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Sectoral Coverage

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Trends and reflections

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Automotive industry in Malaysia: Evolution and impact of global crisis

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Executive Summary

In the early 1980s Malaysia initiated the National Automotive Project aiming for local ownership and control, economies of scale and increased local content. The domestic automotive industry expanded in the following decades in terms of production, employment and local content, but the policy failed to generate sufficient industrial upgrading and international competitiveness indicated by 55 per cent capital utility in 2008. Local ownership and control have withered in the 21st century with only one significant national manufacturer, PROTON, staying in business and looking for strategic partners. The shift to a national automotive strategy impacted heavily on the employment and industrial relations of the automotive industry. A centralized collective bargaining (CB) system based on an industrial union and an employers' association emerged in the 1970s but this setup changed during the 1980s to a pluralistic and decentralized CB system based on individual employers negotiating with enterprise unions in the larger auto manufacturers and assemblers, while the industrial union increasingly organized component and parts companies. In 2004 the trade union density was nevertheless 45 per cent, indicating a similar high level of collective agreement (CA) coverage. From the 1990s until the 2000s trade unions and workers in the CA-regulated sector faced a downward pressure on employment conditions due to increased hiring of contract (often foreign) workers. Moreover, employers have continuously resisted union organizing and voice at the workplace level framed by Malaysia's legislated and enforced restrictions on internationally (ILO) recognized trade union rights and workplace practices. The global financial crisis and economic recession in 2008-09 did not affect Malaysia's automotive industry as much as the East Asian financial crisis did in 1997-98, and the government has also taken counter-cyclical actions. The lower impact of the 2008-09 global recession relates paradoxically to the industry's weak international competitiveness, implying small export of automotive products from Malaysia. In the long term, however, there is no alternative to radically improving the automobile industry's productivity and competitiveness. The government's National Automotive Policy (NAP) of 2006 makes this a cardinal objective and outlines a set of relevant means (e.g. human resources development in an industry with 80 per cent unskilled workers). However, NAP is based on a rather narrow alliance between the government and the national auto makers, and in a highly unionized industry the policy will probably not succeed unless all key stakeholders of the industry are mobilized, including workers and trade unions. Forming a comprehensive and inclusive automotive productivity alliance will provide an institutional driver of the NAP into a "fair growth" trajectory with high-performance workplaces, companies and clusters.

1. Introduction

The Heavy Industrial Policy in the early 1980s marks a significant change of industrialization strategy in Malaysia towards building a nationally owned and controlled automotive industry, and this shift impacted employment and industrial relations of the industry. The inauguration of the first national automotive project, PROTON, in 1983 with the formation of a joint venture between the Heavy Industry Corporation of Malaysia (HICOM), Mitsubishi Motor Corporation (MMC) and Mitsubishi Corporation (MC) of Japan was the Malaysian government's attempt to increase local content, rationalize the industry to achieve economies of scale and upgrade the assembly industry to a manufacturing industry with international competitiveness (Abdulsomad, 1999).

Equipped with protective measures and subsidized in various ways by the government, the first Proton cars were rolled out in 1985. Subsequently, the national automotive program also established a small car manufacturer (PERODUA) in 1993, a heavy vehicle company (Malaysian Bus and Truck, MTB) in 1994, a motorcycle manufacturer (MODENAS) in 1995, and a light vehicle commercial manufacturer (INOKOM) in 1997. Local auto parts and components manufacturers and suppliers were encouraged to upgrade through local content and vendor development programs especially in partnership with Proton and Perodua.

The national automotive sector has de facto been reduced to one corporation[114], Proton, and this corporation lacks competitiveness in international markets. Twenty four years after the launch of the first national car the local automotive suppliers are still lacking technological progress (Abdullah et al. 2008; Zadry and Yosof 2006; Wad 2006, 2008). However, Proton's domestic market base made it less exposed to the global financial and economic crisis in 2008 but its inadequate international competitiveness is a critical weakness in the long term. This is also acknowledged by the Malaysian government in its National Automotive Policy (NAP) that "aims to facilitate the required transformation and optimal integration of the national industry into regional and global industry networks" (MIDA 2009, 2). The six more specific objectives are: to turn the domestic automotive industry and especially the national car manufacturers into competitive entities; to create a niche-oriented automotive regional hub in Malaysia; to generate automotive capabilities and economic value adding at a sustainable level; to increase exports of motor vehicles, components and parts; and to secure capable Bumiputera participation and higher benefits for automotive customers. A review of NAP was tabled to be published in September 2009 (Cheah, 2009) but is postponed to October 2009.

Considering that the global automotive industry at present is a value-destructing sector which undergoes tremendous "consolidation", the purpose and objectives of the NAP pose tremendous challenges for the key stakeholders of the Malaysian automotive industry. The paper provides an overview of the automotive industry[115] in Malaysia with a

[114] Formally speaking PERODUA, MTB and INOKOM are also "national" projects, but only INOKOM is today majority owned by local capital (controlling shareholder is Sime Darby with 51per cent). INOKOM does only have 1.1 per cent of total vehicle market in 2009 and is doing contract assembling for Hyundai (MAA www.maa.org.my/ accessed 6.8.2009; www.inokom.com.my/ accessed 28.9.2009).

[115] The automotive industry includes all industries producing motor-driven vehicles, i.e., two-wheelers (motorcycles, scooters, etc), 3-wheelers ("autos") and 4-wheelers (automobiles). In the Malaysian automobile industry light vehicles and especially passenger cars form the overwhelming share. Henceforth, the terms automobile, automotive and auto are used interchangeably for convenience. Data sources do not always allow for statistical separation of light from heavy vehicles.

focus on light automobile vehicles on the one hand and on the industry's employment and industrial relations on the other. This is followed by the analysis on the impact of the global crisis 2008/09 on the automobile industry. Then, the structural issues of the Malaysian automotive industry are discussed focusing on the role of employment and labour relations for improving the competitiveness of the industry and vice versa, before the paper is concluded. The analysis is predominantly based on secondary data, but primary data has been generated about employment and industrial relations of the automobile industry due to insufficient secondary data about this aspect.[116]

2. Automobile industry in Malaysia

The automobile industry in Malaysia consists of 15 motor vehicle producers (OEMs) of which six are motor vehicle manufacturers and nine are assembling companies, including franchise holders with rights to assemble, and most are non-national car assemblers like Toyota and Honda.[117] As of June 2009, the two "national" car manufacturers, Proton and Perodua[118], control 57.8 per cent of the total vehicle market with 27.1 per cent and 30.7 per cent controlled by Proton and Perodua, respectively[119] (MAA, 2009a). The totally installed capacity is above 960,000 motor vehicles (MIDA 2009) compared to domestic production around 530,000 units in 2008 making up a capacity utility of 55.2 per cent at the peak of production.

