

# **NATIONAL AUTOMOTIVE POLICY FRAMEWORK**

## **A. INTRODUCTION**

The automotive sector is a key industry in the Malaysian economy. The economic contribution of this sector is immense, with significant linkages to the manufacturing and services sectors. The automotive sector began with importation of vehicles which then progressed to assembly operations and the establishment of a wide network of automotive components and parts manufacturers.

The establishment of Proton in 1985 and consequently Perodua in 1993 acted as catalysts to the development of the automotive sector. The automotive components and parts industry also grew in unison. This signaled a new phase for the Malaysian automotive sector whereby indigenous technology and local capabilities were developed in line with the Industrial Master Plans of the Government. In this context, Malaysia is proud to be the only non-developed country in the world to have its own full automotive design and engineering capabilities.

Given the significant challenges facing the automotive industry, in particular globalisation, liberalisation and increasing competition, there is a need to review the strategic direction and policy framework for the domestic automotive sector. This is crucial to maintain the competitiveness of participants in the automotive sector, in order for them to be viable in the long term.

In this respect, the Government will maintain existing measures which are considered necessary, and moving forward, institute new measures to replace existing measures which no longer serve national interest, in order to continuously support the development and viability of the automotive sector. The Government is dedicated to provide a conducive environment for the automotive sector to flourish and become world class.

## **B. AUTOMOTIVE SECTOR BACKGROUND**

Currently the automotive sector is characterised by several industry participants across the entire value chain. There are 4 passenger and commercial vehicle manufacturers including Proton and Perodua. There is one motorcycle manufacturer which is Motosikal dan Enjin Nasional Sdn Bhd (MODENAS).

In addition, there are 9 motor vehicle assemblers and 9 motorcycle assemblers. To support the manufacturers and assemblers, there are 343 motor vehicle components and parts manufacturers, of which 23 are Tier 1 status. In turn, there are 100 motorcycle components and parts manufacturers.

In terms of vehicle importers, there are 76 Open Approved Permit (AP) holders and 37 Franchise AP holders. On the sales and distribution side, there are a total of 1,978 dealers for motor vehicles and 158 dealers for motorcycles.

Given its track record of economic growth and stability, the automotive sector in Malaysia has significant potential for future growth. In 2004, Malaysia was the largest producer of passenger cars in ASEAN, accounting for 24.4 percent of total ASEAN production. For commercial vehicles, in 2004, Malaysia was the third largest producer in ASEAN, accounting for 11.0 percent of total ASEAN production.

Underpinning this high production capacity is the substantial investments that have been made in the automotive sector. To date, up to RM 11.2 billion have been invested by the manufacturers and assemblers whilst automotive components and parts manufacturers have invested over RM 8.2 billion.

The total sales in the automotive market have also been strong and on the uptrend since the last few years. In 2004, there were 530,025 units of motor vehicles sold with passenger cars accounting for more than 420,000 of that total. The total exports for the automotive sector has been increasing whereby the export figures in 2004 showed a total of more than RM 2.5 billion.

Malaysia is dedicated to fulfill its multilateral commitments under WTO and AFTA and has taken steps to liberalise its duty structure. Other measures have been taken as well. Since 2001, the equity policy for the automotive sector has been relaxed to allow up to 51% foreign equity on a case by case basis. In addition, domestic manufacturers and assemblers are currently free to multi-source from the most competitive suppliers globally, uninhibited from local content policy requirements.

### **C. OBJECTIVES OF THE NATIONAL AUTOMOTIVE POLICY FRAMEWORK**

To spur its further growth, the Malaysian automotive sector will be driven by six major objectives, as follows:

- 1. To promote a competitive and viable automotive sector, in particular national car manufacturers**
- 2. To become a regional hub for manufacturing, assembly and distribution for automotive vehicles**
- 3. To enhance value added and local capabilities in the automotive sector**
- 4. To promote export-oriented Malaysian manufacturers as well as component and parts vendors**
- 5. To promote competitive and broad-based Bumiputera participation in vehicle manufacturing, distribution and importation as well as in component and parts manufacturing**

## **D. POLICY FRAMEWORK FOR THE AUTOMOTIVE SECTOR**

### **1. To promote a competitive and viable automotive sector, in particular national car manufacturers**

The Government will provide support and incentives to enhance the competitiveness of automotive manufacturers in the country, in particular national car manufacturers Proton and Perodua, as well as provide the necessary support for existing assemblers to continue to be viable in Malaysia.

