



TRENDS IN SOUTHEAST ASIA

# SHIFTING TO A HIGHER GEAR

## The Saga of Malaysia's National Carmaker Proton

Pritish Bhattacharya and  
Francis E. Hutchinson

**ISEAS**  
YUSOF ISHAK  
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# FOREWORD

The economic, political, strategic and cultural dynamism in Southeast Asia has gained added relevance in recent years with the spectacular rise of giant economies in East and South Asia. This has drawn greater attention to the region and to the enhanced role it now plays in international relations and global economics.

The sustained effort made by Southeast Asian nations since 1967 towards a peaceful and gradual integration of their economies has had indubitable success, and perhaps as a consequence of this, most of these countries are undergoing deep political and social changes domestically and are constructing innovative solutions to meet new international challenges. Big Power tensions continue to be played out in the neighbourhood despite the tradition of neutrality exercised by the Association of Southeast Asian Nations (ASEAN).

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# Shifting to a Higher Gear: The Saga of Malaysia's National Carmaker Proton

By Pritish Bhattacharya and Francis E. Hutchinson

## EXECUTIVE SUMMARY

- Proton has been a vital part of Malaysia's industrialization journey and a key pillar of its modernization drive.
- Launched in 1983 to fulfil then Prime Minister Mahathir Mohamad's vision of a pride-infused national car company, the state-owned Proton grew quickly and captured a dominant share of the country's domestic car market, aided in no small measure by generous protective measures and subsidies.
- However, in the subsequent decades, the car giant lost market share and power due to a variety of challenges, such as non-market performance requirements, less effective protection, and growing competition from a second national car firm and from global car companies.
- The automaker has had a variety of ownership structures over time, but was resolutely kept in domestic hands—public and private. This did increase control over the corporation, but did so at the expense of exposure to and adoption of leading-edge technology.
- This impasse was resolved in 2017, when Proton sold a 49.9 per cent share to the Chinese auto firm Geely. The joint venture has rejuvenated the carmaker, which has begun to reconquer market share through a number of popular SUVs.
- Despite this, the Malaysian auto market is becoming increasingly competitive. Going forward, Proton will need to begin to export significantly to expose its vehicles to new niche markets as well as global standards, obtain and retain skilled workers, and continue to rationalize costs in its supply chains and distributorships.





# Shifting to a Higher Gear: The Saga of Malaysia's National Carmaker Proton

By Pritish Bhattacharya and Francis E. Hutchinson<sup>1</sup>

## INTRODUCTION

Newly independent Malaysia's economic growth was driven mainly by the export of primary products such as rubber, timber and tin.<sup>2</sup> However, in light of the steadily declining non-oil commodity prices in the early 1980s and informed by the ongoing structural transformation in Japan and South Korea, the country's then Prime Minister Mahathir Mohamad reoriented the national growth model to one that put heavy industries—steel, cement, petrochemicals, machinery and equipment and automotive—at the forefront.<sup>3</sup>

To garner public support, he promulgated the idea of a “national car”, employing it as an expression of technological modernism and national pride. To this end, the state-owned Heavy Industries Corporation of Malaysia (HICOM) entered a joint venture with Japan's Mitsubishi Motors Corporation and in 1983 set up Perusahaan Otomobil Nasional

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<sup>2</sup> Wong Lin Ken, “The Economic History of Malaysia: A Bibliographic Essay”, *Journal of Economic History* 25, no. 2 (1965): 244–62.

<sup>3</sup> Barry Wain, *Malaysian Maverick: Mahathir Mohamad in Turbulent Times* (New York: Palgrave Macmillan, 2009).

(Proton).<sup>4</sup> With the launch of its first car model, the Saga, two years later, Proton established itself as Southeast Asia's first automobile brand to be able to manufacture its own vehicle. Selling close to 81,000 units by 1989, Saga accounted for two-thirds of the domestic car market.<sup>5</sup> To replicate this success, Proton produced a number of other models throughout the 1980s and 90s, with most bearing indigenous names like Wira (hero), Satria (warrior), and Putra (prince).

Proton initially benefited from significant government protection in the form of substantial subsidies, along with tariffs and licensing requirements for imported vehicles—all resulting in a low-priced national car. However, in 1985, the simultaneous stagnation of the Malaysian economy and the appreciation of the Japanese yen raised Proton's production cost, forcing the firm to not only lose its status as the country's cheapest carmaker but also target the protection-devoid export market to compensate for the declining sales at home. So, at the turn of the new millennium, in addition to becoming part of Malaysia's cityscapes, Proton's vehicles also reached foreign shores—albeit in limited quantities and with heavy government subsidies.<sup>6</sup>

Today, the automotive landscape is radically different. Novel tariff regimes and increased competition—from not just foreign firms but also a second national automobile enterprise Perodua—have brought down Proton's market share dramatically, from 74 per cent in the heydays of protection in the 1980s to 12.5 per cent in 2016.<sup>7</sup> Although several reasons can explain this decline, the former frontrunner's unwillingness to yield the golden share emerged as the chief source of all its troubles, for this generated little appeal to potential joint ventures, and consequently limited the company's access to and use of leading technology. While

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<sup>4</sup> Kaoru Natsuda and John T. Thoburn, *Automotive Industrialisation: Industrial Policy and Development in Southeast Asia* (New York: Routledge, 2021).

<sup>5</sup> *Ibid.*

<sup>6</sup> Jane T. Tong, Robert H. Terpstra, and Ngat C. Lim, "Proton: Its Rise, Fall, and Future Prospects", *Asian Case Research Journal* 16, no. 2 (2012): 347–77.

<sup>7</sup> Malaysian Automotive Association (MAA) data for various years.

Proton does continue to receive some support from the government, it is also expected to perform extensive non-market functions such as maintaining local supplier firms.

However, the car marque's fortunes could be about to turn a corner, as a 2017 joint venture with Chinese automaker Zhejiang Geely has enabled Proton to manufacture a number of popular new car models. The automaker's share of the domestic market has begun to climb again, reaching 20.8 per cent in 2023.<sup>8</sup> Although not out of the woods yet, the native car pioneer certainly seems to be recovering some of its lost commercial glory.

In order to analyse all dimensions of the Proton saga, this article is comprised of five parts. After this introduction, the next section will provide an overview of the development of the Malaysian automotive sector over the past five decades. The third section will look at the auto sector today and Proton's place within it. The subsequent section will set out the key challenges facing the sector in general and Proton in particular. The final section will draw some conclusions.

## **THE DEVELOPMENT OF MALAYSIA'S AUTOMOTIVE SECTOR**

The development of Malaysia's automotive sector can be broadly categorized into three phases based on the predominant economic principle of the time: import substitution (1967–82); government-driven growth (1983–2003); and liberalization (2004–the present).

### *Import Substitution (1967–82)*

Malaysia, like most newly independent countries in the 1960s, adhered strictly to the principle of import substitution-based industrialization while setting up its automotive industry. The objective was to not just shield the fledgling domestic firms from their foreign counterparts, but also attract investments from overseas. The government developed an

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<sup>8</sup> MAA data for the first six months of 2023.