The national auto manufacturer, Proton, upgraded technologically to original design manufacturing (ODM) in 2000 and to engine manufacturing in 2002. These achievements followed Proton's collaboration with and acquisition of the British sports car maker, Lotus, and technical collaboration with another European engineering firm, respectively. However, Proton and other Malaysian auto makers have not entered the automobile technology frontier (e.g., energy efficient vehicles). In the 21st century Proton lost domestic market share but it has stayed profitable most of the time and generated additional employment. This indicates that in a protected market Proton can be viable with selective government support of the national auto sector. Moreover, advances in domestic and international markets are conditioned by new models being launched (see table 17).

Table 17: Revenue, Employment and Exports, Proton, 1999-2009

	1999/ 2000	2000/ 01	2001/ 02	2002/ 03	2003/ 04	2004/ 05	2005/ 06	2006/ 07	2007/ 08	2008/ 09
Revenue (RM million)	5399.6	6902.9	8571	7674	6361.2	8483.3	7796.9	4687.3	5621.6	6486.6
Profit after tax (RM million)	91.7	311.8	613	809	510.3	442.4	46.7	(589.6)	184.6	(301.8)

[116] Acknowledgement: Among the stakeholders of the industry NUTEAIW (and MTUC on general issues) has delivered information about employment and industrial relations issues inaccessible from existing sources. The views of the government and the Malaysian Automotive Association have been covered through their websites or from other sources. The usual disclaimers prevail.

[117] Downstream activities by wholesalers and dealers conducting sales and marketing are delimitated.

[118] Perodua is classified formally as a "national" motor vehicle maker but the manufacturing subsidiaries are 51 per cent equity-controlled by Japan's Daihatsu Motor Co. (41 per cent) and Mitsui & Co. (10 per cent) through the Perodua Auto Corporation where they hold 51 per cent equity. Thus, Perodua is in reality controlled by Japanese firms, particularly Daihatsu Motor Co., although Malaysian interests control the sales company and the overall holding company.

[119] In the passenger vehicle market, Perodua and Proton control 33.8 per cent and 29.7 per cent, respectively.

	1999/ 2000	2000/ 01	2001/ 02	2002/ 03	2003/ 04	2004/ 05	2005/ 06	2006/ 07	2007/ 08	2008/ 09
Employment	5753	6228	9910	9466	8715	10300	11159	9525	11500	11500
Domestic Car Sales (units)	170296	195228	227229	205471	146339	182924	166968	88635	116911	139824
Exports (units)	n.a.	8838	8648	7929	7339	17243*	12765	20528	17337	17387
Revenue (Domestic) RM Million	n.a.	n.a.	n.a.	n.a.	5494.8	7052.0	6441.0	3162.3	4131.9	n.a.
Revenue (Exports) RM Million	n.a.	n.a.	n.a.	n.a.	866.4	1413.3	1355.9	1525.0	1489.7	n.a.

Source: Company's annual reports.

Note: * Sales of new models e.g. GEN 2 increased the exports more than double. Proton also expands to new export markets such as China and Middle East. Financial year ends on March each year.

The competitiveness of the Malaysian automobile industry hinges very much on the quality, efficiency and delivery capabilities of the auto components and parts sector. These auto component and part suppliers service two markets, the original parts and components demanded by the vehicle makers (OEMs) and replacement equipment market (REM) where items are being bought by repair shops and individual customers. In 2008, there were around 690 firms manufacturing and supplying over 4,000 automotive component and parts[120] (MIDA, 2009) and of these, 70 per cent were OEM supply. The component and parts sector accounted for RM 6.37 billion in sales with RM 4.6 billion and RM 2.0 billion in imports and exports in 2008, respectively. Around 45 components manufacturers export components and parts primarily within low-tech products like steering wheels, rims, brake pads, wheels, bumpers, bodies, exhausts, radiators and shock absorbers. Among the original equipment suppliers (OES) major players include the foreign manufacturers such as Delphi Automotive Systems, TRW, Siemens VDO, Bosch, Denso and Nippon Wiper Blade, while the major local players include APM Automotive, Sapura, Delloyd and Ingress (MIDA, 2009). Some of the firms (Ingress, Hicom Teck See, Sunchirin, APM Corporation and Delloyd) have established investment in ASEAN countries like Thailand and Indonesia. Despite some well-established firms in this segment, the majority are still lacking in terms of technology progress (Simpson et al. 1998; Zadry and Yosof 2006; Rosli and Kari 2008; Wad 2008). In the OEM segments, transnational OEMs have established ever-raising international standards of global brands including the ISO/TS 16949 (Wad 2006). Investments in technology and R&D are still too low with around 2 per cent in average during 2000-2005 for OEMs, while other equipment manufacturers only spend around 0.14 per cent (DOSM 2009, own calculations). Issues of volume, quality, high price, and dependence on technology suppliers for design have made these segments more vulnerable, especially during crisis. During the 2000s one of the local key auto suppliers, AMP Automotive Holdings, has managed to stay profitable with long-term increasing revenues while downsizing its workforce since 2005 (table 18).

[120] The major OEM parts and REM manufactured in Malaysia include: a) body panels and other components for transmission, such as transmission shift lever and fork, transmission control linkages, speedometer pinion, clutch, torque converter and drive shaft; b) steering, wheels and brake parts; c) electrical & electronic parts, such as automotive electronic module/ component or sensor, navigational system, air conditioners, radios, batteries, control cables, horns, wiring harnesses, alternators, starter motors, clocks, fuse boxes, head lights, indicating/signaling lights, meters, gauges, switches or horns, control cables, speedometer cables, metallic tubing or hoses; and d) other parts, such as tyres and inner tubes, exhaust systems, mirrors and upholstery such as carpet and floor mats, seats and safety belts.

Table 18: Revenue, Profits, Employment and Total Industry Volume, APM, 2000-2008

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Revenue (RM million)	620	660	696	664	789	971	900	839	944
Profit after tax (RM million)	n.a.	n.a.	n.a.	n.a.	58	72	59	59	58
Employment	2793	2798	3203	3198	3638	3888	3678	3021	n.a.
Total Industry Volume (units)	343000	396500	435000	405000	487600	551045	490768	487176	n.a.

