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DEFENDING THE MALAYSIAN AUTOMOTIVE INDUSTRY

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REINVENTING SECTOR

DEFENDING THE MALAYSIAN AUTOMOTIVE INDUSTRY

SHAMSUL YUNOS

WITH the ongoing electric vehicle (EV) price war, many Malaysians are celebrating falling prices as a "free-market victory". However, this price war threatens an industry critical to Malaysia's sovereignty — one that built the country's bridges, skilled its workforce and anchors its manufacturing future.

Like the United States, Japan and China, Malaysia must defend its automotive industry — not with outdated tariffs, but by reinventing the sector for the global stage.

Let's examine what's happening and ask whether it's truly beneficial for Malaysia. To do that, we need to look at the global and historical context.

Automotive was selected as ideal for Malaysia's capacity building because cars are the most complex mass-produced items. FILE PIC OF PROTON PLANT BY NSTP

GLOBAL CONTEXT

US President Donald Trump is dramatically raising tariffs in a bid to fix what he perceives as systemic imbalances in global trade. His goal: to bring manufacturing back to the US, ensure American self-sufficiency and strengthen the nation's strategic capabilities.

What's wrong with Trump's approach isn't his diagnosis. It's his prescription. He correctly identifies severe imbalances in global trade that aren't sustainable long term, and he's right that nations should maintain minimum capabilities in food production and industry to ensure self-sufficiency and competitive advantage.

Economists agree that tariffs are short-term solutions for strategic problems — set too high or applied for too long, they worsen the very issues they aim to solve. Yet it must be acknowledged that certain industries are strategic for good reason.

Trump's tariffs expose an uncomfortable reality: even free-market champions shield industries tied to national survival. For Malaysia, cars are not mere consumer goods — they are the bedrock of its capacity to innovate, pivot during crises and resist dependency on foreign supply chains.

MALAYSIAN AUTOMOTIVE INDUSTRY

Malaysia's automotive journey began in the mid-1960s, when Volvo established the first car assembly plant in Shah Alam. Since then, brands have come and gone, factories have opened and closed, responding to shifting market realities.

NSTP FILE PIC

After independence, the government examined the economic structure left by the British colonisers and saw a troubling pattern: the country's resources were engineered to serve imperial interests, with Malaysians pacified, while national wealth was efficiently stripped and sent back to Britain.

The British divided Malaysia's economy along racial lines to ensure instability through their "divide and conquer" strategy, while controlling the means of production by granting access to capital goods only to willing servants.

Malaya, like all colonies, was built as a captive consumer market for British goods while serving as a cheap source of raw materials and labour to produce what they insisted were "low-value commodities".

To improve Malaysians' income, the country needed to move up the value chain by evolving from an agrarian, commodity-producing economy to one that adds value through industry, creating intermediary or finished products.

BUILDING INDEPENDENT CAPACITY

Independence essentially meant starting from zero with no real path forward. Malaysia lacked institutions of higher learning and skills development, so the first step was sending Malaysians abroad to bring back new capabilities.

This process took nearly 20 years, and it wasn't until the 1970s that Malaysia finally had sufficient skilled labour and educated professionals for the government to begin focusing on industrialisation.

However, the country's manpower was barely enough to staff factories, and it had neither local technology nor sufficient capital to proceed alone. This led Malaysia to invite foreign direct investments, knowing that no foreign interest would invest without the promise of huge, nearly guaranteed profits.

Then, as now, countries offered two standard incentives: low labour costs and tax breaks.

Low labour costs meant prioritising the industrial sector over the domestic sector, with everyone expected to accept lower wages to attract investment. In other words, households subsidised commerce and industry with the promise of future benefits.

Malaysia's initial efforts combined import substitution with friend-shoring for more advanced economies, making Shah Alam and Penang destinations for domestic electrical appliance production, including rice cookers, refrigerators and air conditioners, later expanding to optical devices, electronics and semiconductors.

While these investments built some capacity, they were limited because Malaysia lacked one key industry that all developed economies were built on: steel.

THE STEEL CHALLENGE

The steel industry is notoriously costly, and as a batch-process rather than a continuous-process industry, it requires immense capacity to become profitable and self-sustaining.

Countries like the United Kingdom, US, Japan, the Soviet Union, India, South Korea, Germany, Italy and France all produced steel, giving them the capacity to build capital goods and advance their industries without outside help. Steel and metal industries are also essential for national defence.

Then prime minister Tun Dr Mahathir Mohamad rightly identified that Malaysia needed a steel industry to become a developed nation by 2020.

To build a domestic steel industry, Malaysia needed parallel downstream client industries that would use the production — typically heavy industries like automotive, shipbuilding, defence and capital goods manufacturing.