Approved Permits system mandating all auto dealers and distributors to require import licenses. At the same time, it began implementing hefty import duties on all completely built-up (CBU) vehicles.<sup>9</sup>

During the 1970s, the Manufacturing Licence system was put in place and a handful of plants were granted licences to manufacture and assemble small-scale automotive components. As the production capability improved, several prominent domestic manufacturers and assemblers started lobbying legislators for greater local content requirements (LCRs) as an additional measure of trade protection. The government acquiesced and directed a large portion of its investments to set up the Malaysian Automotive Component Parts Manufacturers Association (MACPMA) in 1978.<sup>10</sup> Concurrently, a Mandatory Deletion Programme was introduced to ensure that non-Malaysian assemblers exclude specific components from their completely knocked-down (CKD) kits and manufacture them domestically instead.<sup>11</sup>

Despite major inefficiencies—such as those associated with the high cost of importing indispensable parts from overseas, a highly fragmented auto parts and accessories market, and inadequate long-term public planning—the domestic production of passenger vehicles grew steadily throughout this phase, from around 28,000 units in 1970 to more than 100,000 in 1980.<sup>12</sup>

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<sup>9</sup> CBU stands for “completely built-up” vehicle, which means the type of car that is completely imported from abroad.

<sup>10</sup> International Labour Organization, “Analysis of the Economic Development Role of Sectoral Business Associations: In the Rubber, Electronics and Electrical, and Automotive Sectors in Malaysia, Thailand and Viet Nam”, ILO Bureau for Employers’ Activities (ACT/EMP) Working Paper No. 16, (Geneva: ILO, 2016), [https://www.ilo.org/wcmsp5/groups/public/---ed\\_dialogue/---act\\_emp/documents/publication/wcms\\_581081.pdf](https://www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---act_emp/documents/publication/wcms_581081.pdf) (accessed 1 February 2024).

<sup>11</sup> CKD stands for “completely knocked-down” vehicle, which means that the car is assembled domestically. Unlike the case of CBU, the components of CKD cars are imported separately, so they need to be assembled before being marketed.

<sup>12</sup> Fourin Inc., *Ajida Jidosha Sangyo* (ASEAN Automotive Industry) (Nagoya: Fourin Inc. 1991).

### *Government-Driven Growth (1983–2003)*

The next phase of Malaysia's auto sector development began two years after Mahathir Mohamad assumed office as the country's fourth prime minister. As part of his Look East Policy, Mahathir sought inspiration from the rapid heavy industry-led economic expansion of Japan and South Korea and established a number of joint-venture state-owned enterprises (SOEs) that interfaced with HICOM and foreign firms.<sup>13</sup> In particular, he emphasized the emblem of an indigenous car to arouse nationalistic fervour among the public.

The result of this production-patriotism duet to achieve first-world status was Proton, Malaysia's first national car company, set up as a joint venture between HICOM (with 70 per cent stake), Mitsubishi Motors (15 per cent) and Mitsubishi Corporation (15 per cent).<sup>14</sup> The firm's first car model, the Proton Saga, was launched in 1985 and was an instant hit, with its market share hitting the 70 per cent mark in 1990.<sup>15</sup> This feat was considered so momentous that a scene from the Proton assembly line was even featured on the RM100 currency note.<sup>16</sup>

The goal of this National Car Project (NCP) was threefold: to introduce a locally manufactured vehicle; to rationalize the overall automotive sector; and to herald a period of technological progress and economic

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<sup>13</sup> R.S. Milne, "Malaysia-Beyond the New Economic Policy", *Asian Survey* 26, no. 12 (1986): 1364–82.

<sup>14</sup> Mike Simpson, Geoff Sykes, and Adini Abdullah, "Case Study: Transitory JIT at Proton Cars, Malaysia", *International Journal of Physical Distribution & Logistics Management* 28, no. 2 (1998): 121–42.

<sup>15</sup> Prema-chandra Athukorala, "Industrialisation through State-MNC Partnership: Lessons from the Malaysia's National Car Project", Working Papers in Trade and Development No. 2014/06 (Canberra: Australian National University, 2014), [https://acde.crawford.anu.edu.au/sites/default/files/publication/acde\\_crawford\\_anu\\_edu\\_au/2016-06/acde\\_wp\\_econ\\_2014\\_06.pdf](https://acde.crawford.anu.edu.au/sites/default/files/publication/acde_crawford_anu_edu_au/2016-06/acde_wp_econ_2014_06.pdf) (accessed 1 February 2024).

<sup>16</sup> Bank Negara Malaysia, "The New Design RM100 Banknotes", 1998, <https://www.bnm.gov.my/-/the-new-design-rm100-banknotes> (accessed 29 January 2024).

prosperity. Indeed, manufacturing a car was supposed to support a host of related industries and generate employment opportunities, especially for members of the bumiputra community—in line with specifications in the New Economic Policy (NEP) of 1971.<sup>17</sup> However, the economic recession of 1985/86 following a steep decline in the price of Malaysia’s prized export commodities such as palm oil and tin caused local car demand to plummet.<sup>18</sup> This was accompanied by a sharp appreciation of the yen after the Plaza Accord, which raised the cost of not just the yen-dominated auto sector loans but also the key car components imported from Japan.<sup>19</sup>

To deal with the mounting expenditure, the government took several steps. First, the idea of a second national carmaker for small hatchbacks was promoted, eventually leading to the birth of Perodua (Perusahaan Otomobil Kedua), a joint venture between Malaysian companies and Toyota subsidiary Daihatsu Motors, in 1993.<sup>20</sup> Perodua could make use of Proton’s vast vendor networks and achieve massive economies of scale. Second, the government announced its Second Industrial Master

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<sup>17</sup> Lee Hwok Aun “Fifty Years of Malaysia’s New Economic Policy: Three Chapters with No Conclusion”, ISEAS Economics Working Paper No. 2021-07 (Singapore: ISEAS – Yusof Ishak Institute, 2021), [https://www.iseas.edu.sg/wp-content/uploads/2021/07/ISEAS\\_EWP\\_2021-7\\_Lee.pdf](https://www.iseas.edu.sg/wp-content/uploads/2021/07/ISEAS_EWP_2021-7_Lee.pdf) (accessed 1 January 2024).

<sup>18</sup> Prema-chandra Athukorala, “Malaysian Economy in Three Crises”, Working Papers in Trade and Development No. 2010/12 (Canberra: Australian National University, 2010), [https://crawford.anu.edu.au/acde/publications/publish/papers/wp2010/wp\\_econ\\_2010\\_12.pdf](https://crawford.anu.edu.au/acde/publications/publish/papers/wp2010/wp_econ_2010_12.pdf) (accessed 18 January 2024).

<sup>19</sup> Kamaruding Abdulsomad, “Promoting Industrial and Technological Development under Contrasting Industrial Policies: The Automobile Industries in Malaysia and Thailand”, in *Industrial Technology Development in Malaysia: Industry and Firm Studies*, edited by K.S. Jomo, Greg Felker, and Rasiah Rajah, pp. 274–300 (London: Routledge, 1999).

<sup>20</sup> Perodua’s shareholders include: UMW (38 per cent); MBM (20 per cent); PNB Equity Resource Corp Sdn Bhd (PERC) (10 per cent); Daihatsu Motor (20 per cent); Daihatsu (M) Sdn Bhd (5 per cent); Mitsui Group (4.2 per cent) and Mitsui & Co (Asia Pacific) Pte Ltd (2.8 per cent).

