

Istituto nazionale
per il Commercio Estero

Guida pratica



MALAYSIA

THE MALAYSIAN AUTOMOTIVE SECTOR *(updated January 2012)*

courtesy of
EU Delegation to Malaysia – Trade & economic Section

The Malaysian Automotive Sector

1. Domestic and regional sector overview¹

The Malaysian automotive sector is characterised by a domestically developed manufacturing structure geared towards the production of passenger vehicles. The sector has been heavily subsidised and protected to produce national champions and automobile components and parts suppliers.

In 1985, a joint venture between Malaysian Heavy Industry Corporation of Malaysia (HICOM), Mitsubishi Motor Corporation (MMC) and Mitsubishi Corporation (MC) the first Malaysian made passenger vehicle, the Proton. The establishment of Proton was followed by the small car manufacturer Perodua in 1993, the heavy commercial vehicle manufacturer Malaysian Bus and Truck (MTB) in 1994, the motorcycle manufacturer Modenas in 1995, and finally, a light commercial vehicle manufacturer Inokom in 1997.²

In the past three decades, Malaysian vehicle sales and production has increased markedly. Yearly vehicle sales rose from below 54 000 in 1987 to 605 156 vehicles in 2010, while production rose from 104 000 to 567 715 vehicles.³ However, this development has been far from straightforward. From the mid-1990s until today, the Malaysian automobile sector experienced adverse demand conditions brought on by the 1998 Asian financial crisis and the 2008 financial crisis. It was only in 2010 that production and sales seemingly recovered to pre-crisis levels.

In 2010, after rebounding from a slight market contraction in 2009, Malaysia's total automobile sales growth rose by 12.8% (year on year), reaching an all time high of 605 156 vehicles sold (see Tables 1 and 2 below for data on the production and sales in the Malaysian- and other regionally significant automobile sectors between 2005 and 2010).⁴ In the first half of 2011 the sector recorded a production (-6.9%) and sales drop (-2.3%) compared to the same period last year.⁵ The Malaysian Automotive Association attributes these negative

¹ Definitions, Delimitation and Data sources:

In this report, the term '*automotive sector*' encompasses the actors involved in production of passenger vehicles and commercial vehicles including trucks, lorries, pick-ups, buses and other vehicles for commercial use. This definition is in line with the definition used by UN COMTRADE HS 1992 and covered by codes 8702, 8703, 8704. Moreover, the definition of '*parts and components*' used in automobile sector related production corresponds to UN COMTRADE HS 1992 code 8708.

Data has been collated from peer reviewed academic journals, the EU, UN organisations (UNIDO, UNESCAP), statistic data bases (UNCOMTRADE), Malaysian government agencies (MITI, MAA, MAI), business associations (OICA) as well as consultancies, news media and company web pages. This report predominantly focuses on actors and other stakeholders related to the two areas described above with particular attention given to European companies. Companies and stakeholders in related industry sectors including after sales service companies, auto workshops, auto dealers and other similarly related businesses will not be covered by this report. These sectors will only be referred to when appropriate or if deemed necessary. The same applies to production and assembly of motorcycles, as well as parts and components involved in such production.

² Wad and Govindaraju 2011

³ Wad 2009, Wad and Govindaraju 2011, Fujita 1997

⁴ The Thai, Malaysian and Indonesian automobile account for 86% of ASEAN unit sales and over 90% of the vehicle output

⁵ MAA 2011, <http://www.maa.org.my/pdf/july.pdf>

figures to supply chain disruptions following the Japan Tsunami in March and alterations to the 'Hire Purchase act 1967' protracting the vehicle sales process.

Table 1: Total Production in selected ASEAN countries

(vehicles)	2005	2006	2007	2008	2009	2010	Change 2005-10
Malaysia	563 408	502 973	441 661	530 810	489 269	567 715	-4307 (-0.75%)
Thailand	1 122 712	1 194 426	1 287 346	1 393 742	999 378	1 644 513	521 801 (47%)
Indonesia	500 710	297 062	411 638	600 628	464 816	704 715	204 545 (41%)

Source: OICA⁶

Table 2: Total Automobile Sales in selected ASEAN countries

(vehicles)	2006	2007	2008	2009	2010
Malaysia	490 768	487 176	548 115	536 905	605 156
Thailand	682 500	631 250	615 000	548 871	800 367
Indonesia	317 312	434 499	607 805	486 061	764 088

Sources: Just-Auto, MAA, ITA, Reuters

1.1 Domestic and Regional Export Performance

As shown in Table 1 and Table 2, both Thailand and Indonesia, although having experienced volatile fluctuations in production and sales in the last five year period, appear to have surpassed pre-financial crisis levels of production and sales. An explanation for Thailand's and Indonesia's strong performance but volatile shifts in output is their relatively greater dependence on export markets as conveyed by the data in Table 3. In contrast, Malaysia's output has little connection to overseas sales. In fact, although output has rather been stable and around 500 000 vehicles yearly, Malaysia's trade performance has been abysmal, doubling its trade deficit between 2006 and 2010. This can be attributed to increasing imports and poor export growth.

Table 3: Trade in selected ASEAN countries

(USD, Mn)	2006			2008			2010		
	Import	Export	Net	Imp	Exp	Net	Imp	Exp	Net
Malaysia	1720	209	-1511	2099	228	-1862	3450	265	-3185
Thailand	520	6609	6089	969	10703	9734	1443	12886	11443
Indonesia	1014	411	-603	3036	1316	-1720	4401	1101	-3300

Source: UNCOMTRADE⁷, Hs 1992; Code, 8702, 8703, 8704

1.2 Output Characteristics and Trends

The Malaysian automobile sector is heavily skewed towards production of passenger vehicles which constitutes more than 90 per cent of the output. Moreover, as reflected in the figures shown in Table 4, Malaysia's output has become less diversified in the last five year period, whereas Thailand's and Indonesia's output have become more so. While Malaysia has retained its focus on passenger car production, Thailand has grown into a strong export market for

⁶ <http://oica.net/category/production-statistics/>

⁷ <http://comtrade.un.org/db/ce/ceSearch.aspx>

commercial vehicles (particularly in the Pickup truck segment).⁸ In addition, the overall strong performance of the Thai automobile sector and a recent diversification into passenger vehicles has resulted in that Thailand has overtaken, in terms of output, Malaysia as Southeast Asia's premier location for passenger car manufacturing.