Source: Company website and annual reports.

The automotive industry also contributes establishing forward and backward linkages with others sectors. Although data about the extent of linkages are hard to find, the sector is very much linked (directly or indirectly) to other supporting industries like chemical, steel, rubber, plastic, electrical and electronic components, and service industries such as stamping, repairing, designing, insurance, storing, shipping, distribution and marketing, banking and finance, and other service industries. The linkage and spill-over effects in terms of technology transfer, etc, have entitled the automotive industry to be "the industry of industries", and therefore it has been considered a strategic sector for industrialization among developing countries, including Malaysia.

3. Industrial, trade and investment policies of the automotive sector, Malaysia

The automotive industry in Malaysia went through different phases of development in response to different policy initiatives, among other factors: Import-based industry 1957-66; import-substitution 1967-82; joint national automobile program with Japanese auto makers 1983-2003; independent national automobile industry 2004 to the present (2009) (see Table 19).

Table 19: Industrial, Investment and Trade Policy

Period	Event
1957	Malaysia independent as Federation of Malaya. Import of CBUs continues.
1963	Malaysia began to encourage the establishment of the automotive industry.
1964	Policy announcement to encourage assembly and manufacturing of components parts of automobiles.
1967	Six assembly plants approved by the government (mainly joint venture projects with European and local partners).
1970	Recommendation for expansion of local content to 40 per cent (Walker Report).
1983	1st National Car project approved and agreement took off between HICOM, Mitsubishi Motor Corporation and Mitsubishi Corporation.
1985	Launch of National Car Project (PROTON) and production of Proton Saga.
1986	Promotion of Investment Act 1986 offers tax exemptions (Pioneer status & Investment Tax Allowance).
1993	2nd National Car project (PERODUA) was established to produce smaller and affordable vehicles (PERODUA is expected to complement PROTON and the vendor development programs*). Joint venture with Daihatsu, Mitsui and several government-controlled companies where Malaysian equity amounted to 68 per cent and Japanese equity to 32 per cent.

Period	Event
1994	3rd National Automotive Project, Malaysian Truck and Bus (MTB), was established to produce smaller lorries and buses. Joint venture with Diversified Resources Herhad (DRB), Hicom Holding Bhd, Isuzu Motor Ltd Japan and ITOCHU Corporation.
1995	HICOM with PROTON is privatized and controlling share is acquired by Jahaya, owner of DRB. His death in March 1997 in a helicopter crash, a few months before the outbreak of the East Asian financial crisis, turned DRB-HICOM and PROTON into dire straits.
2000	State-controlled Petronas takes DRB-HICOM's controlling share of PROTON. Later government controlled investment agency, Kazanah, acquires the largest stake of 43 per cent.
2001	PERODUA is restructured from a joint venture (72 per cent Malaysian equity) with a vehicle sales firm (PSSB), vehicle manufacturing firm (PMSB) and engine manufacturing firm (PEMSB) into two joint ventures whereby Daihatsu and Mitsui acquire 51 per cent equity control of the new company, the Perodua Auto Corporation (PCSB), which again controls 51 per cent equity of the manufacturing (PMSB) and engine (PEMSB) companies.
2004	PROTON becomes fully owned Malaysian company. MMC and MC exit as minority shareholders.
2005/06	Transformation of tariff protection measures to excise tax measures adapting to AFTA. Announcement and launching of the National Automotive Policy.
2007	MTB becomes majority owned by joint venture partner, Isuzu Motors (51 per cent), acquiring 31 per cent stake from DRB-HICOM in addition to its existing 20 per cent stake.
2009	Second stimulus package. Review of automotive policy is expected in October of 2009.
2010	Phasing out of approval permits (APs) for CBU import by end of December 2010. (Limited APs will be issued)

Source: Authors

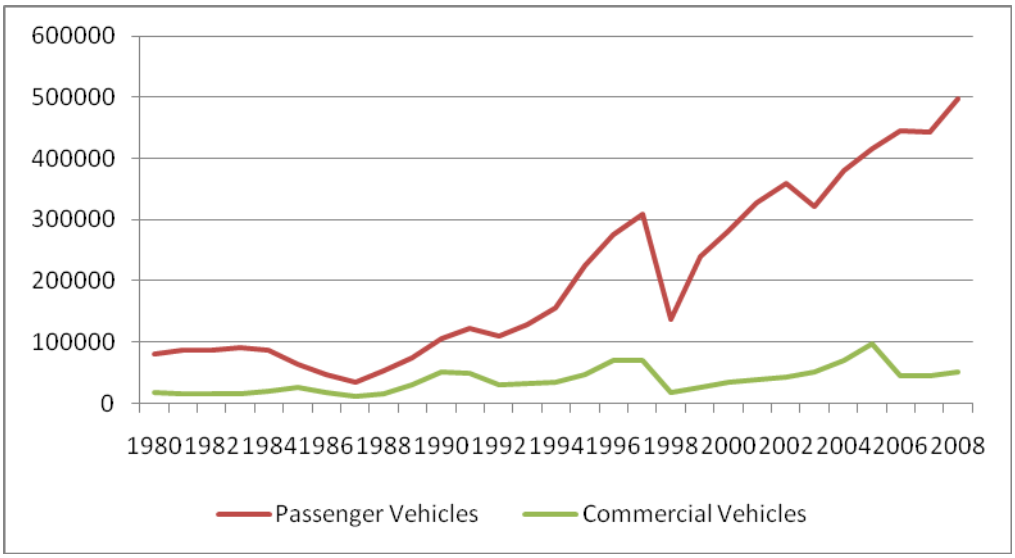
4. Performance of automotive industry

4.1. Vehicle Sales and Production

Malaysia is primarily buying and producing passenger cars (Wad 2009). The passenger vehicles segment (excluding 4 wheel drivers) is the major market in Malaysia outperforming the commercial vehicle segments.[121] The markets for passenger vehicles continued to surge over the years except during the global economic recession in 1985 and the Asian financial crisis in 1997-98 (see Figure 13). During these periods sales contracted with the largest contraction during the financial crisis. After 1998, the markets for passenger vehicle continued to grow at an average rate of 10.5 per cent per annum. The sales of commercial vehicles show a steady growth except for 1997-98 and again in 2006 due to the effects of East Asian and global financial crises, respectively. As of June 2009, the sales of passenger and commercial vehicles are 228,200 and 22,892 units, respectively. Compared to Jan-June 2008, a decline of 9.7 per cent is recorded.