Plan (IMP2, 1996–2005), which included major reforms for the auto industry. Increasing R&D investment and expanding market segments were the main thrusts.<sup>21</sup> Third, the Mahathir administration introduced a plethora of protectionist policies to insulate Proton from market uncertainties. Such strategies included setting the effective rate of protection for the transport and equipment sector at 252 per cent in 1987 and import tariffs of 140–300 per cent on CBU passenger vehicles in the immediate aftermath of the Asian Financial Crisis (AFC) of 1997/98.<sup>22</sup> Collectively, however, these measures led to a major decline in the inflow of automotive foreign direct investment (FDI) into the country, especially from Japan, which decided to direct such resources to the nascent Thai car industry instead.<sup>23</sup>

Another notable consequence of the increased price tags of Proton’s cars was that the local marque, which was originally meant to exclusively serve the Malaysian market, decided to branch out into foreign economies both near and far, including Bangladesh, Australia, Thailand, Singapore, South Africa, the Middle East, and the UK.<sup>24</sup> However, the decision to target international markets did not yield the desired results, much to the chagrin of national policymakers. In fact, after peaking at 26,170 units in 1997, exports of Malaysian passenger vehicles—including non-national cars—exhibited a generally downward trend.<sup>25</sup>

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<sup>21</sup> MITI, *The Second Industrial Master Plan 1996–2005* (Kuala Lumpur: Ministry of International Trade and Industry, 1996).

<sup>22</sup> Rokiah Alavi, *Industrialisation in Malaysia: Import Substitution and Infant Industry Performance* (London: Routledge, 1996).

<sup>23</sup> Mai Fujita, “Industrial Policies and Trade Liberalization: The Automotive Industry in Thailand and Malaysia”, in *The Deepening Economic Interdependence in the APEC Region*, edited by Keiji Omura, 149–87 (Japan: APEC Study Center, Institute of Developing Economies, 1998).

<sup>24</sup> Partial list of export destinations compiled from Proton’s official website <https://www.proton.com/en/corporate/milestones> (accessed 20 January 2024).

<sup>25</sup> The figures, sourced from the Department of Statistics Malaysia, include both national and non-national car exports.



### *Liberalization (2004–the Present)*

A key factor behind Proton's early rise and freedom was the government protection it was granted, right from the time of its inception. The establishment of the ASEAN Free Trade Area (AFTA) in 1992, however, proved a major chink in this state armour. The implementation of the Common Effective Preferential Tariff (CEPT) scheme under AFTA meant that all member states had to lower their import duties to between 0 and 5 per cent by 2002.<sup>26</sup> But, to guard its auto sector from the new rules until 2005, Malaysian authorities designated CBU vehicles and CKD kits as sensitive goods.<sup>27</sup> This was the first of many attempts by the state to protect Proton.

Malaysia joined the World Trade Organization (WTO) in 1995. In line with its commitment to the intergovernmental agency's Agreement on Trade-Related Investment Measures (TRIMs) as well as the Subsidies and Countervailing Measures (SCMs), the country was under pressure to lower its tariff lines across all sectors, including the auto segment. However, to counter the reduced import duties and regulate the flow of imported vehicles, in the early 2000s, Malaysian lawmakers instituted rigorous non-automatic licensing and local content requirements (LCRs).<sup>28</sup>

Proton was once again at the risk of losing its coveted spot during the formulation of the first National Automotive Policy (NAP) in 2006. The elaborate scheme was aimed at boosting the capability and competitiveness of the auto industry by investing in high value-added activities using the latest technology and setting up a Manufacturing

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<sup>26</sup> ASEAN, *Southeast Asia: A Free Trade Agreement* (Jakarta: ASEAN Secretariat, 2002) <https://asean.org/wp-content/uploads/images/archive/pdf/AFTA.pdf> (accessed 30 December 2023).

<sup>27</sup> MITI, "Developments in the Implementation of the CEPT Scheme for ASEAN Free Trade Area (AFTA)", Ministry of International Trade and Industry, Kuala Lumpur, 2015, <https://www.miti.gov.my/index.php/pages/view/1039> (accessed 30 December 2023).

<sup>28</sup> Tham Siew-Yean, "The Future of Industrialization in Malaysia under WTO", *Asia-Pacific Development Journal* 11, no. 1 (2004): 25–47.

Licence (ML) system for assembling activities, which would facilitate deeper integration into global auto value chains. But, the government strategically imposed an excise tax to offset the further reduction in import duties.<sup>29</sup> Shortly after, in the wake of the Global Financial Crisis (GFC) of 2008/09, even more measures were adopted to safeguard the two national car companies. For instance, under the country’s temporary auto-scraping “cash for clunkers” policy, the state offered rebates of RM5,000 to consumers replacing vehicles over ten years old with the national brand cars.<sup>30</sup>

Despite the myriad defensive measures, the liberalization of the auto segment picked up pace after the conclusion of the Economic Partnership Agreement (EPA) between Japan and Malaysia in 2007. As per the EPA, Malaysia had to get rid of all automobile-related tariffs.<sup>31</sup> Today, while an import licence in the form of the Approved Permit (AP) system does exist, there are no import duties for CKD and CBU vehicles from ASEAN, whereas the figures increase to 10 per cent for non-ASEAN CKD imports and 30 per cent for non-ASEAN CBU imports.<sup>32</sup>

Further compounding Proton’s problems is the enduring pattern of the dwindling exports of its passenger cars. A decade after the AFC, in 2007, Malaysia managed to export a total of 16,650 vehicles, while the corresponding statistic in 2017 stood at 4,790 units. And in 2023,

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<sup>29</sup> MITI, “Review of National Automotive Policy”, Ministry of International Trade and Industry, Kuala Lumpur, 2009, <https://www.miti.gov.my/index.php/pages/view/1449> (accessed 25 December 2023).

<sup>30</sup> Bruno Jetin, *Global Automobile Demand: Major Trends in Emerging Economies*, vol. 2 (London: Palgrave Macmillan UK, 2015).

<sup>31</sup> MITI, “Agreement Between the Government of Malaysia and the Government of Japan for an Economic Partnership”, Ministry of International Trade and Industry, Kuala Lumpur, 2006, <https://fta.miti.gov.my/miti-fta/resources/auto%20download%20images/55894af110378.pdf> (accessed 12 December 2023).

<sup>32</sup> Data sourced from Malaysian Automotive Association, “Malaysia: Duties & Taxes on Motor Vehicles”, 2019, [http://maa.org.my/pdf/malaysia\\_duties\\_taxes\\_on\\_motor\\_vehicles.pdf](http://maa.org.my/pdf/malaysia_duties_taxes_on_motor_vehicles.pdf) (accessed 17 January 2024).

this export tally fell even further, with merely 4,600 vehicles reaching overseas.<sup>33</sup> Throughout this period, Proton cars made up a minuscule proportion of the total car exports. The company’s poor performance outside the confines of Malaysia—both historical and current—is the clearest indication that it was mainly state support that had kept the firm afloat in the domestic market. Deprived of government backing in the form of largess and entry barriers in the global market, the local giant’s expansion strategies quickly unravelled. Proton faced major difficulties in foreign geographies, including in sourcing spare parts, accessing latest technologies, meeting emission standards, and securing stable partnerships.