Table 4: Production (number of), Passenger Cars (PC) /Commercial Vehicles (CV)

	2006			2010		
	PC	CV	% of which is PC	PC	CV	% PC
Malaysia	377 952	125 021	75%	522 568	45 147	92%
Thailand	298 819	895 607	25%	554 387	1 090 126	33%
Indonesia	256 285	40 777	86%	496 524	205 984	70%

Source: OICA⁹

Looking more closely into the recent production trends of Malaysia's automotive sector, in the passenger car segment, a 6.6% overall drop in production was noted for the first half of 2011, with Multi Purpose Vehicles (MPVs) accounting for the largest part of that drop (-23.7%) compared to the first half of 2010.¹⁰

In the commercial vehicle segment Pickup trucks (Pickups) dominate the production which enjoyed a 51.6% share (10 948 vehicles), though recording a 20% fall in the first half of 2011. Lorries is the second largest segment in the commercial vehicle category with a 37.5% share (7963 vehicles) of total sales.¹¹

1.3 Parts and Components

In 2010 there were more than 800 component makers operating in Malaysia. Among them, the major players, Original Equipment Suppliers (OES), included foreign companies Delphi Automotive Systems, TRW, Siemens VDO, Bosch, Denso and Nippon Wiper Blade. Domestic supplier included APM Automotive, Sapura, Delloyd and Ingress.¹² As shown in Table 5, Malaysia's trade balance in parts and components has become increasingly negative. Between 2006 and 2010, when vehicle production rose by 12.8% Malaysia's trade deficit in parts and components grew by 47.8%.

Table 5: Trade in parts and components to Malaysia (value in M USD\$)

	2006			2008			2010		
	Import	Export	Net	Import	Export	Net	Import	Export	Net
Malaysia	986	425	-561	1257	579	-678	1592	763	-829

Source: UNCOMTRADE¹³ HS Code 1992; Code, 8708

2. Government regulation

Government regulation of the Malaysian automotive sector is still heavily influenced by Import Substitution Industrialisation (ISI) policies introduced in the 1960s. The ISI policies aimed at building a strong domestic industrial base through the protection of vehicle manufacturers and local component suppliers, as well as other industries. In the automotive

⁸ Wad 2009, Humphrey and Memodovic 2003

⁹ <http://oica.net/category/production-statistics/>

¹⁰ MAA 2011

¹¹ Ibid.

¹² MAI 2010

¹³ <http://comtrade.un.org/db/ce/ceSearch.aspx>

sector the policies included local component content requirements, import taxes on Complete Build Units (CBU) and Complete Knock Down (CKD), and license scheme for vehicle imports subject to biannual renewal.¹⁴

2.1 'Liberalisation' of Automotive Sector

In the last decade, the Malaysian authorities have gradually loosened some of its protective grip of the automotive sector. However, in spite of the partial liberalisation manifested in the reduction of import duties, Most Favoured Nation (MFN) import duties on cars remain at 30% and intra-Asean duties at 5%. Regarding duties on automobile components for CKD assembly, MFN duties were reduced from 35% to 10% and intra-Asean duties from 25% to 0%. But shortly after these duty reductions Malaysia introduced an excise tax on all cars. The structure of the excise tax ensured that Malaysia's producers of small and medium sized cars would be taxed less than producers of other larger vehicles. This practice is clearly in violation of the principle of non-discrimination.

Table 6: MFN and Intra-Asean Import- and excise duties on CBU and CKD

Engine Capacity (cc)	CBU Vehicles As of 1.1.2007			CKD Component		
MFN Passenger Vehicles	IMPORT DUTY	EXISE DUTY	SALES TAX	IMPORT DUTY	EXISE DUTY	SALES TAX
< 1800	30%	75%	10%	10%	75%	10%
≥ 1800 - < 2000	30%	80%	10%	10%	80%	10%
≥ 2000 - < 2500	30%	90%	10%	10%	90%	10%
≥ 2500 - ≤ 3000	30%	105%	10%	10%	105%	10%
> 3000	30%	105%	10%	10%	105%	10%
Asean (CEPT)						
Passenger Vehicles						
< 1800	5%	75%	10%	0%	75%	10%
≥ 1800 - < 2000	5%	80%	10%	0%	80%	10%
≥ 2000 - < 2500	5%	90%	10%	0%	90%	10%
≥ 2500 - ≤ 3000	5%	105%	10%	0%	105%	10%
> 3000	5%	105%	10%	0%	105%	10%

(Source, MAI 2011)

An even more trade distorting policy is the mentioned license scheme for vehicle imports, the so called Approved Permit (AP) system. The problem of the AP system is two-fold. Firstly, the APs are, in a non-transparent manner, awarded by the Ministry of International Trade and Industry (MITI) to 'qualified' local individuals and companies clearly favouring Bumiputera (of Malay origin) majority-owned firms and persons. Secondly, through the AP system the number of imported cars annually is limited to 10% of the total industry volume, thus constituting a de facto import quota. As such, the AP system forms a major obstacle to creating a level playing field between industry actors.

