as I think it worthy to report our visit to the Proton plant in November 1996, this time I will focus my attention on the developments occurring preceding the 'Asian contagion' sparked by the baht tumbling.

Despite the recent slowdown after years of overheated economic growth in the ASEAN region, global attention continued to focus on the evolution of markets in this center of post-Cold War growth.

In addition to a rush of capital investment by Japan, South Korea, the U-S, and some E-U member countries, certain countries of the region have also made constant efforts to achieve as much industrialization as possible of their own. One of the most striking examples is the case of the people's car.

The drive for a people's car has been particularly noteworthy in Malaysia, where I once had occasion to visit the Proton plant, in November 1996.

Part-I A brief look at general trends in car production.

To begin with, I would like to take a bird's eye view of the general trends of car production in the region as of early June 1997 just

before a regionwide meltdown in currency and equity markets occurred.

In Thailand, the largest auto market in Southeast Asia, foreign automakers, particularly Japanese, had made deep inroads due to the freer investment and trade policies of this country. Honda Motor Company introduced its Asian car called the City, in April 1996 in a bid to attract the middle class family. Toyota Motor Corporation also began marketing an Asian car in 1997. (Togota Mortor Corp. said on November 4, 1997 that its two factories in Thailand will suspend production from mid-November through the end of December because of poor car sales.)

The foreign automakers' inroads into the Thai market became possible after the Thai government began to liberalize the industry in 1991 and approved the establishment of new assembly plants. In 1994, the Board of Investment started offering lower corporation tax rates and raw material and machinery-import duties to ventures setting up outside the Bangkok area (Business Week, Nov. 20, 1995).

In contrast to Thailand, no foreign automaker is producing cars in Malaysia. Its national passenger car, Proton, held a 63.9 percent market share in Malaysia in 1996. It was launched as the national car under the direction of Prime Minister Mahathir Mohamad in 1983. An official of Proton describes this project as a catalyst for Malaysian economic growth, with the aim of leading the nation to

full industrialization in 2020.

Part II Proton spearheading Malaysia's industrialization.

Part II-1 Overview

The automobile industry in Malaysia was largely confined to the assembly of the vehicles until May 7, 1983, when Proton-Perusahaan Otomobil Nasional Berhad (current name) –was incorporated as joint venture with Mitsubishi Motors Corporation, which has provided capital, technology, components and parts.

Since then, Proton has engaged in the manufacture and assembly of made-in-Malaysia passenger cars, with the objectives of rationalizing the local automotive industry and spearheading the development of local components and parts industries. (see Table Part II-1 : Background of the company, Table Part II-1 : Financial performance)

Part II-2 Brief history

Proton rolled out its millionth passenger car in Malaysia on December 30, 1996 at a ceremony attended by Malaysian Prime Minister Mahathir Mohamad at its plant compound in Shah Alam, on the outskirts of Kuala Lumpur.

- ◆ July 1985, the first passenger car, Saga, rolled out. In September marketing began.
- ◆ January 1989, export of Proton cars to Britain –the largest export market– began.
- ◆ June 1989, the local assembly of car engines began.
- ◆ December 1990, engine and transmission factory completed.
- ◆ March 1992, listed on the Kuala Lumpur Stock Exchange.

- ◆ April 1993, Research and Development Center opened.
- ◆ May 1993, production reached half a million cars.
- ◆ January 1995, a new 2 liter model launched.
- ◆ November 1995, launch of Proton-Citroën variant production line
- ◆ October 1996, Proton acquired a controlling stake in Lotus.
- ◆ December 1996, production reached one million cars.

(see Table Part II-2 : Production volume)

Part II-3 Manufacturing, R & D

The major objectives of manufacturing are to create jobs for Malaysians, and to upgrade technology and expertise by acquiring automation and robotics systems, so meeting the demand for cost efficiency.

Deputy General Manager Maruan Mohd Said of Proton's corporate planning division, in a meeting with me, explained the major factors underpinning the national car project as follows :

- 1-rationalization of the automotive industry (imports in 1960s→assembly in 1970s→manufacture in 1980s→globally competitive Malaysian car.)
- 2-development of local component manufacture and associated, auxiliary industries.
- 3-creation of employment and new skills, with consistent manufacturing-distribution-retailing network.
- 4-catalyst for economic growth toward full industrialization (2020) .
- 5-upgrading of technology, engineering skills, etc.

The Proton official stressed the importance of research and development, combining the in-house development of technologies with

the acquisition of sophisticated techniques from outside sources. This strategy has been organized into these sections: planning, styling, engineering design, engineering services, prototyping/testing, and homologation. The company explained that R&D activities are regulated against a set of guidelines that include requirement for innovative, environment-friendly features. Localization is the final goal of the production of completely made-in-Malaysia car.

Part II-4 Localization

The Proton official explained that localization is aimed primarily at increasing the local content of the car and developing the local automotive component industry.

The local assembly of car engines began in 1989. Until then, Proton had imported built-up units from Japan. Engine and transmission facilities were inaugurated at the Proton plant in Shah Alam, Selangor Darul Ehsan. This, together with other locally made components and parts have made the Malaysian automaker more self-sufficient and less dependent on foreign components and parts supplier. This is in sharp contrast to the Thai example, where foreign assembly plants have been approved.