## **THE AUTOMOTIVE SECTOR TODAY**

After Thailand and Indonesia, Malaysia is Southeast Asia’s third-largest vehicle producer, housing twenty-eight facilities dedicated to the manufacturing and assembly of passenger and commercial vehicles, two-wheelers, and automotive parts and components.<sup>34</sup> In 2022, they employed close to 710,000 individuals, of whom 86,835 were directly involved in the production of motor vehicles, while 43,427 worked in transport equipment fabrication.<sup>35</sup> In 2023, the total number of vehicles produced and assembled in the country reached 774,600 units, of which passenger cars made up 724,891.<sup>36</sup>

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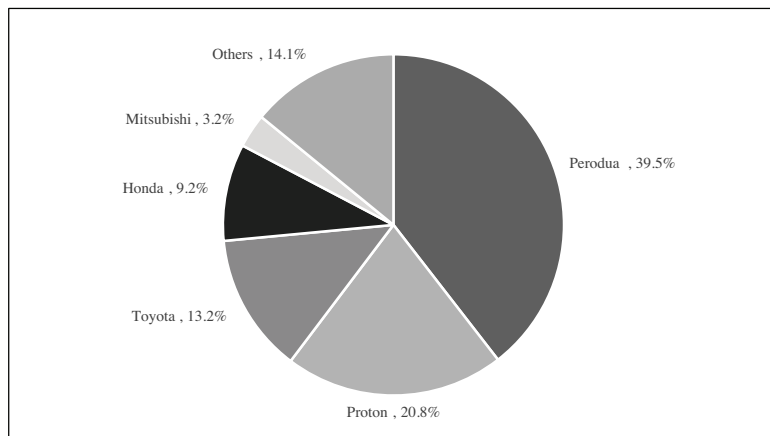
<sup>33</sup> The figures, sourced from Department of Statistics Malaysia, include both national and non-national car exports.

<sup>34</sup> MIDA, “Malaysia Auto Industry: Tapping on New Areas of Opportunities”, n.d., <https://www.mida.gov.my/malaysia-auto-industry-tapping-on-new-areas-of-opportunities/> (accessed 3 January 2024).

<sup>35</sup> Figures sourced from the Department of Statistics Malaysia’s “Monthly Manufacturing Statistics November 2023”, <https://newss.statistics.gov.my/newss-portalx/ep/epFreeDownloadContentSearch.seam?cid=884171> (accessed 31 January 2024).

<sup>36</sup> Data sourced from Malaysian Automotive Association, “Sales and Production Statistics”, 2023, <http://www.maa.org.my/statistics.html> (accessed 4 February 2024).

**Figure 1: Market Shares of Malaysia’s Top Carmakers, 2023**



*Note:* The market shares are calculated in terms of total vehicle sales, which include both passenger and commercial vehicles, for the first six months of 2023. *Source:* Authors’ creation based on Malaysian Automotive Association (MAA) data.

Among all carmakers operating in the country, the two national giants make up the lion’s share of total domestic motor vehicle sales. Data for the first half of 2023 show that Perodua and Proton accounted for 39.5 per cent and 20.8 per cent of the market share, respectively. Trailing them were Toyota (at 13.2 per cent), Honda (9.2 per cent), and Mitsubishi (3.2 per cent) (Figure 1).<sup>37</sup>

The progressive reduction and eventual elimination of most auto tariffs by 2007 was just one of the many causes behind Proton’s loosening grip on the domestic car market. Brewing in the background were several protracted ownership and partnership-related crises. In 2004, Mitsubishi ended its two-decade-long strategic association with Proton by divesting its stake in the firm, owing to factors ranging from disagreements over

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<sup>37</sup> Data sourced from Malaysian Automotive Association, “Mid-Year Assessment”, 2023.

technology transfer to financial troubles in the Japanese market.<sup>38</sup> Given that Proton had long modelled the majority of its car bodies and engines after the Japanese automaker's designs, Mitsubishi's exit dealt a major blow to the firm's market perception.<sup>39</sup> The former national champion did try to develop some car units with engines built completely in-house or with the help of a handful of minor working technology partners, but their sales never picked up. And, as more questions began to be raised about the deteriorating quality of Proton vehicles, its market share tumbled.

Although Mitsubishi's equity was purchased by the Malaysian government via Khazanah Nasional, Proton faced difficulties in finding a new technology partner. It was reported that the one-time local pioneer had extended partnership proposals to over 20 international carmakers, but negotiations fell through each time—most notably with Volkswagen, General Motors, and Peugeot.<sup>40</sup> Here, it is important to note that Proton's continued reluctance to yield the golden share to any venture partner stymied its attempts to access foreign technology and capital. Following an extensive quest for a technology collaborator, DRB-HICOM, a local-listed bumiputra corporation engaged in automotive manufacturing fully acquired Proton in 2012.<sup>41</sup> Appendix Table 1 offers a detailed timeline of the car marque's ownership changes, while Appendix Table 2 lists DRB-HICOM's main shareholders.

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<sup>38</sup> Leslie Lopez, "Mitsubishi Sells Proton Shares", *Wall Street Journal*, 9 March 2004, <https://www.wsj.com/articles/SB107877152968349354> (accessed 1 January 2024).

<sup>39</sup> For instance, the first-generation Proton Saga is based on Mitsubishi's Lancer Fiore, Proton's Wira and Satria models are modelled after the Mitsubishi Mirage, the Proton Perdana follows the template of the Mitsubishi Eterna, and the Proton Waja is designed on the same lines as the Mitsubishi Carisma.

<sup>40</sup> *New Straits Times*, "Peugeot's Maker PSA, Suzuki and Renault Keen to Partner Proton", 23 September 2016, <https://www.nst.com.my/news/2016/09/175506/peugeot-maker-psa-suzuki-and-renault-keen-partner-proton> (accessed 2 January 2024).

<sup>41</sup> Reuters, "Malaysia's Khazanah Selling Proton Stake for \$412 mln to DRB", 16 January 2012, <https://www.reuters.com/article/proton-drb-khazanah-idUSK7E7LB02R20120116/> (accessed 20 December 2023).

The vacuum created in the market by Proton’s collaboration crisis was swiftly filled by Perodua. By investing heavily in research and development (R&D) to identify changing consumer preferences (now favouring smaller cars) and address their pain points (engine quality concerns and poor fuel efficiency) and by adopting a more liberal stance on ownership and corporate restructuring in its partnership with Daihatsu, Perodua surged ahead of Proton in 2006—and has retained its dominant position since.<sup>42</sup> Simultaneously, improving economic conditions and declining state tariffs freed Malaysians to explore more diverse vehicle offerings by global manufacturers—including Honda, Toyota, Mazda, Kia, BMW, Chevrolet, and Nissan—all of which have managed to make inroads into the Malaysian market. Figure 2 shows the changing market shares of some of these companies.