2.2 Malaysia Tariff Reduction Commitments to Bilateral and Multilateral Trade Partners

¹⁴ [UNESCAP](#)

In the last decade Malaysia has negotiated and concluded several multilateral and bilateral trade agreements that directly affects trade in automotive vehicles. However, as shown in Table 7 and 8 below, Malaysia's protectionist stance is also reflected in the overall lack of tariff reduction commitments it has made. Particularly countries producing smaller and price competitive cars, i.e. China, South Korea and India have struggled to get Malaysia to make any commitment below the MFN tariffs in passenger vehicles. Japan, on the other hand, has negotiated a comparatively good agreement which will bring tariffs on cars of all engine sizes down to 0% by 2016. Moreover, cars in the luxury segment, with engine sizes of 2500cc are not subject to import duties since 2011 onwards. The Malaysia-Japan FTA therefore presents the Japanese market actors with opportunities to break European dominance in the luxury cars segment and to solidify their dominance in the mid-range segment

In the commercial vehicle segment, India and Japan have managed to negotiate sub-MFN tariffs on CBU imports for commercial vehicles weighing below 5 up to 20 tonnes. These tariffs, now at 21% (India) and 18.2% (Japan) will ultimately decrease to 5% (India) and 0% (Japan) by 2016.

Table 7, Malaysia Automotive Sector Tariffs 2012, within framework of bilateral and multilateral frameworks (n.c. =no commitments)

	MFN		ASEAN-Korea		Malaysia-Japan		ASEAN-China		Malaysia-India	
	CKD	CBU	CKD	CBU	CKD	CBU	CKD	CBU	CKD	CBU
Passenger Vehicles (8703 23 XXX)										
<1800	10.0%	30.0%	0.0%	n.c.	0.0%	18.2%	n.c.	n.c.	n.c.	n.c.
≥1800<2000	10.0%	30.0%	0.0%	n.c.	0.0%	18.2%	n.c.	n.c.	n.c.	n.c.
≥2000<2500	10.0%	30.0%	0.0%	n.c.	0.0%	18.2%	n.c.	n.c.	n.c.	n.c.
≥2500<3000	10.0%	30.0%	0.0%	n.c.	0.0%	0.0%	n.c.	n.c.	n.c.	n.c.
Commercial Vehicles (8704 2X XXX)										
<5 tonnes	0.0%	30.0%	0.0%	n.c.	0.0%	18.2%	n.c.	n.c.	0.0%	21.0%
≥5 <20	0.0%	30.0%	0.0%	n.c.	0.0%	18.2%	n.c.	n.c.	0.0%	21.0%
≥20 tonnes	0.0%	30.0%	0.0%	n.c.	0.0%	18.2%	n.c.	n.c.	0.0%	21.0%

Source: [MITI](#)

Table 8, Related regional and bilateral trade agreements implementation schedule (n.c. =no commitments)

Personal Vehicles, Engine size (CC)

Asean-Korea Tariff Reduction Schedule		Malaysia Japan Tariff Reduction Schedule					Malaysia-India
CKD	CBU	CKD	CBU	CKD	CBU	CBU	
< 1800 < 3000	< 1800 < 3000	< 1800 < 3000	< 1800	> 1800	> 2000	> 2500	
8% (2007)	n.c.	0% (2006)	45.5%	45.5%	45.5%	41.7%	n.c.
5% (2008)	n.c.	0% (2007)	40.9%	40.9%	40.9%	33.3%	n.c.
0% (2009)	n.c.	0% (2008)	36.4%	36.4%	36.4%	25.0%	n.c.
0% (2010)	n.c.	0% (2009)	31.8%	31.8%	31.8%	16.7%	n.c.
0% (2011)	n.c.	0% (2010)	27.3%	27.3%	27.3%	8.3%	n.c.
0% (2012)	n.c.	0% (2011)	22.7%	22.7%	22.7%	0.0%	n.c.
		0% (2012)	18.2%	18.2%	18.2%	0.0%	n.c.
		0% (2013)	13.6%	13.6%	13.6%	0.0%	n.c.
		0% (2014)	9.1%	9.1%	9.1%	0.0%	n.c.
		0% (2015)	4.6%	4.6%	4.6%	0.0%	n.c.
		0% (2016)	0.0%	0.0%	0.0%	0.0%	n.c.
Commercial Vehicle (Tonnes)							
CKD < 5 > 20	CBU < 5 > 20	CKD < 5 > 20	CBU < 5	CBU > 5 < 20	CBU > 20	CBU < 5 > 20	
0% (2007)	n.c.	0% (2006)	45.5%	45.5%	45.5%	24% (2011)	
0% (2008)	n.c.	0% (2007)	40.9%	40.9%	40.9%	21% (2012)	
0% (2009)	n.c.	0% (2008)	36.4%	36.4%	36.4%	18% (2013)	
0% (2010)	n.c.	0% (2009)	31.8%	31.8%	31.8%	15% (2014)	
0% (2011)	n.c.	0% (2010)	27.3%	27.3%	27.3%	12% (2015)	
0% (2012)	n.c.	0% (2011)	22.7%	22.7%	22.7%	8% (2016)	
		0% (2012)	18.2%	18.2%	18.2%	5% Jul-2016	
		0% (2013)	13.6%	13.6%	13.6%		
		0% (2014)	9.1%	9.1%	9.1%		
		0% (2015)	4.6%	4.6%	4.6%		
		0% (2016)	0.0%	0.0%	0.0%		

Source: [MITI](#)

2.3 National Automotive Policy

In 2006, the Malaysian government issued the National Automotive Policy (NAP) in an effort to enhance the competitiveness of the domestic sector and to better position the sector within the regional and global trading environment¹⁵. The NAP formulates the strategic direction for the automotive sector under the Third Industrial Master Plan (IMP3) 2006-2020. In 2009, the NAP was reviewed. In its most recent form, the NAP outlines policies aimed at liberalising certain areas of the sector. More specifically, it includes initiatives to open up the Manufacturing License in the luxury (cars with an engine capacity exceeding 1800cc and

¹⁵ MITI 2009 – Media Release

priced above RM150 000) and hybrid/electric vehicle segments.¹⁶ Investments into these segments are also exempt from stringent (Bumiputera) equity conditions.