In 1985, only 18 percent of the Proton Saga—the first model—was produced locally in Malaysia. In 1993 when the new model was launched, the local content jumped to 67 percent (as determined by the computational methods of the Generalized Preferences). It is insisted that localization is the goal of manufacturing the made-in-Malaysia people's car. The policy confirms Proton's role as the country's nucleus for industrialization. This exceptional increase in local content is a result of several special pro-

jects that together are referred to as localization.

Part II-5 Vendor development programs and spin-offs.

The Proton official stressed that programs for vendor development are also a hall-mark of their approach in that local vendors—components and parts suppliers—have shifted from simple manufacturing processes to the use of sophisticated methods capable of producing high value added components. The achievements of these vendors were often made possible by the company's efforts to pair them up with technological licensors from Japan, Germany, South Korea, Taiwan and Australia.

Bumiputra (native, mainly Malay) vendors can apply for financial aid from a government-based technical assistance scheme managed and implemented by Proton.

Part III Diversification and export strategy

Proton is pursuing a diversification policy which enables the company to be innovative and competitive and to seek markets beyond Malaysian shores. The policy ranges from joint ventures to acquisitions and alignments. Sophisticated technologies have mostly come from Mitsubishi Motors but Malaysia has also stepped up efforts to seek technology and skills from Citroën in France and the British sports automaker, Lotus.

Part III-1 Alignment with Citroën and the acquisition of Lotus

Malaysia's national car project has, with its policy of diversification, also led to the launch of the new Proton-Citroën variant production

line at a locally-based assembly plant of Automotive Manufacturers Sdn Bhd. Citroën is expected to provide advanced diesel-engine technology that would reduce production costs. The CEO of AMM said that this alignment with Citroën guarantees the transfer of technologies and the specialised skills necessary to meet the global-market standard in car production.

In October 1996, Proton acquired 63.75 per cent equity in financially-troubled Lotus. As Hicom—one of Proton's shareholding companies—already holds 16.25 percent equity in Lotus, this brings the Malaysian parties' total shareholding in the British sports automaker to 80 percent. Proton's then Chairman, Tan Sri Yahaya, said that the superlight Lotus sports cars will be built in Malaysia and directed Lotus engineering in Norfolk, England to develop a family car for Proton. (see Chart Part III-1: Techn. collab. & Distrib. system)

Part III-2 Export drive

Proton is one of the most ambitious projects in Malaysia's export drive, as reflected in the fact that machinery and transport vehicles accounted for 55.1 percent of all Malaysia's exports in 1995. The Malaysian government shifted its industrial priority from labour-intensive to capital and technology-intensive export industries.

Proton has been making efforts to export its passenger cars. Since 1986, when the company began its first exports to Bangladesh, its cars have been exported to 39 countries with Britain as the major market. (Table Part III-2: Exports) .

Part III-3 Congestion and traffic infrastructure

The world's major automakers had been making increasing inroads into the markets of East Asia, even staking their futures on the region. (It is reported that auto-makers are forced to cut production due to high costs of component and parts import and other factors after currency crisis.). While they can expect further demand for cars, overcrowded roads and problems with traffic control will create increasing pressure for the traffic structure and public transport network.

In Manila, Kuala Lumpur, Bangkok and other mega-cities, roads are becoming more and more overcrowded with passenger and other vehicles with severe deterioration of traffic flow. As more cars are produced and put into the market, the resultant losses in work efficiency are likely to grow worse. Although motorization may be the showcase of first-stage industrialization in the region, projects for traffic planning including the tramway and infrastructure are all the more necessary for rapid and efficient traffic.

Part III-4 Vision 2020, aimed at full industrialization

Malaysia's economy has been expanding steadily with economic growth rates of 8.3 percent in 1993, 9.2 percent in 1994, 9.5 percent in 1995 and 8.2 percent expected in 1996 though lower rate is expected in 1997 due to sudden currency turmoil. With higher costs, however, Malaysia also now needs to make the shift to a less labour-intensive policy, and so to become a full-fledged industrialized nation to rank alongside Japan and South Korea by 2020.

In November 1996, the government announced its Vision 2020 which aims at achieving

this goal by fostering automotive engineering and information technology as the nucleus industries for this purpose.

International Trade and Industry Minister Dato Rafidah Aziz explained the position : "We are now at a point of take-off into accelerated industrialization because we have made this transition from labour-intensive manufacturing into capital-and-technology intensive production and industries (The Japan Times, Feb. 27,1977) .

Part III-5 Multimedia super corridor

The Multimedia Super Corridor is a core project for building information-technology infrastructure south of Kuala Lumpur. NTT will take part in the project which is aimed at developing a nucleus information city for Southeast Asia, in parallel with Singapore's Information-technology 2000.

With the information and telecommunications services so provided, business opportunities are likely to expand in the future as Malaysia becomes an ever attractive site for foreign investors and entrepreneurs.