DRB-HICOM’s acquisition of Proton in 2012 did little to arrest its waning relevance in the ensuing years. In a last-ditch attempt to resuscitate the erstwhile auto market leader, the conglomerate sold 49.9 per cent of its stake in Proton to Chinese billionaire Li Shufu’s Zhejiang Geely in 2017.<sup>43</sup> Malaysia’s then Minister of International Trade and Industry, Mustapa Mohamed, announced that the government would also be willing to support the appointment of a non-Malaysian as the new Proton chairman to foster synergies with Geely in the areas of R&D, manufacturing, and marketing.<sup>44</sup>

A foreign company’s takeover of one of Malaysia’s prime symbols of early industrial leapfrogging was bound to cause a political stir in

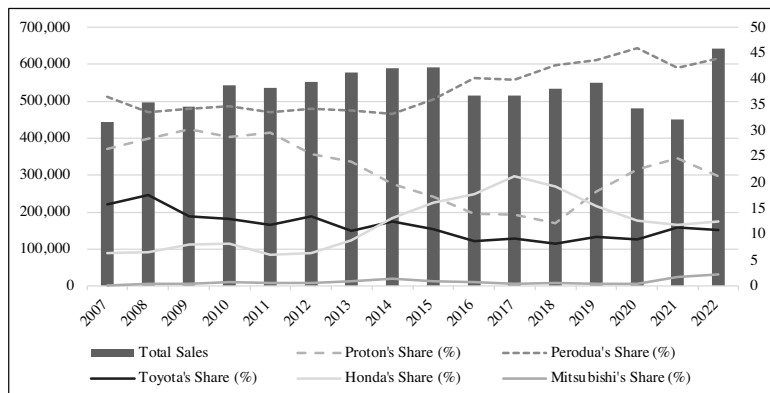
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<sup>42</sup> UMW Holdings Bhd, “Corporate Presentation”, July 2017, <https://ir.chartnexus.com/umw/doc/Corporate%20Presentation%20July%202017.pdf> (accessed 18 December 2023).

<sup>43</sup> C.K. Tan, “China’s Geely Acquires 49.9% of Malaysia’s Proton”, *Nikkei Asia*, 24 May 2017, <https://asia.nikkei.com/Business/China-s-Geely-acquires-49.9-of-Malaysia-s-Proton> (accessed 20 December 2023).

<sup>44</sup> Amir Hisyam Rasid, “Mustapa: Foreigner Can Lead Proton at International Level”, *New Straits Times*, 8 August 2017, <https://www.nst.com.my/business/2017/08/265508/mustapa-foreigner-can-lead-proton-international-level> (accessed 20 January 2024).

**Figure 2: Passenger Vehicle Sales and Market Shares of Malaysia’s Top Carmakers, 2007–22**



Notes: (1) The figures only include passenger vehicle sales due to limited data on commercial vehicle sales during the observed period. (2) Secondary scale for market shares (percentage) on the right.

Source: Authors’ creation based on Malaysian Automotive Association (MAA) data.

the country. While then Prime Minister Najib Razak saw the move as financially prudent, one meant to liberalize the entire motor industry, former Prime Minister Mahathir was vehemently opposed to it. In fact, Mahathir bemoaned the acquisition, commenting that the sale of the marque was akin to him “losing a child”.<sup>45</sup> To mitigate this personal sense of loss, during his second term in office in 2018, he even floated the idea of a third national car.<sup>46</sup>

<sup>45</sup> Supriya Surendran, “Proton Sale: Dr M laments ‘My Child Is Lost, and Soon My Country’”, *The Edge Malaysia*, 25 May 2017, <https://theedgemaalaysia.com/article/proton-sale-dr-m-laments-my-child-lost-and-soon-my-country> (accessed 12 February 2024).

<sup>46</sup> *TODAYonline*, “Malaysia’s PM Mahathir Revives Dream of National Car After ‘Baby’ Proton Sold”, 11 June 2018, <https://www.todayonline.com/world/malysias-pm-mahathir-revives-dream-national-car-after-baby-proton-sold> (accessed 12 February 2024).

At any rate, the purchase deal paid off, and Proton's fortunes soon began displaying signs of reversal. To streamline operations, Geely replaced domestic distributors with their counterparts from the People's Republic for more affordable components and reduced the number of warehouses by 75 per cent. In doing so, Geely was accused of being "anti-bumiputra" and pro-Chinese in its approach to business by local producers and politicians alike.<sup>47</sup> However, over the course of a year, the discrimination concerns abated, and the firm managed to lower Proton's costs by as much as 30 per cent.<sup>48</sup>

Among other strategies, several old Proton car models were dropped in favour of new ones, including the immensely successful X70, a rebadged sports utility vehicle (SUV) of Geely's Boyue co-developed with Volvo. By commissioning frequent quality audits and mandating reinvestment requirements for vendors and distributors, Geely helped prospective buyers to shed their negative perceptions about Proton cars.<sup>49</sup> As a result, within two years, the former market leader overtook two of its largest Japanese rivals, Toyota and Honda (Figure 2). The turnaround was so stark that former Prime Minister Najib remarked that he felt vindicated over his government's decision to sell off a sizeable chunk of Proton despite Mahathir's condemnation.<sup>50</sup>

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<sup>47</sup> Bhavan Jayapragas, "Is Chinese Carmaker Geely Being Anti-Malay in Cost-Cutting Drive at Malaysia's Proton?", *South China Morning Post*, 15 February 2018, <https://www.scmp.com/week-asia/politics/article/2133503/chinese-carmaker-geely-being-anti-malay-cost-cutting-drive> (accessed 1 February 2024).

<sup>48</sup> *South China Morning Post*, "How Malaysian Carmaker Proton Cut Costs and Revived Its Fortunes, with Plans to Expand in Asia", 30 January 2020, <https://www.scmp.com/news/asia/southeast-asia/article/3048138/how-malaysian-carmaker-proton-cut-costs-and-revived-its> (accessed 5 February 2024).

<sup>49</sup> Trinna Leong, "Proton Bounces Back, Two Years after China's Geely Buys into Malaysian Carmaker", *Straits Times*, 24 September 2019, <https://www.straitstimes.com/business/companies-markets/proton-bounces-back-two-years-after-chinas-geely-buys-into-malaysian> (accessed 13 January 2024).

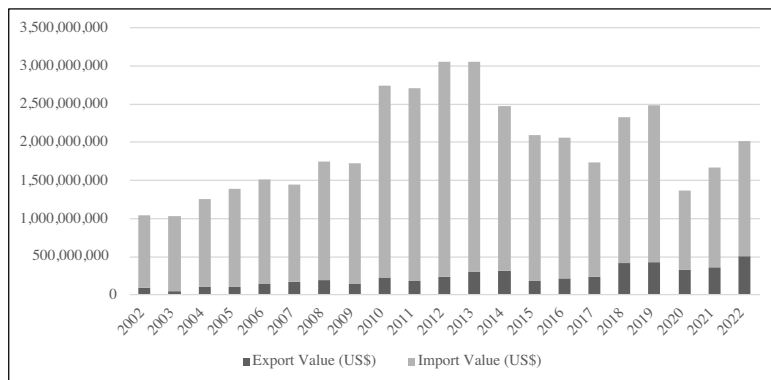
<sup>50</sup> Ilya Marsya Iskandar, "Najib Says He Is Vindicated over Proton's Geely Deal", *New Straits Times*, 3 January 2024, <https://www.nst.com.my/news/nation/2024/01/996912/najib-says-he-vindicated-over-protons-geely-deal> (accessed 12 February 2024).