There were also further incentives to spur investment into 'green' vehicle production which included tax exemptions, R&D grants and excise duty rebates. Tax incentives will also be extended to component makers focusing on green technology, while all component makers will be able to access 'soft loan' financing through the Automotive Development Fund (ADF) and Industrial Adjustment Fund (IAF). Most notably, the AP system is (again) scheduled to be phased out.¹⁷ The Open AP for used vehicles (passenger cars and commercial vehicles) will be terminated by the end of 2015 and Franchise AP (indicating specific makes and models of passenger cars and MPVs) by the end of 2020.^{18 19}

All abovementioned NAP related policies came into force at the start of 2010, but it has been announced that a new review of the NAP is scheduled to be released in early 2012. According to a report by Affin Investment Bank based on information from the Malaysian Automotive Institute, further liberalisation of the sector could come soon. The report point to the upcoming revised NAP could come to include the opening of manufacturing licences for cars with engine capacity below 1800cc and priced below RM150 000, i.e. potential competitors to Proton and Perodua.²⁰

2.4 2012 Budget

In the 2012 budget a number of automotive sector related initiatives was included. In particular makers and importers of hybrid and electric cars and motorcycles stand to benefit as the import and excise duties exemptions (as implemented in the most recent NAP) will be extended to the end of 2013. In addition, the 50% excise duty exemption will become a 100% excise exemption.

Special assistance to taxi drivers has also been proposed. This assistance includes full excise duty and sales tax exemption on the purchase of locally produced (Proton and Perodua) vehicles, as well as a scrapping of payment for taxi cars sold after seven years. Moreover, individual operators will be exempt from paying road tax, and will be eligible for accessing 'soft loans' to purchase new vehicles.

In sum, though having undergone several changes in the last years, the Malaysia automotive sector is still heavily protected from international competition. This has weakened the domestic firms' competitiveness, current and future and ensured that the inevitable market liberalisation will be costly.

3. Automobile market analysis

Factors governing the vehicle market demand include, but are not restricted to, overall macro economic trends, car ownership 'density' and fuel prices. After having rebounded strongly in

¹⁶ Currently new Manufacturing Licenses are not handed out due to excess capacity in the sector

¹⁷ Originally, the AP system was supposed to be phased out by the end of 2010.

¹⁸ MITI 2009, EU 2010

¹⁹ According to Roland S. Folger, Mercedes-Benz Malaysia's CEO, the abolishment of the AP system yet again risks being postponed. This is because the government has not engaged with AP holders nor taken a clear stand on the issue. This could come to threaten the feasibility of the phase-out schedule. The Edge Financial Daily, Friday 13th 2012

²⁰ The Edge Financial Daily, Friday 13th 2012

2010 from the impact of the financial crisis, the Malaysian economy is currently slowing down to GDP growth rates around 5%. Malaysian unemployment is continuously low (3.0% of labour force) and consumer sentiment is confident.²¹

3.1 Car Ownership Density

Malaysia is the country with the highest car ownership 'density' in Asean reaching 334 vehicles per 1000 persons in 2008. This is to be compared with Thailand's density figure of less than 62 vehicles per 1000 persons in 2009 and the Asean average of 44 cars per 1000 persons. In the near and medium term, Malaysia, Singapore and Thailand are projected to retain their respective position as the region's largest markets in absolute terms. However, Vietnam and Indonesia are likely to experience rapidly growing vehicle sales.²² The relatively high ownership density in Malaysia could imply a certain level of market saturation.

3.2 Automobile Purchase Loans

Malaysian interest rate on car loans is another important factor to consider. At present, overall interest rate levels remain quite low, but in the face of increasing global financial market uncertainties it is difficult to make future projections. In May, under mounting inflationary pressures, the Overnight Policy Rate (OPR) was adjusted upwards by 25 basis points to 3%. Interest rates on car loans vary depending on car and repayment rate. The lowest rates are provided for loans to purchase non-Malaysian made cars. This is because credit risk in this comparatively expensive segment is perceived to be lower. In October, rates started at approximately 2.5% for non-Malaysian cars and 2.9% for Malaysian-made cars.

Another issue is the falling approval rates for car loan applications. From 2008 to 2010 the approval rate fell from 65% to 56.8% indicating that banks are becoming more stringent in their loan assessment. The falling loan application approval rates and rising interest rates can come to have a negative impact on the prospects for middle and lower income customers' vehicle purchases. However, for 2012, Maybank's president and chief executive officer Datuk Seri Wahid Abdul Omar expects vehicle financing to grow, albeit at a slower pace.²³

3.3 CPI Increases, Fuel Subsidy Status Quo

A pertinent issue influencing the cost of car ownership is inflation. These past years, Malaysia has experienced seven consecutive quarterly increases in the Malaysian Consumer Price Index. The CPI has been driven by, among other things, rising petroleum prices. As a result Malaysia's subsidy program (of which fuel subsidies represent the bulk of the 2011 projected RM18bn) has become an increasingly heavy fiscal burden for the government. However, as announced in the 2012 budget, in the short term the subsidies on fuel products will remain in place. In litre prices this means that 1 litre RON 95 has a pump price of RM 1.9, although the actual market price is RM2.75 (31% subsidised). As for Diesel, it has a pump price of RM1.8, but in real market price is RM2.66 (32% subsidised). In the medium and long term, given the government's ambition to reduce the fiscal deficit the petroleum products subsidies might be abolished or partially reduced²⁴.