Among these options, automotive was selected as ideal for capacity building as cars are the most complex mass-produced items, requiring a diverse array of skills to create. TURN TO PAGE 34

20 APR, 2025

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FROM TO PAGE 33

Additionally, cars represent the second-largest purchase for most families, making automotive an ideal industry for reducing foreign exchange outflows and kick-starting import substitution.

The automotive industry was the obvious choice after years of improving our education system and encouraging medium- and high-technology investments to create employment for our new professionals.

This led to the birth of organisations like Heavy Industry Corporation Malaysia (HICOM), Perwaja Steel and Proton, alongside government-linked companies like Sime Darby, Guthrie, Malaysia Airlines and Tenaga Nasional Bhd created to help with nation-building.

ONGOING DEVELOPMENT

Some 40 years later, the automotive industry has significantly improved Malaysia's industrial capacity. Proton's early struggles with quality and over-reliance on Mitsubishi technology taught the country hard lessons, but these missteps trained a generation of engineers — many of whom now lead Malaysia's aerospace and electronics sectors.

Malaysia is still in the nation-building stage and continues to pay for this process.

As mentioned earlier, the government decided to maintain low labour costs to attract capital, meaning ordinary citizens subsidised the benefits enjoyed by domestic and foreign investors who used Malaysia as an export base due to low salaries.

Low wages are essentially a subsidy from the people to industry — something Malaysians should remember when the government discusses lifting fuel and essential goods subsidies.

To make this arrangement work, the government established price controls and subsidies on essential goods and fuel, allowing them to continue offering low wages to industry while reducing the burden on households.

This is broadly how export-driven investments are encouraged.

For import substitution — aimed at reducing foreign exchange outflows — the strategy involves creating a protected market through tariff and non-tariff barriers around industries targeted for localisation, specifically the automotive industry.

THE ROLE OF TARIFFS

Every country with an automotive industry uses some form of protectionism, whether through tariffs, standards, intellectual property laws, direct production subsidies, or indirect support like research and development funding and training.

These barriers protect less competitive local industries by making imports less attractive, though the problem with reduced competition is that it generally means less innovation.

But diminished competition is not the only cost incurred. Higher prices are paid for imported options, and in the initial stages, there is often a reliance on lower technology and lower product quality.

This approach has worked reasonably well, as evidenced by Japan, South Korea and now China — economies that used skills acquired during import substitution to develop indigenous capabilities and become full-fledged exporters with their own intellectual property.

Malaysia isn't quite there yet, which has understandably caused consumer dissatisfaction.

Consumers naturally gravitate towards lower prices while demanding high quality, leading some to argue that Malaysia is too small for an indigenous automotive industry.

It's a fair comment, but Sweden once had two car companies when its population was under 20 million.

The key difference was that Sweden had better income distribution, with its robust middle class able to afford properly made local cars, allowing Volvo and Saab to thrive, at least for a time.

For Malaysia, cars are not mere consumer goods — they are the bedrock of our capacity to innovate and pivot during crises. NSTP PIC

Sweden's thriving middle class could afford premium cars, giving these companies funds to create global products.

Malaysia's income gap forces Proton and Perodua into a "low-price trap" that stifles innovation.

To escape this trap, we must pivot to niches where size doesn't matter: EV components, Asean-focused commercial vehicles, or retrofitting aging regional fleets with green technology. So should Malaysia give up its automotive industry?

THE STRATEGIC

Giving up the automotive industry would be a grave mistake, though Malaysia certainly needs a different approach. Consider Trump's recent decision on additional tariffs, where he gave a 90-day reprieve for many sectors — but not the automotive industry — because he views it as a critical industry requiring immediate protection.

I'm not defending his choices, but the automotive industry's strategic importance is undeniable. It helped the US win World War 2, with 80 per cent of Boeing B-17 strategic bombers actually built by Ford Motor Company in Detroit rather than the aircraft manufacturer itself.

The automotive industry is highly flexible as it is multi-disciplinary, as demonstrated during the Covid-19 pandemic, when companies like General Motors produced respirators to help manage critical supply chain breakdowns in healthcare.

A NEW DIRECTION

Malaysia's strength in semiconductors gives us room to lead in EV components, such as battery management systems, but only if we incentivise partnerships between Proton, Perodua and local tech firms.

We need clear export goals, which require designing world-class products, along with intellectual property targets and incentives for the local industry to become genuine exporters with local content rather than remaining import substitution companies.

Malaysia stands at an automotive crossroads that demands boldness: we can cling to protectionism and fade into irrelevance, or we can reinvent Proton and Perodua as global EV pioneers.

This means treating every tariff not as a shield, but as a timer — a deadline to innovate, export and leverage our semiconductor advantage.

The world's supply chains are being redrawn as we speak. Will we be architects of this future, or merely spectators to our own industrial decline? I'll be speaking with industry experts to get their perspectives on this critical question about Malaysia's industrial future.

Proton's early struggles with quality and over-reliance on Mitsubishi technology taught us hard lessons. NSTP PIC