Figure 3 presents a snapshot of Malaysia’s vehicle trade pattern over the span of the last two decades. The domestic orientation of the automotive sector has caused imports to exceed exports by an average factor of 8.8 since 2002, leading to enormous trade deficits.<sup>51</sup> This imbalance has hindered the realization of Malaysian policymakers’ long-held ambitions of transforming the country into an automotive hub for ASEAN.<sup>52</sup>

Besides the general difficulty in permeating external markets already saturated with established foreign car brands, low CBU export figures—

**Figure 3: Value of Vehicle Exports from and Imports into Malaysia (in US dollars), 2002–22**



*Note:* The estimates are for commodity group HS 8703 (Motor cars and other motor vehicles principally designed for the transport of persons—other than those of heading 87.02—including station wagons and racing cars) and cover both national and non-national car trade.

*Source:* Authors’ creation based on United Nations Comtrade database estimates.

<sup>51</sup> The figures are sourced from the United Nations Comtrade database for commodity group HS 8703.

<sup>52</sup> Bernama, “Strategic for Malaysia to Be Asean’s Hub for Automotive Sector—Tengku Zafrul”, 25 November 2023, <https://www.bernama.com/en/business/news.php?id=2247964> (accessed 25 December 2023).

for the automotive industry as a whole and for Proton in particular—can be attributed to three key factors. First, export levels are based on the availability of suitable technology partners.<sup>53</sup> The main motivation of Proton’s original collaborator Mitsubishi, for instance, was to seize the Malaysian market while also shielding its own exports to other Southeast Asian economies. Although Geely’s attitude appears to be somewhat more relaxed in this respect, as revealed by its plans to export the X70 to all ASEAN member states, similar ambitions held by the Chinese conglomerate’s numerous other subsidiaries—including Volvo, Lotus, Zeekr, and Livan—could crowd the target consumer segment. In fact, all these companies have announced recent plans to capture the Southeast Asian auto market, which could hamper Proton’s own expansion strategies.<sup>54</sup>

Second, components shortages and difficulties in sourcing replacement parts—and therefore an overreliance on imports—have long been identified as major impediments to the sale of Proton cars overseas. In fact, between 2002 and 2022, the average ratio of the value of imports to exports of motor vehicle parts and accessories was 2.5 (Figure 4).<sup>55</sup> During Proton’s formative years, the Malaysian government, indeed, offered automobile assemblers localization points against the export of automotive parts and put into effect the Vendor Development Programme

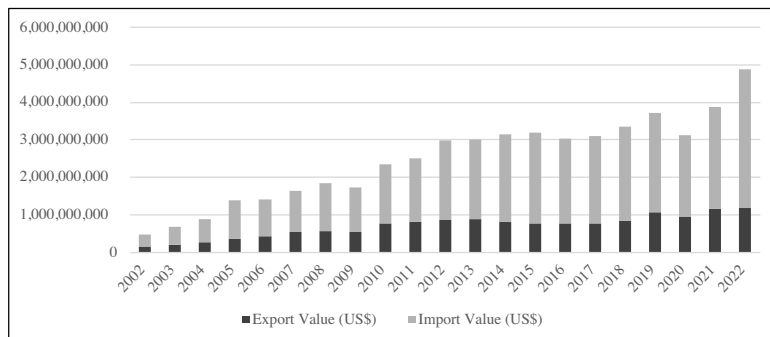
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<sup>53</sup> For a deeper dive into the issue of (un)availability of technology partners, see Tham Siew-Yean “Global Trends and Malaysia’s Automotive Sector: Ambitions vs. Reality”, ISEAS Economics Working Paper No. 2021-3 (Singapore: ISEAS – Yusof Ishak, 2021), <https://www.iseas.edu.sg/wp-content/uploads/2021/02/ISEASEWP2021-3Tham.pdf>

<sup>54</sup> Fumika Sato, “Geely Eyes EV Foothold in Southeast Asia with \$10bn Malaysia Hub”, *Nikkei Asia*, 8 November 2023, <https://asia.nikkei.com/Business/Automobiles/Geely-eyes-EV-foothold-in-Southeast-Asia-with-10bn-Malaysia-hub> (accessed 19 February 2024).

<sup>55</sup> The figures are sourced from the United Nations Comtrade database for commodity group HS 8708.

**Figure 4: Value of Auto Parts and Accessories Exports from and Imports into Malaysia (in US dollars), 2002–22**



*Note:* The estimates are for commodity group HS 8708 (Parts and accessories of the motor vehicles of headings 87.01 to 87.05) and cover accessories trade for both national and non-national cars.

*Source:* Authors’ creation based on United Nations Comtrade database estimates.

(VDP) to equip parts suppliers with technical skills.<sup>56</sup> In more recent years, the Malaysian Investment Development Authority (MIDA) and Malaysia Productivity Corporation (MPC) within the Ministry of International Trade and Industry (MITI) have also initiated auto parts vendor financing and digital transformation programmes.<sup>57</sup> However, significantly more funding is needed to increase the scale and scope of such schemes because: first, at present, the number of beneficiaries remains very small; and second, global supply chain disruptions have become much more frequent as a result of the rapidly changing geopolitical landscape.

<sup>56</sup> Japan International Cooperation Agency, “A Study on the Development and Promotion Plan for the Supporting Industry in Malaysia; Main Report; Volume 1: Overview of the Industry”, August 1995, [https://openjicareport.jica.go.jp/pdf/11266855\\_01.pdf](https://openjicareport.jica.go.jp/pdf/11266855_01.pdf) (accessed 26 December 2023).

<sup>57</sup> See, for instance, MITI, “Industry4WRD”, Ministry of International Trade and Industry, Kuala Lumpur, 2018, <https://www.miti.gov.my/index.php/pages/view/4832> (accessed 3 December 2023).

Third, even though the establishment of the ASEAN Free Trade Area (AFTA) eliminated tariffs on intra-ASEAN goods trade, the use of non-tariff measures (NTMs) has persisted to this day. Technical barriers to trade, various licensing requirements, complex quality compliance assessment techniques, high excise duties, and high taxation are just some of the tactics being utilized to control the volume of auto trade in the grouping.<sup>58</sup> A notable example is Indonesia, which fiercely guards its local automotive sector through a stringent quota system, thereby increasing the price of Proton and Perodua vehicles entering the country to prohibitive levels.<sup>59</sup>

Table 1 lists the countries to where Malaysia exports the highest volume of motor vehicles and from where it imports its growing share of foreign cars.

## CHALLENGES FACING PROTON

A cursory review of Proton's performance indicators since 2017 leads us to believe that the Geely acquisition has not only halted the original national auto pioneer's slow decay, but also salvaged some of its lost prestige. The burgeoning demand for all types of Proton passenger vehicles (sedans, hatchbacks, and SUVs) also signals the return of the firm's most treasured asset—consumer confidence. However, the car company is set for a bumpy ride ahead. Under Geely's branding, Proton has now largely been stripped of the state's ironclad protection. It faces extreme competition in the market it once reigned, is no longer immune to the vagaries of the labour market, and cannot afford to ignore emerging trends in the automotive sector. This section explores some of these challenges facing Proton.

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<sup>58</sup> Asian Trade Center, *Non-Tariff Barriers (NTBs) in ASEAN and their Elimination from a Business Perspective* (Singapore: Asian Trade Center, 2019), <https://static1.squarespace.com/static/5393d501e4b0643446abd228/t/5d0f2c0e17e3300001e2e857/1561275474331/NTBs+in+ASEAN.pdf> (accessed 2 December 2023).