²¹ October 2011, [Dept. Of Statistics](#)

²² [Deutsche Bank](#), [World Bank](#)

²³ MAI, [The Star](#)

²⁴ MAI, <http://www.bankinginfo.com.my>

3.4 Market Demand Prospects

Regarding future market demand, at the outset of 2011 MAA predicted that vehicles sold would reach 618 000 units, while analysts Frost and Sullivan put (in July) total sales volume at 615 900 vehicles. However, later in July the MAA adjusted this figure downwards to 608 000, but this adjustment was made before the floods in Thailand, which have further dented vehicle production and sales. More generally, volatile financial markets, rising fuel costs and poor sales performance in the first half of 2011 has contributed to an overall poor development.

In an end of year forecast OSK analysts put full year sector sales growth at 0.5% at most or a near 2% contraction to 594 000 units at worst.²⁵ For 2012, OSK expects moderate to slow sales growth. Similarly, in April 2011, the Economist Intelligence Unit projected sales to reach 796 000 in 2015 primarily due to low cost financing, infrastructure investment and new model launches, as well as the domestically implemented scrapping programme. Today, this prediction looks far from realisable. Nevertheless, the demand boosting impact of tax rebates, scrapping programmes and consumer friendly market liberalisation could come to counterbalance the negative influences on the demand for new cars.

4. Key actors in the automotive sector

In total there are 28 manufacturing and assembly plants locally, with a combined capacity of 960 000 vehicles per year. As the total industry vehicle production totalled 567 715 in 2010 this implies that there is a significant production overcapacity. The Malaysian automobile market is dominated by Japanese automakers. Given the role played by Mitsubishi and Daihatsu in the establishment Proton and Perodua as well as the outspoken 'Look East' policy adopted in the early years of the National Automotive Project, the continued dominance of Japanese firms in the Malaysian market is unsurprising. Toyota-owned Daihatsu has taken a controlling share of Perodua, though it still enjoys the preferential treatment bestowed upon national producers. Mitsubishi, on the other hand, has recently divested from Proton, making Proton a fully owned Malaysian company. However, As shown in the Table 9, among the top ten passenger vehicle makers five are Japanese or controlled by Japanese firms (Perodua, Toyota, Honda, Nissan, Suzuki), another three are Malaysian (Proton, Naza, Inokom) and one is South Korean (Hyundai, which also is a minority shareholder of Inokom), making Daimler owned Mercedes the only European company represented on the list.

In the commercial vehicle segment the distribution is largely the same. Among the top ten commercial vehicle brands six are Japanese (Toyota, Nissan, Mitsubishi, Isuzu, Hino, Daihatsu), two are Malaysian HiCOM-Perkasa and Inokom, another one is American Ford and finally one is European owned Mitsubishi-Fuso (Daimler). Other European actors in the Malaysian market include passenger car makers BMW, Volkswagen, Peugeot, Volvo, Audi, MINI, Renault (also has a 43.4% stake in Nissan), Land Rover and Porsche. To this tally, the commercial vehicle manufacturers Volvo Trucks, Scania and MAN should also be mentioned.

²⁵ [The Star](#)

Table 9: Market Position by market share/units sold *Source: MAA 2011*

Rank	Brand/Maker	Total units sold	Total Market Share (%)	Passenger car	Market Share (%)	Com. Vehicle	Market Share (%)
1	Perodua	188641	31.2	188641 (1)	34.7	0	0
2	Proton	157274	26	156960 (2)	26.9	314	0.5
3	Toyota	91559	15.1	71065 (3)	13.1	20494 (1)	33.3
4	Honda	44483	7.4	44483 (4)	8.2	0	0
5	Nissan	34701	5.7	26322 (5)	4.8	8379 (2)	13.6
6	Mitsubishi	11899	2	4049	0.7	7850 (3)	12.8
7	Naza	9362	1.5	9362 (6)	1.7	0	0
8	Suzuki	6748	1.1	6748 (7)	1.2	0	0
9	Isuzu	6144	1	0	0	6144 (4)	10
10	Inokom	5573	0.9	4252 (10)	0.8	1321 (10)	2.1
11	Mercedes	5144	0.9	5028 (8)	0.9	116	0.2
12	Hyundai	4931	0.8	4931 (9)	0.9	0	0
13	Hino	4590	0.8	0	0	4590 (5)	7.5
14	HICOM-Perkasa	4366	0.7	0	0	4366 (6)	7.1
15	Mazda	4325	0.7	4125	0.8	200	0.3
16	BMW	4006	0.7	4006	0.7	0	0
17	Chery	3041	0.5	3041	0.6	0	0
18	Daihatsu	2989	0.5	0	0	2989 (7)	4.9
19	Ford	2857	0.5	960	0.2	1897 (8)	3.1
20	Volkswagen	2810	0.5	2810	0.5	0	0
21	Peugeot	2562	0.4	2562	0.5	0	0
22	Mitsubishi Fuso	1795	0.3	0		1795 (9)	2.9
23	Kia	968	0.2	968	0.2	0	0
24	Volvo	839	0.1	673	0.1	166	0.3
25	Audi	741	0.1	741	0.1	0	0
26	Chevrolet	540	0.1	540	0.1	0	0
27	Scania	443	0.1	0		443	0.7
28	Lexus	431	0.1	431	0.1	0	0
29	Ssangyong	281	0	242	0	39	0.1
30	MINI	222	0	222		0	0
31	Renault	216	0	72		144	0.2
32	Land Rover	189	0	157	0	32	0.1
33	Dong Feng	155	0	0	0	155	0.3
34	Porsche	126	0	126		0	0
35	MAN	112	0	0	0	112	0.2
36	Mahindra	52	0	52		0	0
37	Subaru	24	0	24		0	0
38	Tuah	16	0	0	0	16	0
39	Maybach	1	0	1		0	0
	Total	605156	100%	543594	100%	61562	100%

4.1 Local actors

Behind high protectionist market barriers, Proton and Perodua managed to reach an overwhelming 90% market share, but neither of them (particularly Proton who had 74% of the market in 1993) has managed to convert the steady domestic revenue streams into international competitiveness enhancing investments. Behind this failure lies the most evident fault of Malaysia's Automobile Programme in not establishing performance rating and apply internationally used benchmarks. This would have allowed the companies to compare

themselves to foreign competitors and enhance their competitiveness accordingly.²⁶ Within the domestic supply chain, another issue is that even if Proton provides a market for its suppliers, it does not provide any incentives for technology upgrading or other forms of interactive, inter-relational developments.