The Government will ensure that sound policies are in place to enhance the long term competitiveness of the automotive components and parts manufacturers, given their contribution towards the competitiveness of vehicle manufacturers and assemblers.

Imports of vehicles will continue to be allowed, but pertinent changes to existing policies and procedures will be made. Preferably, importers would, over time, traverse the value chain and become assemblers or even manufacturers.

The Government will promote competitive manufacturers and assemblers, in terms of range, quality and prices, in order to encourage the provision of affordable vehicles for the general public, including for the lower income groups.

### **2. To become a regional hub for manufacturing, assembly and distribution for automotive vehicles**

The Government will continue to provide incentives and infrastructure as well as implement favourable policies to attract manufacturers or assemblers to remain or to set up in Malaysia. Priority will be given to manufacturers and assemblers which plan to use Malaysia as a launch pad to tap the regional and international markets.

The Government will also continue to promote policies and incentives to attract components and parts manufacturers to invest in Malaysia. This is particularly pertinent in light of the global outsourcing trends currently taking shape in the international automotive industry.

**3. To enhance value added and local capabilities in the automotive sector**

The Government will continue to implement the necessary policies to encourage the development of value added throughout the automotive supply chain as well as to further enhance local capabilities. Such development of value added and local capabilities can be through the enhancement of processes, technology or human capital.

**4. To promote export-oriented Malaysian manufacturers as well as component and parts vendors**

The Government will continue to provide direction and assistance for industry participants to establish or expand their penetration in the export markets, particularly through export promotion incentives. The Government will also extend support to equip manufacturers with the necessary prerequisites for success in the export markets, which include quality certification, testing standards and others.

Emphasis will be given to Malaysian owned manufacturers as well as components and parts vendors, in order to develop local and indigenous capabilities.

**5. To promote competitive and broad-based Bumiputera participation in vehicle manufacturing, distribution and importation as well as in component and parts manufacturing**

The Government will provide support and incentives to enhance the participation and competitiveness of Bumiputera companies in the automotive sector. This includes Bumiputera equity shareholding levels, ensuring progressive Bumiputera human resource development and fostering Bumiputera entrepreneurship in the relevant areas.

## **E. MEASURES FOR IMMEDIATE IMPLEMENTATION**

In order to support the objectives of the automotive sector, the following measures are to be implemented:

### **1. Establishment of Industrial Adjustment Fund**

An Industrial Adjustment Fund will be established to assist Malaysian manufacturers to face the challenges brought about by increased competition and liberalisation. These incentives can be in several forms such as interest free loans and matching grants, and cover areas such as automation, upgrading of machinery, component development costs, as well as technology enhancement. In disbursing this fund, preference will be given to the automotive sector, namely manufacturers, assemblers as well as components and parts manufacturers.

### **2. Provision of Incentives to Components and Parts Manufacturers**

#### **a) Cooperation Projects**

Cooperation projects with bilateral free trade agreements (FTAs) partners will be used to enhance the competitiveness of the Malaysian automotive industry, particularly the components and parts manufacturers. Areas of potential cooperation are in the areas of upgrading quality, increasing market access, enhancing skills and establishing testing centres in Malaysia.

#### **b) Support for the Global Supply Program**

The Global Supply Program will be implemented to enable domestic components and parts manufacturers to expand into the global supply chain of the major automotive companies. This program will be implemented through participation in the ASEAN priority sectors as well as through FTAs and negotiations.

### **3. Provision of Training Grants**

Training grants will be considered for automotive manufacturers, assemblers and components and parts manufacturers, which undertake training for employees to upgrade their level of skills and competency. The training can be in the form of in-house training, or training conducted by approved local and overseas training institutes. This incentive will be in addition to the training grants implemented through the Human Resource Development Fund (HRDF).

### **4. Provision of Research & Development (R&D) Grants**

R&D grants are proposed for automotive manufacturers, and components and parts manufacturers which undertake research and development activities, including designing, prototyping, product development and improvement.

### **5. Designating Production Centres for the Automotive Sector**

The following areas will be designated as automotive manufacturing or production centres, as follows:

- Gurun (Kedah);
- Bertam, Seberang Prai (Pulau Pinang);
- Pekan (Pahang);
- Tanjung Malim (Perak);
- Shah Alam and Rawang (Selangor).