[121] Commercial vehicles include panel vans, pick ups, trucks, prime movers and buses. In 2008, their market shares are 8.6 per cent, 49.3 per cent, 37.9 per cent, 1.9 per cent and 2.3 per cent, respectively.

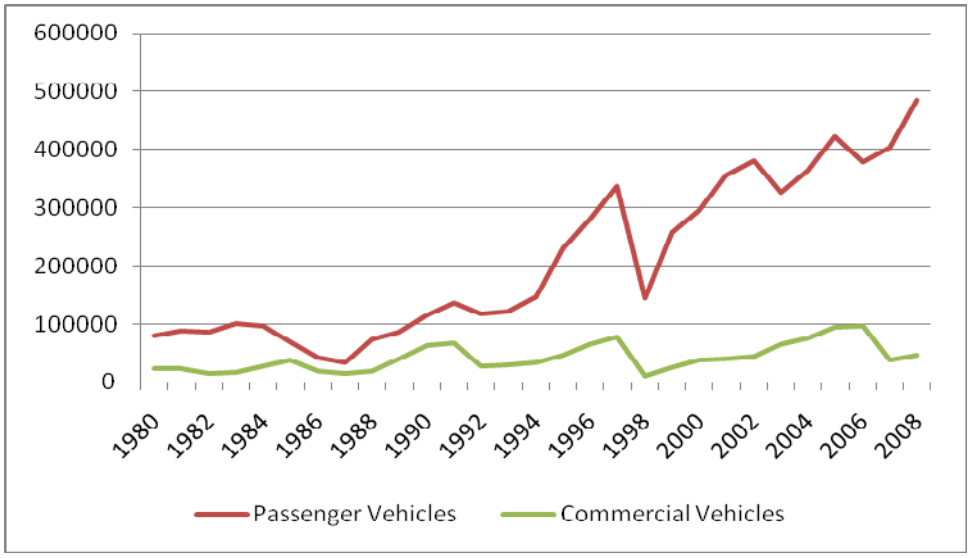
Figure 13: Sales of Passenger and Commercial Vehicles



Source: MAA, 2009c

The same trend is observed in the production of passenger and commercial vehicles (see Figure 14). In 1985 and during the financial crisis production contracted the largest and a gradual increase is observed after 1998. However, relatively, the impact of 1997 crisis is much larger than the recent global crisis.

Figure 14: Production of Passenger and Commercial Vehicles, 1980-2008



Source: MAA, 2009c

4.2. Trade Performance

In 2007, the world share of automotive exports in the total merchandise exports is 8.7% (WTO, 2008). Among the developing and emerging economies (NIEs), China, Korea and Thailand were the top exporters of automotive products. Malaysia's automotive exports are 0.6 per cent of the total merchandise exports of Malaysia. From 2000 to 2007 the automotive exports of Malaysia increased from US 121 million to US 1122 million (see Table 20). However, the trend shows that Malaysia's exports share is still far below

even that of Taiwan, Philippines and India (who mainly concentrate on domestic markets) (WTO 2008). Malaysia's imports show an increasing trend from 1990 to 2007. This might also indicate that without the domestic market Malaysia's automotive sector would find it difficult to survive. In turn, Thailand and Korea exhibits a better position in trade where both maintained a positive trade balance.

Table 20: Exports and imports of Automotive Products of Malaysia, 1990-2007 (US million)

Malaysia	1990	2000	2005	2006	2007
Export	121	307	725	920	1122
Import	1312	1833	3395	3221	3223

Source: WTO, 2008.

Note: Automotive products include SITC groups 781, 782, 783, 784, and subgroups 7132, 7783. Other transport equipment such as railway vehicles, aircraft, spacecraft, ships and boats and its components and parts is excluded. Based on SITC rev. 3.

Table 21 shows the sales, exports and imports of the auto component and parts sub-sector. The sector's sales show an increasing trend over the years. However, the sector is still highly dependent on imports. The negative trade balance of automotive products indicates that Malaysia still needs to improve its competitiveness in component and parts manufacturing. On one hand, the inability of local suppliers to meet quality and to provide cheaper components and parts has encouraged the auto manufacturers to source for import components. On the other hand, due to commitment to foreign partners in return for technological know-how, suppliers hardly have the avenue to export. Although exports of the sector increase over the years, it is still far below that of Thailand and other emerging economies. The major exports include steering wheels, road wheels, bumpers, gearboxes, brakes, radiators and suspension shock absorbers that are relatively low tech products.

Table 21: Sales, Exports and Imports of Auto Components and Parts (RM Billion)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Sales	3.00	3.93	4.65	5.19	4.90	4.91	5.86	5.25	5.46	6.37
Imports	1.10	1.14	1.21	1.48	1.50	2.24	3.98	4.08	4.50	4.60
Exports	0.44	0.32	0.53	0.73	0.86	1.07	1.40	1.85	2.70	2.00

Source: MIDA, 2009

4.3. Employment

The auto manufacturing and assembly and the parts and components manufacturers generated nearly 50,000 jobs in 2008, with 24,310 and 24,249 employed, respectively, and residual transport equipment 6614 (see Table 22). Proton and Perodua have the largest share of workforce with nearly 70 per cent of the total employment of motor vehicle manufacturers. The industry recorded 4.9 per cent annual average growth rate of employment over the past eight years.

Table 22: Total number of employment by industry, 2000-2008

MISC Code	Industries	2000	2001	2002	2003	2004	2005	2006	2007	2008
341	Manufacturer of motor vehicles	14568	16301	16988	17543	19055	22693	21880	22295	24310
343	Manufacturer Parts & accessories for motor vehicles & engines	18380	22148	23499	23963	24188	28684	25644	24488	24249
359	Transport Equipment n.e.c.	5322	5242	5299	5491	6021	5940	6555	6601	6614
	Total	38270	43691	45786	46997	49264	57317	54079	53384	55173

Source: MPC, 2009

Note: The employment number is based on survey of selected firms. In average, 16 motor vehicle manufacturers, 100 parts and component manufacturers and 25 other transport equipments manufacturers were surveyed. Average monthly salary refers to total salaries and wages/ total employment/12.