In the Malaysian automotive sector, the two main factors constricting technological upgrading are poor human capital and lack of linkages between meso-level organisations (universities, government research labs etc.) and the domestic vehicle makers. This problem is also exacerbated by the poor innovative capability among students from polytechnics and vocational schools (i.e. not engineers).²⁷

4.2 Japanese domination

The Japanese car manufacturers enjoy a very strong market position. Not only is Toyota the third largest firm in terms of sales, it also controls Perodua (through Daihatsu) which has overtaken Proton's position as Malaysia's incumbent automaker. The number of sold Toyota cars in 2010 (71 065) by far exceeded all European vehicle sales in Malaysia together. To that figure, one can add Honda's 44 483 and Mitsubishi's 26 322 sold cars in 2010 to paint the picture of total Japanese domination. Nevertheless, 2011 will be remembered by the Japanese automobile makers as an '*annus horribilis*', due to the major supply chain disruptions following separate natural disasters in Japan and Thailand²⁸.

4.3 European companies

The European firms' presence in the Malaysian market is somewhat restricted to the luxury cars segment. This is relatable to the tariff structure, excise duties and AP system which make it difficult for comparatively high priced European brands to compete with locally made cars and the Japanese makers' cheaper models. Given the high protective barriers and outright restrictive measures to the Malaysian market many European makers have partnered up with domestic companies to engage in distribution CKD assembly (see Table 10). Notably Volvo Cars Malaysia, established already in 1967, is now a wholly owned subsidiary of Volvo and undertakes local assembly for Renault, Tuah and Kinglong. The local partner requirement is also particularly stringent in sales and distribution.

Table 10: Automobile assembly and manufacturing plants and brand output

Plant	Brand
DRB HiCOM I	Suzuki
DRB HiCOM II	Mercedes Mitsubishi Fuso
DRB HiCOM Pekan	Volkswagen
Assembly services	Toyota, Hino, Daihatsu
Honda	Honda
Inokom	BMW, Dong Feng, HD5000, Hyundai-Inokom, Jinbei Haise, Landrover, Mazda
Isuzu-HiCOM	Isuzu, Isuzu D'max, HiCOM Perkasa

²⁶ Wad 2009, Rasiah 2011

²⁷ Rasiah 2011

²⁸ Honda Malaysia has halted production at its Pagoh plant in Malacca due to parts shortage caused by the floods in Thailand. The Japanese auto maker said it is currently studying the feasibility of sourcing parts from other countries until its suppliers' production in Thailand returns to normal. The floods caused many factories in the supply chain to shut down, including Honda Thailand and other major suppliers who supply parts to Honda Malaysia.

Oriental Assemblers	Chery, Chang'an, Hyundai, Joy Long
Swedish Motor Assemblies	Volvo, Tuah, Kinglong, Renault
Tan Chong II	Nissan, Renault, Foton
Tan Chong II	Nissan
Perodua	Perodua, Toyota
Perusahaan Otomobil Nasional (Proton)	Proton
Proton Tanjung Malim	Proton
Naza	Kia, Naza, Peugeot
Scania Malaysia	Scania

Source [MAA](#)

Mercedes

With an RM120M investment DRB HiCOM's Pekan plant, the local CKD assembly of Mercedeses has come to include Mercedes-Benz S-Class, E-Class and C-Class as well as the Mercedes-Benz and Mitsubishi Fuso commercial vehicles. It is also currently assembling the new E-Class model, which is expected to be launched December 2011. The plant can manage to build up to 30 vehicles daily including commercial vehicles, which in total will see about 5000 vehicles being produced a year.²⁹

Mercedes 2011 Sales Data			
Model	July	August	Jan-Aug
B-class	115	95	210
C-class	216	212	1366
E-class	142	170	1488
M-class	5	3	33
R-class	8	3	33
S-class	25	22	175
Total (2010 Sales)	511	505	3095 (5028)

Mercedes-Benz Malaysia aims to increase its production volume in line with sales, and has targeted to produce at least one new model locally every year, starting from 2012. Malaysia is also looking to increase its staff at the Pekan plant in Pahang by 10 per cent, from about 1 1000 currently. President and chief executive officer Roland S. Folger said the luxury car market in Malaysia has actually become stronger, with the company enjoying an average 35 per cent growth in sales from 2007. This strong sales growth has also been supported by an extensive dealership network across both peninsular Malaysia and Borneo. The number of dealers reached 35 in 2011. Particularly strong selling models are the E- and C-Class.

BMW

BMW Malaysia Sdn Bhd is the result of a joint venture between Bayerische Motoren Werke (BMW) AG and Sime Darby Berhad. BMW Malaysia activities cover the wholesale of BMW cars, spare parts and accessories, as well as the overall planning of sales, marketing, after-sales, and other related activities in Malaysia. Its dealership network covers 15 outlets in

²⁹ [Bernama](#)

various cities in Malaysia.³⁰ Inokom undertakes contract assembly of CKD kits of BMW 3- and 5-series. A strong selling model is the 5-series F10 and the new 520d, which in its most basic configuration sells for RM333 800, approximately RM50 000 cheaper than next model in the range, the BMW 523d.