Companies will be encouraged to locate in these centres through incentives and other assistance schemes. The concentration of automotive related participants in such designated centres will encourage the sharing of infrastructure development costs and other common facilities, as well as enable efficient just-in-time manufacturing. As such, the Government will not encourage the establishment of other production centres for the automotive sector.

### **6. Ensuring Standards Conformity and Technical Compliance**

Jabatan Pengangkutan Jalan (JPJ) (Road Transport Department) will undertake Vehicle Type Approval (VTA), which involves compliance with international safety standards. In addition, Jabatan Alam Sekitar (Department of Environment) will enforce the emission and fuel consumption standards. Such enforcement of the mandatory standards of manufactured goods will prevent imports of sub-standard products.

## **7. Extension of Technology Acquisition Fund**

The Technology Acquisition Fund (TAF) will be extended to the automotive sector. Currently, Malaysian-owned companies, which acquire new and emerging technologies to enhance their technological capabilities can apply for partial grants from TAF.

## **8. Provision of Market Development Grants**

Market Development Grants will be provided to assist Small and Medium Enterprises (SMEs) to undertake relevant activities for the development of export markets. In this regard, companies can obtain a 50 percent matching grant on the approved costs of the eligible activities.

## **9. Provision of Customised Incentives**

Customised incentives will be made available to automotive related companies, after due consideration and evaluation. These incentives are tailor-made to meet the specific needs of an investor. Currently, customised incentives, including tax and non-tax incentives, are only granted to qualified projects in the manufacturing sector. These incentives include corporate tax exemptions, training and R&D grants, as well as soft loans.

Provision of customised incentives will be evaluated based on the following criteria:

- high value-added;
- degree of technology transfer;
- improvement in level of expertise;
- level of foreign exchange earnings;
- strengthening of manufacturing value chain;
- developing linkages within the industry; and
- undertaking of R&D.

## **10. Amendments to Approved Permit (AP)**

An extensive review on issues relating to APs was conducted. APs, which are primarily used for monitoring and data collection purposes, will be phased out in the longer term. In the interim, the following measures will be implemented:

### **a) To freeze issuance of franchise APs for importation of new vehicle brands**

- A change in the effective shareholding or ownership of the franchise AP holder for *existing* vehicle brands can be considered for approval.



- b) To discontinue franchise APs awarded for importation of ‘tuned-up’ vehicles, with effect from 1 January 2006**
- The existing franchise AP holders of ‘tuned-up’ vehicles will no longer be allowed to continue in this line of business from 1 January 2006;
  - Open AP holders may import ‘tuned-up’ vehicles using their quota of Open APs, and even in such cases, imported ‘tuned-up’ cars would need to undergo comprehensive JPJ inspections to ensure the extent and compliance with the tune-up specifications.
- c) To allow Bumiputera-controlled Public Limited Companies (PLCs) to apply directly for APs**
- Bumiputera-controlled PLCs will be exempted from the 70 percent Bumiputera shareholding requirement for franchise APs;
  - The previous condition had created a situation where broad based Bumiputera controlled entities had to use intermediary of Bumiputera individuals to import vehicles. With this exemption, the Government expects companies such as DRB-Hicom Bhd and Sime Darby Bhd, who are currently exclusive franchise holders of certain vehicle brands, to import the vehicles directly rather than go through the intermediaries.
- d) To limit the importation of used vehicles through Open APs to that between the ages of 1 to 5 years only**
- Used vehicles of less than one year cannot be imported. Such importation in the past had led to abuses.

## **F. CONCLUSION**

The National Automotive Policy Framework sets out the broad objectives and measures for the automotive sector, where it is intended to provide guidance and direction to all industry participants on the future development path of the automotive sector. Moving forward, this National Automotive Policy Framework will be complemented by a comprehensive National Automotive Policy that will be unveiled upon completion of a full-scale review currently being undertaken.

This full-scale review is important as the Government recognises the need for further recalibration of the objectives and measures set out in this National Automotive Policy Framework, given the varying objectives and needs of the industry participants in this sector. It is intended that the National Automotive Policy will be an optimal yet flexible solution that will align all the various objectives and measures, for the benefit of the automotive sector in particular and the Malaysian economy in general.

Jabatan Perdana Menteri (Prime Minister's Department)  
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