The monthly salary of the automotive sector is highest in the segments of motor vehicle manufacturers (see Table 23). In the manufacturers of components and parts (mainly consist of small medium industries) monthly salary in average is around RM 1,600 in the 2000s.

Table 23: Average Monthly Salary, 2000-2008 (RM)

MISC Code	Industries	2000	2001	2002	2003	2004	2005	2006	2007	2008
341	Manufacturer of motor vehicles	2250	2201	2251	2221	2354	2251	2473	2593	2853
343	Manufacturer Parts & accessories for motor vehicles & engines	1359	1410	1482	1572	1635	1581	1660	1786	1849
359	Transport Equipment n.e.c.	1371	1517	1536	1637	1759	1702	1712	1761	1870

Source: MPC, 2009

Note: The employment number is based on survey of selected firms. In average, 16 motor vehicle manufacturers, 100 parts and component manufacturers and 25 other transport equipments manufacturers were surveyed. Average monthly salary refers to total salaries and wages/ total employment/12.

Owing to stiff competition, productivity plays a key role. Due to the past dependence on motor vehicle assembly and low technology applied, unskilled workers consist of more than 80 per cent of the workforce while skilled and semiskilled is around 5 to 7 per cent (see Table 24). This tremendous gap in human resource recruitment and development has to be overcome if the industry is going to be upgraded. Automotive manufacturers have engaged in skill enrichment programs, not least the national auto manufacturers. For instance, Perodua's application of the Japanese production standards and procedures requires improvements in human skills. In this aspect, employees receive various training in production control, welding, painting, trim and final maintenance, tooling, stamping and quality control (Mahidin & Kanageswary, 2004, Rasiah 2001). This has contributed to the development of skilled and semi-skilled workers. Although Proton significantly contributes to the skill improvements of the employees, on average the industry still lacks the investment in training and employability of skilled workers. The training expenditure as a percentage of sales for both manufacturers of motor vehicles and other transport equipments is below 0.20 per cent.

Table 24: Training and Skill Level

Manufacture of motor vehicles, trailers and semi-trailers				
	Training (% of sales)	Skilled Workers	Semi-skilled Workers	Unskilled Workers
2000	0.06	5.09	5.34	89.58
2001	0.06	5.24	5.40	89.36
2002	0.10	9.36	5.64	85.00
2003	0.07	5.80	5.66	88.54
2004	0.04	6.73	5.92	87.35
2005	0.07	7.09	6.00	86.91

Source: Authors calculation based on annual manufacturing survey dataset, DOSM, 2009.

Note: Skilled, semi-skilled and unskilled workers represent the percentage of degree holders, diploma holders and non-degree and diploma holders out of total workforce.

5. Employment relationship and working conditions[122]

The employment conditions of the automobile industry are regulated by employment law and, to a wide extent, also by registered collective agreements (CAs) (see below on IR). With a high level of unionization and collective agreement coverage the industry is a relatively "well paid" place to work (see table 7 above), and it is less exposed to "precarious work" conditions and numerical flexibilization compared to labour market segments with lower or no coverage of collective agreements. However, during the 1990s until the financial crisis 1997-98 and again in the 2000s an increasing number of immigrants have been employed in manufacturing, including the automobile industry. This has happened primarily in the non-unionized sector where as many as 80 per cent of production workers can be immigrant labourers, according to NUTEAIW. In the industrial union segment 20 per cent of the workforce was contract workers in 2008, while it is up to 35 per cent in Proton and Perodua. In addition, foreign contract labour has increasingly been supplied by so-called "outsourcing" companies whereby the manufacturer is saved from contributing to pension and social security schemes (Employees Provident Fund; Social Security Organization). The vast amount of legal immigrant workers is subjugated to immigration law, and illegal immigrants are working in the informal sector without any legal protection. MTUC estimates that there are 1.8 million registered foreign workers and 1.2 million undocumented workers at present in Malaysia at present.

The industry is a male-dominated, with 80-90 per cent male employees. Formal working time has on average been a five-day work week with around 44 hours. Overtime has been widely used in boom conjunctures, while reduction of overtime is widely used during times of declining growth. In cases of stagnation or recession, several additional measures are applied, like internal functional relocation of employees, time off for training and education, temporary lay-offs, four days work week, etc. During the East Asian financial crisis 1997-98, for example, OEMs made use of a wide range of initiatives to avoid retrenching regular Malaysian employees that are protected by labour legislation and CAs. The measures included natural attrition, non-renewal of contract workers' employment, retrenchment of immigrant workers, reduction of increments and bonuses and temporary shutdowns keeping the workforce on reduced pay (e.g., 75 per cent) (Peetz & Todd 2000, 47-51). When retrenchment was unavoidable managements made extensive use of Voluntary Separation Schemes (VSS) and, as the last option, direct retrenchment. None of these measures protected employees anyway from experiencing deteriorating remuneration and working conditions.

More specific and up to date statistical data on wage levels among various employment groups are not available. In the 2000s the average annual wage increase among workers has been 3 per cent per year, says NUTEAIW. This seems to be slightly below the average monthly salary improvement from 2000 to 2008 (see table 7 above). A newly recruited worker will get around 600 RM per month as basic salary (equal to 28 RM per workday) and 100-150 RM in incentive allowances per month plus other benefits in accordance with the CA. This income level is far below industry average. It is, contends NUTEAIW, also insufficient for a worker to make a decent living, and the worker has to work overtime to make both ends meet (MTUC demands 900 RM plus allowances to be the minimum wage level in Peninsular Malaysia). NUTEAIW inform that contract workers

[122] In Malaysia employment is subject to labour law and registered collective agreements, if they exist. Temporary employment is translated into regular employment after six months while contract employment is not.

work 12 hours a day for 18 RM (equal 13.2 RM for a normal 8.8 hour workday), and they are not entitled to medical leave or annual leave.

In Malaysia, legislation about occupational safety and health has been improved in the 1990s and OSH committees have become mandatory in larger manufacturing enterprises. In the case of Proton and in non-national, organized OEMs like the Ford-related company AMI, safety committees were part of the workplace in the early 2000s with union-nominated employees from the plant.

6. Industrial relations (IR)

In the early 2000s trade union density in the Malaysian automotive industry was 39 per cent in 2000 raising to 43 per cent in 2002 and 44.5 per cent in 2004 (table 25). This level is relatively high considering that overall union density in Malaysia is around 14-15 per cent in 2000[123] and that union density in automobile industries in Thailand, Indonesia and the Philippines are much lower (Wad 2004b). The high union density approximates with collective agreement coverage, indicating a labour market segment highly regulated by collective bargaining.