BMW 2011 Sales Data			
Model	July	August	Jan-Aug
118i	1	0	8
3 Convertible	1	0	5
3 Coupe	3	4	39
3 Sedan	161	147	1257
5 F10	188	176	1378
5 GT	1	1	11
7 Series	6	12	121
M3 Coupe	1	0	3
X1	36	50	260
X3	2	10	53
X5	8	6	54
X5m	1	0	1
X6	2	4	26
Z4	2	0	13
Total (2010 Sales)	413	410	3229 -4006
Mini			
Cooper	11	11	108
Countryman	7	5	59
Total (2010 Sales)	18	16	167 -222

Volkswagen

Volkswagen Group Malaysia was officially established in Malaysia in 2006, locating their HQ in Bangsar, Kuala Lumpur. More recently, DRB HiCOM and VW have managed to reach an agreement regarding local assembly of the Passat and Jetta models with an estimated starting date at the end of 2011. The assembly of Jetta and Passat will most likely be followed by the Polo model. The CKD assembly, taking place in DRB HiCOM's Pekan plant will have an initial annual capacity of a couple of thousand vehicles and will be successively increased as VW's future goal is to assemble 40 000 to 50 000 cars in Malaysia annually.³¹ As for distribution, the new RM1.2M Petaling Jaya centre operated by F A Wagen adds to VW's differentiated dealer network spread across peninsular Malaysia and Borneo.

Audi

Following the deal with Volkswagen, DRB HiCOM has also initiated talks with Audi to reach an agreement on CKD assembly of Audi vehicles in Malaysia. Nothing has been finalised as

³⁰ [BMW, Paul Tan](#)

³¹ [Paul Tan](#)

of yet. Audi's Malaysian distributor Euromobil, a subsidiary of DRB HiCOM, aspires to sell up to 1,070 units from the whole range of the German brand this year. Its chairman Datuk Seri Mohd Khamil Jamil stated "this is a premier brand in Malaysia and there is demand in all segments (for the brand) but I have to say this that the supply cannot meet the sales". Nevertheless, the German premium brand see most of their sales stemming from the more moderately priced A4 and Q5 models, indicating some difficulty for Audi to break Mercedes' and BMW's dominance in the luxury cars segment.

Porsche

In Malaysia, Porsche sold 222 units last year, but this year they already sold 269 cars in the period between January and August (2011). Arnt Bayer, chief executive officer of Sime Darby Auto Imports Sdn Bhd, the sole importer of Porsche cars in Malaysia, said sales have yet to show signs of slowing. Regionally, the Managing Director for Asia Pacific Mr. Ekberg is doubtful Porsche can continue to double its sales volume next year, given the slowing global economy which some economists believe may lead to another recession.³²

Volkswagen 2011 Sales Data			
Model	July	August	Jan-Aug
Eos	14	13	69
Golf GTI	43	38	656
Golf TSI	141	173	959
Passat	160	36	470
Polo GTI	0	5	5
Polo TSI	89	122	902
Scirocco 2.0	9	21	81
Scirocco TSI	22	31	181
Tiguan	10	3	65
Touareg	12	8	66
Total (2010 Sales)	500	450	3454 (2810)
Audi			
A1	5	5	13
A4	31	25	240
A5	3	3	20
A6	8	4	12
A8	5	6	40
Q5	26	15	171
Q7	2	1	21
R8	1	0	3
TT	5	6	12
Total (2010 Sales)	86	65	532 (745)
Porsche			
Boxter	0	2	2
Cayenne	28	35	191

³² [Business times](#)

Cayman	4	0	21
Panamera	5	10	55
Total (2010 Sales)	37	47	269 (222)

Peugeot

Peugeot Malaysia has collaborates with Nasim, a distributor part of the Naza Group for the last two years. Nasim introduced the first Peugeot 407 model in 2008. Their cooperation is built on close ties between Naza and Peugeot, aimed at assembling CKD units of the 206 and 207 models. In Naza's Gurun plant located 380 km to the north of Kuala Lumpur, the plan is to assemble and market the 207 to the larger Asean market. The distribution network for Peugeot totals ten outlets and is confined to peninsular Malaysia with heavy presence in the Klang valley and Penang. 2010 has been a particularly good year for Peugeot in Malaysia, with their best selling model being the compact 308 priced at approximately RM110 000.

Peugeot 2011 Sales Data			
	July	Aug	Jan-Aug
3008	65	41	632
308	155	184	1501
407	14	18	230
5008	43	89	335
RCZ	10	29	89
Total (2010 Sales)	287	361	2787 (2562)

Volvo

Volvo cars has since 1968 had CKDs locally-assembled by Swedish Motor Assembler in Shah Alam. The plant's production target for 2011 is 2100 cars and they hope to increase this figure to 3000 cars by 2013.³³ In 2011 there has been several changes to Volvo's top management, as Mansoor Ahmed has been appointed managing director, taking over from Eric Leblanc. Prior to the appointment, Mansoor was vice-president of vehicle sales and marketing of Asia trucks operations, based in Beijing, China.³⁴

This year, Volvo has started assembling two variants of its S60 Turbo Model, the T4 and T5, and expects these two to add another 50 cars a month to their total sales, raising the annual sales target to aims to 1000 vehicles. However, judging by the sales figures thus far, the S60 sold poorly during the summer, and is far from adding 50 more sales a month. The best selling segments are the S80 and XC60, which are both comparatively higher priced cars.