Table Part II-1 : Background of the company (as at June 1997)

| | | |
|-----------------------------|--|---------------------------------|
| Name | Perusahaan Otomobil Nasional Berhad (PROTON) | |
| Incorporation | May 7, 1983 | |
| Capital | Authorized | 1,000 million Malaysian Ringgit |
| | Paid-Up | 540 million Malaysian Ringgit |
| Listed on KL Stock Exchange | March 26, 1992 | |
| Shareholders | 1-HICOM Holdings Berhad 2-Khazanah Holdings Berhad 3-Mitubishi Motors Corp. 4-Mitubishi Corp. 5-Others | |

Source : Proton, Public Relations (Dec.30,1996)

Table Part II-1 : Financial performance (million Malaysian Ringgit)

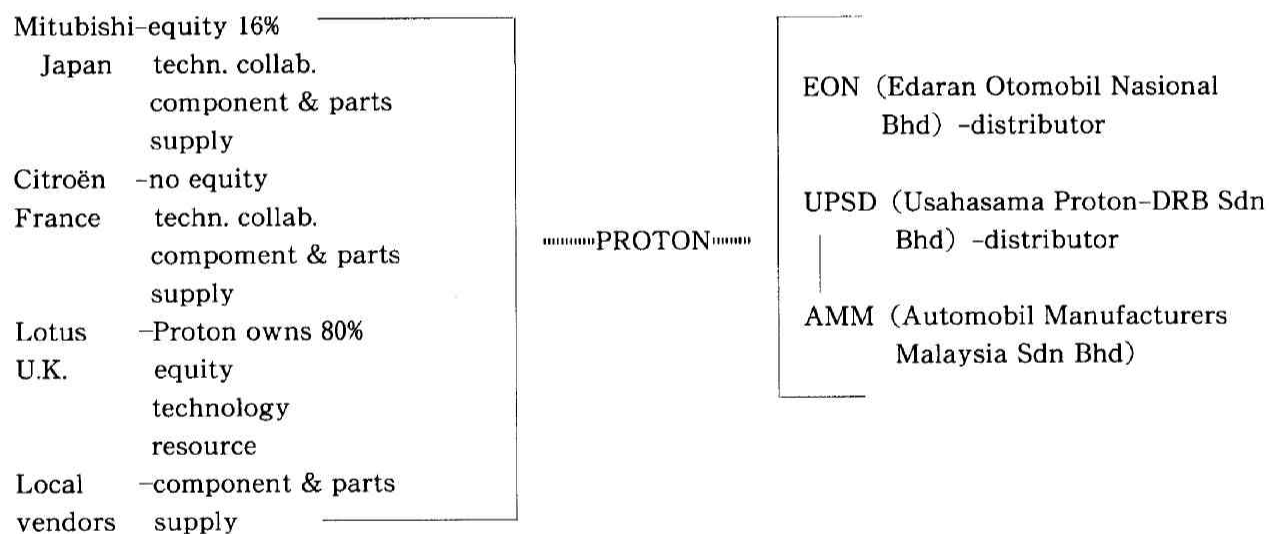
| Fiscal year | 1992/93 | 1993/94 | 1994/95 | 1995/96 | 1996/97 |
|------------------|---------|---------|---------|---------|---------|
| Turnover | 2,287 | 3,087 | 3,708 | 5,167 | 6,222 |
| Pre-Tax Profits | 311 | 282 | 308 | 455 | 1,029 |
| Retained Profits | 265 | 247 | 234 | 359 | 750 |

Source: made from Proton data

Table Part II-2 : Production volume (thousand)

| Year | Domestic | Export |
|------|----------|--------------------------------------|
| 1985 | 8.6 | — (first car rolled out) |
| 1986 | 24.9 | — |
| 1989 | 51.3 | 14.4 (local assembling began) |
| 1990 | 72.6 | 12.9 (engine factory completed) |
| 1991 | 87 | 15 |
| 1992 | 80.2 | 18.7 (listed on KL Stock Exchange) |
| 1993 | 96.3 | 21.8 (volume reached half a million) |
| 1994 | 110.7 | 16.5 |
| 1995 | 132 | 23 (launch of Proton-Citroën) |
| 1996 | 143 | 37 (volume reached one million) |

Source : Proton, Public Relations (Dec.30,1996)

Chart Part III-1 : Techn. collab. & distrib. system

Source: made from Proton officials explanations

Table Part III-2 : Exports (shipment based and as of end of Nov. 1996)

| Total export countries : | 39 countries | | |
|--------------------------|----------------------------|-----------|-------|
| Total volume exported : | 136,951 units | | |
| First export country : | Bangladesh (25 units 1986) | | |
| Largest export country : | United Kingdom | | |
| Main export markets | | | |
| country | unit | Country | unit |
| United Kindgam/Eire | 96,907 | Australia | 2,851 |
| Singapore | 13,385 | France | 1,360 |
| Germany | 9,320 | Chile | 1,269 |
| Belgium | 3,345 | Brunei | 1,157 |
| -- | | -- | |

Latest export countries include Zimbabwe; Qatar; Ghana.

Source: Proton, Public Relations Dept. (Dec.30,1996)