<sup>59</sup> Ibid.

**Table 1: Malaysia’s Top Vehicle Export Destination and Import Source Countries, 2022**

<b>1A: Top Export Destinations (2022)</b>		<b>1B: Top Import Sources (2022)</b>	
<b>Country</b>	<b>Share</b>	<b>Country</b>	<b>Share</b>
Thailand	47%	Japan	36%
Vietnam	16.2%	Germany	33%
Philippines	9.7%	China	13.3%
Pakistan	6.3%	United Kingdom	4.4%
Indonesia	5.2%	Thailand	3.6%
South Africa	3.6%	Korea	2.7%

*Note:* The estimates are for commodity group HS 8703 (Motor cars and other motor vehicles principally designed for the transport of persons—other than those of heading 87.02—including station wagons and racing cars) and cover both national and non-national car trade.

*Source:* Authors’ compilation based on United Nations Comtrade database estimates.

### *Declining Protection and Increasing Competition*

Over the years, the Malaysian government has had to get rid of the vast majority of the protection that solidified the status of first Proton and then Perodua in the automotive space. For example, the National Automotive Policy (NAP) in 2009 made it possible for foreign car firms to assemble large passenger vehicles (with an engine capacity of at least 1,800 cc) in Malaysia without any restrictions on equity ownership.<sup>60</sup> Likewise, it also incentivized domestic production and assembly of

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<sup>60</sup> MITI, “Media Release: Review of National Automotive Policy”, Ministry of International Trade and Industry, Kuala Lumpur, 2009, [http://www.maa.org.my/pdf/MEDIA\\_RELEASE\\_NAP\\_Media\\_281009.pdf](http://www.maa.org.my/pdf/MEDIA_RELEASE_NAP_Media_281009.pdf) (accessed 6 January 2024).

energy-efficient vehicles.<sup>61</sup> Honda and Toyota promptly took advantage of these provisions and developed the country's first energy-efficient internal combustion engine (ICE) and hybrid cars. In this regard, Proton and Perodua have yet to catch up with their Japanese contenders.

Mega free trade agreements have also eroded some of the state-sponsored safeguards offered to the national carmakers. Under the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), Canada has secured commitments from Malaysia to eliminate all automotive tariffs and streamline policies related to auto standards, regulations, and rules of origin.<sup>62</sup> Similarly, as part of the Regional Comprehensive Economic Partnership (RCEP), Malaysian automakers must be prepared for further loss of government-granted tariffs. They will therefore have to significantly raise their competitiveness to attract investments over low-cost signatories in the vicinity, especially Vietnam and Indonesia.<sup>63</sup> Other free trade agreements such as ASEAN-China, ASEAN-India, Malaysia-Australia, and Malaysia-EU all include clauses aimed at fully liberalizing the nation's automobile and components market.

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<sup>61</sup> Ibid.

<sup>62</sup> Government of Canada, "What Does the CPTPP Mean for the Automotive Sector?", 2018, <https://www.international.gc.ca/trade-commerce/trade-agreements-accords-commerciaux/agr-acc/cptpp-ptpgp/sectors-secteurs/auto.aspx?lang=eng> (accessed 22 January 2024).

However, it must be noted that Malaysian trade negotiators were able to carve out specific non-conforming measures for certain Proton and Perodua cars. For details, refer to MITI, "Trans-Pacific Partnership Agreement (TPP) & Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) Annex I: Schedule of Malaysia", Ministry of International Trade and Industry, Kuala Lumpur, n.d. [https://fta.miti.gov.my/miti-fta/resources/Text%20of%20TPPA%20\(160516\)/Annex\\_I\\_Malaysia\\_.pdf](https://fta.miti.gov.my/miti-fta/resources/Text%20of%20TPPA%20(160516)/Annex_I_Malaysia_.pdf) (accessed 19 February 2024).

<sup>63</sup> Kamarul Azhar, "RCEP Benefits Malaysia but Watch out for Competition from Vietnam, Indonesia", *The Edge Malaysia*, 3 December 2020, <https://theedgemaalaysia.com/article/rcep-benefits-malaysia-watch-out-competition-vietnam-indonesia> (accessed 2 February 2024).

In light of the diminishing protection and stiffening competition in Malaysia, Proton must once again traverse the foreign market path, but this time with a sharper focus. Specifically, for the country to realize its regional exporting hub ambitions—as encapsulated in the latest iteration of the National Automotive Policy (NAP) 2020—it is imperative that Geely, in consultation with local lawmakers, identify the right overseas target market for Proton.<sup>64</sup> For example, by the end of 2023, Proton’s export volume totalled 2,500 units; this was just a quarter of the original goal of 10,000 cars announced earlier in the year, which the firm’s Deputy Chief Executive Officer Roslan Abdullah attributed to the political turmoil in Pakistan, Proton’s largest export destination.<sup>65</sup> If the car marque wants to hit its sky-scraping target of exporting 250,000 units per annum by 2035, it needs to undertake a detailed country risk assessment exercise to create a more diversified global market portfolio. In this regard, the carmaker’s recent decision to extend its presence beyond ASEAN to niche markets such as Mauritius, South Africa, and Brunei with the launch of the Proton X90 appears to be a step in the right direction.<sup>66</sup>

### *Skilled Labour Shortages*

The automotive industry has been facing a shortage of skilled manpower for some time now. The problem has turned particularly acute since 2020, when the first wave of the COVID-19 pandemic struck Malaysia. As the prolonged lockdown and *cordon sanitaire* measures forced assembly and

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<sup>64</sup> MITI, “NAP 2020”, Ministry of International Trade and Industry, Kuala Lumpur, 2020, <https://www.miti.gov.my/index.php/pages/view/nap2020> (accessed 4 January 2024).

<sup>65</sup> Izzul Ikram and Luqman Amin, “Proton Eyes Export Market Expansion with Forecast of 250,000 Units Per Year by 2035”, *The Edge Malaysia*, 28 November 2023, <https://theedgemaalaysia.com/node/691820> (accessed 4 January 2024).

<sup>66</sup> Azanis Shahila Aman, “Proton Extends Presence in Three Export Markets”, *New Straits Times*, 22 September 2023, <https://www.nst.com.my/business/corporate/2023/09/958315/proton-extends-presence-three-export-markets> (accessed 4 January 2024).

production facilities shut, a large-scale exodus of foreign employees—who make up the bulk of the sector’s workforce—followed. At the point of writing, even though the coronavirus crisis is no longer considered a public health emergency of international concern, only a fraction of the foreign labour force has returned to reclaim their jobs in the auto sector.<sup>67</sup>

Sundry estimates have been put forward to relay the magnitude of the challenges posed by the ongoing labour crunch. Proton Vendor Association president Wan Mohamed Wan Embong said that the entire national automotive manufacturing ecosystem could potentially collapse, wiping out 500,000 jobs and up to 4.5 per cent of the national gross domestic product (GDP) if the issue is not addressed promptly.<sup>68</sup> Perodua Suppliers Association president Musa Zahidin Ahmad Zaidee voiced similar concerns over the difficulty in upskilling local workers to replace their foreign counterparts.<sup>69</sup> In the same vein, the president of the Malaysian Automotive Component Parts Manufacturers Association (MACPMA) opined that labour shortages over the last two years have cost automotive parts manufacturers a staggering RM2 billion in exports per annum on account of limited production capacity.<sup>70</sup>

A two-pronged approach is needed to remedy the situation. First, striking an acceptable long-term balance between domestic and foreign

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<sup>67</sup> Ayish Yusof, “COVID-19: Malaysia’s Automotive Sector Losing Competitive Edge over ASEAN Peers?”, *New Straits Times*, 12 July 2021, <https://www.nst.com.my/business/2021/07/707409/covid-19-malaysias-automotive-sector-losing-competitive-edge-over-asean> (accessed 1 February 2024).