Volvo 2011 Sales Data			
Model	July	Aug	Jan-Aug
S40	6	23	137
S60	2	3	39
S80	17	11	104
V50	3	2	31
XC60	23	45	189
XC90	7	4	49

³³ Bernama August 16th 2011

³⁴ [Btimes](#), [The Edge](#)

Total (2010 Year Sales)	58	88	549 (673)
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Renault, Land Rover and Range Rover

Renault 2011 Sales Data			
Model	July	August	Jan-Aug
Koleos	1	0	8
Megane	1	0	49
Total (2010 Year Sales)	2	0	57 (72)
Landrover			
110	9	8	44
Discovery	2	8	22
Freelander	8	3	30
Tot (2010 Year Sales)	19	19	96 (137)
Range Rover	0	2	12
Sport	0	2	14
Tot (2010 Year Sales)	0s	4	26 N/A

Scania

Scania is a Swedish commercial vehicle producer controlled by Volkswagen, with the German automaker holding 45.7% of the shares and 70.9% of the voting power in the Swedish Truck maker, MAN is the second largest shareholder with 13.3% of the shares and 17.4% of the voting power.

Scania Sales	2009	2010
Buses	268	197
Trucks	n/a	246
Total	n/a	443

Source: [Scania](#)

In 2000 Scania Malaysia was incorporated and subsequently selected to be Scania's regional assembly hub.³⁵ Scania announced the arrival of its new Managing Director, Mr James Armstrong effective 1st September 2010. Malaysia was Scania's 10th largest market, both in 2009 and 2010 for Buses.

Volvo Trucks

Volvo, has decided to make their Thailand assembly plant their regional hub for trucks and buses, it produces 1,000 trucks and buses annually, and approximately 500 trucks and 150 buses are sold in Thailand each year.³⁶ In Malaysia, Volvo sold 116 commercial vehicles in 2010.

³⁵Scania

³⁶ Bangkok Post August 26th 2011

MAN

German MAN is a minority shareholder in Scania after an attempt to make a hostile takeover in 2006, this attempt was blocked by Volkswagen, MAN's parent company. In Malaysia they sold 112 trucks in 2010.

4.4 Component and part product suppliers

There are also about 800 component manufacturers present in Malaysia, producing some 4000 different types of products. Approximately 70% of the output is supplies for the OEMs and remainder is for the replacement parts market. However, among the 40 products commonly exported, most are low tech products such as bodies, bumpers, brake pads, exhausts pipes, etc. For high tech components and supplies there is a dependence on foreign imports.

As stated, the domestic firms have had persistent problems in catching up with foreign firms at the industry technology frontier. This problem is also very common among component suppliers. According to several recent studies, the suppliers have largely failed to reach the necessary degree of technological sophistication to become OEM suppliers. This can be attributed to two things, firstly, poor technological leadership and innovation from the behalf of the domestic incumbent firms. As an example, after years of supplier development programs, in the production of its Wira model, Proton switched to modular production and now sources components from 1st tier suppliers abroad. Secondly, as foreign firms have little to benefit from investing in R&D locally as they can still easily outcompete local competitors anyway) there are few opportunities for local firms to capture knowledge spillovers derived from local agglomeration dynamics.

Among the international Original Equipment Suppliers present in Malaysia, several of the larger ones are present, with Siemens VDO and Bosch from Europe. Both German equipment makers are well established and have invested in local manufacturing capability. Bosch is also helping Great Wall Motor, the latest automotive brand from China to enter Malaysia, through the newly formed joint venture with America's BorgWarner. Bosch will provide Great Wall with engine management systems and brakes. The two companies have been collaborating since 2006 when Bosch started supplying common rail fuel systems for diesel engines used in Great Wall's Haval SUV and Wingle pickup, both of which now have been introduced to the Malaysian market.

4.5 Malaysia Automotive Institute³⁷

Another key stakeholder in the automotive sector is the Malaysia Automotive Institute (MAI). In the Third Industrial Master Plan (IMP3) formulated by the Ministry of International Trade and Industry, it was recommended that a body – MAI (est. 2010) – should serve as a platform for industrialists, industry players, academics and related associations, as well as other stakeholders. As such MAI seeks to find common ground and acts as a centre of coordination for the entire automotive industry. MAI's mandate also importantly includes setting the strategic direction through the formulation of the NAP, conducting cross-industry capacity

³⁷ The current MAI CEO is Mr. Madani Sahari. He was appointed in Apr 2009.

Previously he was: Head of Company, HICOM Diecasting (of DRB HICOM) Feb 2008–Apr 2009; Senior Manager, PHN Industry (of DRB HICOM) May 2002 – Feb 2008; Quality Manager, INOKOM May 1997 – May 2002; Executive MAFIPRO Apr 1992 – May 1997

enhancing training programmes and steering and conducting research and development (R&D). More specifically, MAI's programmes include:

- *Human Capital Development*, under which the Automotive Apprenticeship (in collaboration with tertiary education institutions Universiti Malaysia Pahang and Universiti Teknologi MARA) and the Industry Led Professional Certificate Programmes (vocational programmes established in partnership with private sector);
- *Technology Development*, under which MAI has launched the Automotive Testing (an attempt to increase the number of testing facilities, particularly for component and auto-part suppliers) and the Digital Engineering and Prototype Programmes (to spread the use of computer assisted design and product development to component makers), as well as a recently signed Cooperation Agreement with the Australian Cooperative Research Centre for Advance Automotive Technology (to help domestic vendors by acquiring foreign held technology licenses and to facilitate setting up private sector joint ventures);
- *LEAN Production System (Malaysia Japan Automotive Industries Cooperation initiated under the Malaysia-Japan Bilateral FTA)* previously coordinated by SME CORP, this programme seeks to spread the use of lean quality management throughout production networks. After the completion of the first round of the programme (2006-2011) experts from Proton and Perodua, together with seventeen tier 1 supplier firms will take part in the second phase of the Programme, under the coordination of MAI.

The ultimate goal of the MAI is to enhance the competitiveness of Malaysia's automotive industry to be among the most competitive manufacturing countries in the region by 2015.

Most crucially, the MAI is in charge of the ongoing review of the NAP and will be one of the key interlocutors of the EU in the FTA process.

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