Table 25: Union density in the automotive industry, Peninsular Malaysia, various years.

	2000	**2002**	**2004**
Employment Automotive industry	38,270	45,786	49,264
Union membership Automotive industry	14,979	19,703	20,355
	2000	**2002**	**2004**
Union density (%) Automotive industry	39.1	43.0	44.5

Sources: *Employment*: Dept. of Statistics (selected years) Annual Survey of Manufacturing Industries. Malaysia. KL: DOS. *Trade union membership*: Dept. of Trade Union Affairs. Annual Reports. selected years. KL: MHR. Reference date is March 31. Note: Union density: Calculated as union membership over employment. Note: The union density figure is both an underestimate because employment refers to "persons engaged" and not only for wage earners eligible for union membership (includes owner operators and executive staff), and an overestimate because the survey does not cover small companies.

On the other hand, the employers do not have a collective bargaining unit (employers' association) but negotiate individually with trade unions. The Malaysian Employers Federation (MEF) is not a proper trade union with collective bargaining authority, and it merely assists member companies with labour market information and counseling in employment and industrial disputes and in company-level collective bargaining, besides engaging in advocacy about labour legislation and labour market policy. The Malaysian Motor Trades Association (MAA) is an industry association advocating the interests of motor vehicle traders, manufacturers and assemblers, but the core auto makers, Proton and Perodua, are not members. Malaysian Automotive Component Parts Manufacturers (MACPMA) is an association of components and parts companies and voices their concerns to the government. This industrial relations situation is an outcome of the trajectory of industrial relations in Malaysia's automotive industry.

[123] Parasuraman (2004, 19) calculates union density to 8.3 per centin 2000, but he uses total employment figures (8,920,000) and not figures for wage earners in Malaysia (5,441365) or Malaysian wage earners (4,823,829) (DOS 2003).

In the 1970s a centralized collective bargaining system evolved in the Peninsular-based Malaysian automobile industry following the establishment and development of the National Union of Transport Equipment and Allied Industries Workers (NUTEAIW)[124] as a democratic, workplace-based industrial union (see Dass 1991). NUTEAIW organized all assembly companies in Peninsular Malaysia during this decade, and it extended its range to automobile component and parts firms. To counter the power of the industrial union the managements of the assembly companies formed an employers' association[125], the Motor Vehicle Assemblers Association, West Malaysia (MVAA) in 1973, and the first collective agreement (CA) was signed for the period 1973-75. At the end of the 1970s the MVAA counted eight members but the association began falling apart from 1981 and the last industry-level CA ran for the period 1982-84. The IR system was decentralized in the 1980s due to employers' resistance to centralized collective bargaining, the emergence of enterprise unions in the wake of National Automotive Projects (Proton, Perodua), and internal union cleavages that translated into new in-house unions from break-away factions supported by management, as happened in OEMs assembling Toyota and Nissan vehicles.

The industrial union focused more on the automotive component and parts sector in the 1990s, and it succeeded in organizing many component and parts suppliers and also several enterprise unions where workers were dissatisfied with the achievements of the in-house union and closed it down. The industrial union failed to organize the National Automobile Projects of the decade, Perodua and INOKOM, but it succeeded organizing the national truck and bus company (MTB) in the early 2000s. After an industrial and legal dispute NUTEAIW was recognized by management and the parties concluded a collective agreement.

Even the two big enterprise unions faced employer obstruction in recent years. PROTON and PERODUA were restructured with new plants and companies being formed, but the existing unions were denied jurisdiction over the new companies. The industrial union has faced fierce resistance by employers when it organizes new workplaces. One recent example is a dispute between the union and a large Malaysian auto component and parts supplier, which erupted when the union aimed to unionize all subsidiaries in the partly organized corporation. Management restructured the corporation into a holding company and supported the formation of an in-house union in this new entity but failed when the union challenged this move with the Registrar of Trade Unions (RTU) of the Ministry of Human Resources (MHR). However, the management succeeded in weakening the membership base of the union in the corporation, according to NUTEAIW.

In sum, the industrial union of the Malaysian automotive industry is a rather influential trade union in the Malaysian IR system of 2009, although enterprise unions have a larger share of union members. Since the early 2000s the general secretary of the NUTEAIW has been heading the IMF-Malaysia Council, numbering in addition to the NUTEAIW the MIEU, the Electrical Industry Workers' Union (EIWU) and other industrial and enterprise unions within the metal industry, and since 2004, the executive secretary of the NUTEAIW has been president of the MTUC. During the early 2000s the industrial union and some larger enterprise unions held talks about forming a federation of automotive unions, but this initiative stalled when the unions could not agree on the power structure and the policy. Enterprise unions count above 60 per cent of total union membership in the industry.

[124] Originally, the name of the industrial union was Transport Equipment and Allied Industries Employees Union, West Malaysia (TEAIEU) from 1971 but the name was changed in 1989 to avoid confusion with another industrial union, the Transport Workers' Union (TWU) (Wad 2004a). For convenience we use the present name across its history.

[125] In Malaysia such an organization is also labeled a "trade union" in official statistics.

There are no tripartite bodies at the automotive industry level, but institutions for social dialogue exist at the enterprise level and at the national level. Consultative bodies like Labour-Management Councils (LMCs) have been established in Japanese-related OEMs and OES, e.g., in PROTON and in one of its suppliers, PHN Industry, respectively, with union consent and mentioned in the CAs (around 2000). Such a LMC was not mentioned in the CA (2002-04) of PERODUA Manufacturing-PERODUA Union. In the non-national organized sector works committees of NUTEAIW could request meetings with management as it happened at, e.g., AMI where management and the union works committee held regular production meetings. No sector-wide legislation demands that works councils are established, but the general Code for industrial Harmony from the 1970s encourages consultative mechanisms (Jomo & Todd 1994).

MTUC and MEF participate in a number of tripartite agencies, e.g., the National Labour Advisory Council (NLAC), Human Resources Consultative Panel, Social Security Organisation (SOCSO), Employees Provident Fund (EPF), the National Council of Occupational Safety and Health, and Wage Councils. Trade unions are involved in Industrial Relations mediation and arbitration with the Ministry of Human Resources and the Industrial Court.

Contrary to the trade unions and the employers the business associations of motor vehicle makers and dealers united in 2000 when the Malaysian Motor Trades Association (MMTA) merged with the Malaysian Motor Vehicle Assemblers Association (MMVAA) and formed the Malaysian Automotive Association (MAA). The MAA is, however, an industry association, not an employers association. The automobile traders organization goes back to the Federation of Malaya Motor Traders Association (FMMTA) of 1960, shortly after Malaya Federation became independent in 1957 but before the formation of Malaysia in 1963. The centralization of the motor vehicle business associations into one was a response to the Malaysian government calling upon associations from similar trades and sectors to merge, but the association of component and parts supply firms (MACPMA) is not part of the merger.

7. Impact of global crisis on Malaysian automotive industry

The unfolding global crisis since 2008 has had a diverse impact on the global economy. The shrinking exports growth and private investments of Malaysia (as the results of the crisis) have ultimately impacted the industries, labour market and subsequently the earnings. Overall, the industrial production index shows a contraction in all the industries in the first and second quarter of 2009. The transport equipments industries (passenger car, commercial vehicles, motorcycles and components and parts manufacturers) maintain a positive production growth in 2008 but in 2009 production index showed a contraction of 15.9 per cent and 14.3 per cent, in quarter 1 and 2, respectively.

7.1. Vehicle Sales

During the global crisis the passenger vehicle market segments recorded a slow down starting fourth quarter of 2008. The year to year contraction of fourth quarter of 2008 and first quarter of 2009 is 10.5 per cent while greater contraction is seen in second quarter of 2009 (see Table 26). In contrast, the commercial vehicle market segments are still robust in 2008 ad 2009 despite the global downturn recoding a positive growth for the period of 2008 and 2009. However, the trend shows a decline and in the first quarter of 2009 the growth is only 5.4 per cent while the second quarter of 2009 records a negative growth of 10.6 per cent . MAA expects anyway that a turnaround will happen in the second half of 2009 (Bursa, 2009, 8).

Table 26: Sales of Passenger and Commercial Vehicles in Malaysia (Annual Percentage Change YOY)

	2007				2008				2009	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
Sales of Passenger Cars	4.1	4.9	25.1	42.4	25.7	27.8	10.4	-10.5	-10.5	-11.6
Sales of Commercial vehicles	-70.9	-60.1	-60.1	-55.3	13.0	20.3	11.2	13.3	5.4	-10.6

Source: Bank Negara Malaysia, 2009.

Comparing the figures during the Asian financial crisis of 1997/98 and the current global crisis, the figures show that the impact was much greater in 1998 where the total sales for the year were only 155,332 units (see Table 27). Despite the slow down in the fourth quarter of 2008, the growth in sales of both passenger and commercial vehicles was positive. In the first half of 2009, the total vehicles sales are more than half of the total sales in 2007. However, it is unlikely that the overall sales will surpass the 2008 sales units; yet, figures for the first half of 2009 are definitely higher than the overall values of 1998.

Table 27: Comparing Sales during two major crises

Years	Passenger Vehicles	Commercial Vehicles	Total Vehicles
During Asian Financial Crisis 1997/98			
1997	307,907	70,334	378,241
1998	137,691	17,641	155,332
1999	239,647	26,171	265,818
During Global Financial Crisis 2008/2009			
2007	442,885	44,291	487,176
2008	497,459	50,656	548,115
2009*	228,200	22,892	251,092

Source, MAA, 2009c.

Note: * Figure for the year 2009 is until June.

7.2. Production and employment

Comparing the first half (Jan-June) of 2008 and 2009, production of passenger and commercial vehicle contracted by 13.1 per cent and 8.3 per cent , respectively, while the total vehicle production contracted by 12.7 per cent . The production contraction of 12.7 per cent is higher than 9.7 per cent contraction in sales. This indicates that adjustments take place in stocks to overcome and avoid unnecessary stock position. It is forecasted that for the year 2009 a drop of 8.8 per cent in the total industrial volume[126] (500,000 units) with passenger and commercial vehicles sales dropping about 8.8 per cent and 8.2 per cent , respectively (MAA, 2009a). How this decline in production has affected employment in the industry is not statistically disclosed yet. In comparison, from 1997 to 1998 production fell by 57 per cent in Proton, by 43 per cent in Perodua, and by 85 per cent among non-national auto makers, and employment was reduced by 14 per cent , 11 per cent and 38 per cent respectively (Wad 1999).

[126] It is assumed that improvement in the GDP contraction from 6.2per cent to 3.7per cent, stabilizing employment market, introduction of new models and stabilized fuel price to contribute to lower contraction in production.

7.3. Employment and industrial relations during the global financial crisis

According to NUTEAIW, the Ministry of Human Resources issued a circular to all companies during the crisis, requesting them to remove contract (mainly foreign) workers before reducing the regular (mainly local) employees, and in response to this circular some employers sent back their contract workers. From last December 2008 the overtime for the local workers has been reduced substantially. Instead of conducting retrenchment, some employers offered voluntary separation scheme (VSS), which is less painful compared to retrenchment. Swedish Motor Assembly (SMA) assembling Volvo was the only company to close for 3 months (temporary lay-off), however, the NUTEAIW managed to negotiate for 85 per cent basic salary and full allowance during the lay-off. At least three auto parts manufacturer closed for a longer period after New Year and Chinese New Year Festival.

The total membership of the NUTEAIW was reduced by 10 per cent compared to 2008. However, in the case of electrical industry, the EIWU lost about 40 per cent of their membership, according to NUTEAIW, because it seems the electronics industry has been worst hit. The industrial union points out that all these industries started to grow again from August 2009.

7.4. Government counter-cyclical intervention

The government announced the 2nd Stimulus Package, totaling RM 60 billion, to cushion the impact of the crisis. In assisting the private sector in facing the crisis, RM 29 billion has been allocated for various programs. The automotive industry will benefit in the following ways: 1) RM200 million is allocated for the Automotive Development Fund mainly to develop the automotive industry and vendors as well as to establish the Automotive Institute of Malaysia; 2) support for the auto-scrapping schemes of Proton and Perodua where RM 5,000 discount is given for cars at least 10 years old (Bursa 2009).

The government's assistance could provide cushioning effects to the auto industry, yet it is unlikely that it can restore the earlier demand. Although the auto-scrapping scheme will benefit the industry in the long run, stringent credit facilities with an increase in interest rates (as of second week of April 2009, interest rate for hire purchase increase from 2.35 to 3.35 per cent on average) and lower valuation for second-hand cars will make the auto-scrapping scheme less effective currently. This will also consequently reduce the demand and the sales of automotive industry. Loan disbursements for passenger cars recorded 8.2 per cent contraction on year to year basis (Jan-July 2008 and Jan-July 2009) while the total disbursement contracted at 5.6 per cent (Bank Negara Monthly Bulletin July 2009).

8. Structural challenges and labour relations issues in the automotive industry

During the beginning of the 21st century the Malaysian automobile industry faced several constraints, most of which are still valid at the turn of the 2000s although the conjunctures are seemingly different. In 2000 the industry was recovering from the 1998 sales crisis, while it seems to be at the bottom of a crisis right now. But the key structural challenge pertains to questions of the industry's regional and global competitiveness, as acknowledged by the government with special reference to national car manufacturers (MIDA 2006, 2009). This challenge is related to the free trade area of AFTA and the WTO membership, low economies of scale and low levels of modularization and technological innovation, energy and climate crises, and the need for strategic business alliances, mergers and acquisitions. However, transforming the auto industry and related sectors into

a productive, competitive and sustainable cluster that also delivers more decent jobs and better earnings requires consent and active support from all key stakeholders - not only from the government, managements and business associations, but also from the employees and their trade unions.

Although the industry's employment showed a steady growth in the 2000s and the setback may be less severe this time than during the financial crisis in 1997-98, the industrial union (NUTEAIW) is very concerned about the rising employment of contract workers in the industry during last two decades. This increases numerical flexibility for the employers but it also puts a downward pressure on workers in terms of increased employment insecurity and lower wages, aggravated by low levels of union organization among contract workers due to misinformation and negative attitudes to unionism among immigration authorizes and employers. Retrenchment benefits are also low even in the unionized sector with collective agreements. This raising flexibilization of the labour market without adding social security measures adds to the institutional weakening of trade unions in Malaysia created by tight and tightening labour laws together with employers' anti-union attitudes and practices. The cross pressure spills over into preventing employment improvements from being effectuated during the last growth period for example in terms of reducing working hours from the norm of 44 hours per workweek. And it is testified by the low skilling of the auto industry's workforce.

A sustained long-term expansion of the Malaysian auto industry with improved wages and working conditions can only be based on a thorough upgrading of productivity and international competitiveness of the domestic auto industry cluster. Considering the relatively low capacity utility, low technology level and a low-skilled workforce, such a transformation will require widespread and ongoing benchmarking and investments in critical areas, not least in training, education and mobilization of the rank-and-file workforce. An advanced automotive industry requires a highly and multi-skilled, regular but functionally flexible workforce that is motivated contributing to productivity improving exercises. This includes the sourcing of innovation not only from customers but from the shop-floor which Proton did not undertake (Rasiah 2001). It requires a shift to team-work and delegation of responsibility and accountability instead of top-down commandment of discipline, i.e., some kind of a high-performance work system in an enabling industrial relations environment, including respectful collective bargaining and works councils.

One of the enduring conflicts in the Malaysian industrial relations system has been the issue and dispute over productivity-based wages, and attempts to enact such systems have often failed due to mistrust between the parties. Hence, what is needed, among other things, is a broad and inclusive "productivity alliance" between automakers, auto suppliers, business associations, employees and their trade unions together with government agencies, and assisted with industry and market information by professionals and academia. Such a productivity alliance was formed in South Africa at the end of the 1990s, and it enabled the transition of the South African automobile industry from a protected industry with low productivity towards a highly productive and internationally competitive industry, while employment, wages and working conditions have been improved over time (Barnes and Morris 2008[127]).

A national productivity alliance aiming for "fair growth" requires, as it did in South Africa, that the stakeholders respect core labour rights and improve social dialogues (as stipulated by, e.g., the ILO). However, in 2008 the Malaysian government amended the Industrial Relations and Trade Union Act after tabling the changes in parliament without

[127] One of the successful measures was the establishment of voluntary Benchmarking Clubs among local auto components and parts manufacturers (Barnes and Morris 2008).

even presenting and discussing the changes with the trade unions directly or in the national Labour Advisory Council (NLAC). NUTEAIW and MTUC interpret these amendments as biased in favor of the employers and against the trade unions. They include reduction of maximum compensation for wrongful dismissal to 24 months only, which enables employers to get rid of experienced trade unionists from the company in a cheaper way; trade union leaders are no longer required to have worked a year in the industry to qualify for trade union positions, making it easier to form in-house unions; terminated trade union leaders can not continue as trade union members from the day of termination in spite of the termination being challenged; and during trade union recognition process the membership verification procedure is now removed and only a secret ballot among employees present is to be applied, including as a base workers that have left the company or have died. Thus, for the formation of a just and fair productivity alliance, the government as well as the employers must change their attitude and respect trade unions as legitimate representative organizations of their employee members. Otherwise, Malaysia will probably again reach an impasse in automotive industrial productivity which can threaten the very survival of the industry.

9. Conclusion

Over the years the Malaysian automotive industry has evolved from an assembly industry towards a manufacturing industry focusing on passenger car manufacturing while generating raising employment and average wages among its workforce. However, the national automotive program has been scaled down, with Proton being the only OEM controlled by Malaysian capital and no longer the market leader. Japanese car makers are again dominating the auto market and industry. Moreover, the industry still lacks the competitive advantage to export into international markets due to its lack of technological upgrading, especially among parts and component suppliers and low levels of skills among employees. Despite the efforts of Proton in developing local suppliers, high dependence on domestic market and technology agreements has limited the performance of these suppliers on a regional and global scale. Although the impact of the current global crisis is moderate because Malaysia's automotive industry is not significantly export oriented, this is only a temporary relief because earning capabilities are shrinking during the crisis, domestic demand is declining, and the lackluster performance of the automotive industry is continuing. The stimulus packages by the government and introduction of new models have to some extent affected the progress of the industry in a positive way, but the stimulus package targets the national automotive sector only, and this discrimination of non-national auto makers turns them away from investing in Malaysia. Not only is an international automotive alliance pertinent for the stand-alone Malaysian auto maker, Proton, to reduce excess capacity through, e.g., contract manufacturing, but a national productivity coalition is a strategic necessity, too, in order to create high-performance work systems and business models. This requires an industrial relations system that secures and furthers core labour rights, collective bargaining and other kinds of social dialogues in order to raise productivity and innovation by mobilizing workers with hands-on knowledge and workplace experience about the state of automotive production.

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