<sup>68</sup> *New Straits Times*, “Automotive Industry Faces Acute Shortage of Manpower, Needs Immediate Solution”, 3 April 2022, <https://www.nst.com.my/news/nation/2022/04/785574/automotive-industry-faces-acute-shortage-manpower-needs-immediate> (accessed 3 February 2024).

<sup>69</sup> *Ibid.*

<sup>70</sup> R. Parkaran, “RM2bil Losses Due to Labour Shortage, Say Car Parts Manufacturers”, *Free Malaysia Today*, 23 July 2022, <https://www.freemalaysiatoday.com/category/nation/2022/07/23/rm2bil-losses-due-to-labour-shortage-say-car-parts-manufacturers/> (accessed 3 February 2024).



workers is crucial. Understandably, this is not easy to achieve. On one hand, hiring migrant employees creates discontent among locals; on the other, locals are either unwilling to work under prevalent conditions or prone to quit soon after joining. Moreover, employing foreigners is not inexpensive, given their accommodation, levy, and permit expenses. In such a case, one practical solution would be to maintain a reasonable but lower foreign-to-local labour ratio, whilst encouraging automakers to increase the technological intensity of their operations to offset the potentially higher cost.

Second, to attract and retain talent—including a greater proportion of female workers—Proton must prioritize raising wages and productivity simultaneously.<sup>71</sup> In conjunction with the government, the auto firm should devise and continuously finetune a mechanism of progressive wages tied to productivity gains. For such a system to be sustainable, offering upskilling and reskilling opportunities to workers—ideally carried out in collaboration with firms to determine curriculum content—is paramount. For example, Geely operates a number of automotive vocational schools throughout China. Setting up similar training centres in Malaysia following discussions with local legislators, along with general improvements in working conditions, would also be instrumental in pushing the automotive industry up the value chain—from low-cost production to high-value-added innovation.

### *Delayed Foray into Electric Vehicles (EVs)*

Malaysian authorities have long drawn inspiration from the automotive policies of Thailand, often referred to as the “Detroit of Asia”, to establish a regional auto hub in Malaysia. To replicate the kingdom’s successful launch of the Eco Car initiative in 2007, the Malaysian government in its 2011 budget announced that it would exempt all hybrid and electric

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<sup>71</sup> According to the World Bank, in Malaysia, the labour force participation rate among females was 52.7 per cent and among males was 78.7 per cent for 2022.

vehicles from import duties and would refund half of the excise duty.<sup>72</sup> NAP 2014 added further concessions, but only for locally assembled hybrid and electric vehicles.<sup>73</sup> NAP 2020 retained these provisions, yet could not lure major EV investors.<sup>74</sup> This, inadvertently, ended up encouraging Proton and Perodua to keep upgrading their conventional ICE car models.

While it could be argued that the national players' initial unwillingness to pivot to the EV segment was a function of some valid concerns—such as the magnitude of initial investment, colossal cost of production, and low consumer adoption due to high price and limited deployment of charging stations throughout the country—their continued aversion to EVs may cost them future opportunities. This is especially noteworthy given the government's recent emphasis on electric vehicle development as one of four new growth sectors enumerated in the New Industrial Master Plan (NIMP) 2030.<sup>75</sup> Moreover, the National Energy Transition Roadmap 2023 aims for 38 per cent usage of EVs by 2040 and 80 per cent by 2050.<sup>76</sup> And, the Low Carbon Mobility Blueprint (2021–30) has a target of setting up 10,000

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<sup>72</sup> Government of Malaysia, “The 2011 Budget Speech: Transformation Towards a Developed and High-Income Nation”, 15 October 2010, <https://phl.hasil.gov.my/pdf/pdfam/Speech2011.pdf> (accessed 11 February 2024).

<sup>73</sup> Malaysian Automotive Association, “National Automotive Policy (NAP) 2014”. 2014, [http://www.maa.org.my/pdf/NAP\\_2014\\_policy.pdf](http://www.maa.org.my/pdf/NAP_2014_policy.pdf) (accessed 11 February 2024).

<sup>74</sup> Tham Siew-Yean, “The Critical Role of Electric Vehicles in Malaysia's New Industrial Master Plan (NIMP 2030)”, *ISEAS Perspective*, no. 2023-81, 11 October 2023, [https://www.iseas.edu.sg/wp-content/uploads/2023/09/ISEAS\\_Perspective\\_2023\\_81.pdf](https://www.iseas.edu.sg/wp-content/uploads/2023/09/ISEAS_Perspective_2023_81.pdf) (accessed 11 February 2024).

<sup>75</sup> The other three growth sectors identified by the government include: advanced materials; renewable energy; and carbon capture, utilization, and storage.

<sup>76</sup> Prime Minister's Office, “Govt Approves ECRL Integrated Land Use Master Plan—PM Anwar”, 18 September 2023, <https://www.pmo.gov.my/2023/09/govt-approves-ecrl-integrated-land-use-master-plan-pm-anwar/> (accessed 11 February 2024).

public charging stations by 2025.<sup>77</sup> The seriousness of the government’s commitment to the sector is further bolstered by its appointment of Universiti Teknologi as a national electric vehicle task force (NEVTF) member to coordinate research and talent development related to EV technology among local universities.<sup>78</sup> Additionally, EV users will not be required to pay road tax until 2025.<sup>79</sup>

In 2021, Malaysia’s electric vehicle market was valued at US\$500 million and is poised to attain a compound annual growth rate (CAGR) of 33 per cent between 2022 and 2027.<sup>80</sup> Recognizing the potential catalytic effect of EV development to boost the growth of related sectors, the newly constituted National Level Inter-Ministry EV Taskforce under MITI, has been formulating a comprehensive policy to oversee improvements across all stages of the EV value chain: R&D; battery production; manufacturing and assembly; charging infrastructure; technology solutions and digitalization; and managing the end-of-life phase of EVs.<sup>81</sup>

Taking cognizance of this concerted whole-of-government effort behind creating a complete ecosystem for the EV and Next Generation Vehicle (NxGV) industries, both Proton and Perodua, finally in late 2023,

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<sup>77</sup> Ibid.

<sup>78</sup> Bernama, “Govt to Focus on Developing EV Sector—MITI”, 18 September 2023, <https://www.bernama.com/en/business/news.php?id=2226783> (accessed 2 February 2024).

<sup>79</sup> Rashvinjeet S. Bedi, “Malaysia’s Electric Vehicle Push Gets a Turbo Boost, but Speed Bumps Lie Ahead”, *Channel NewsAsia*, 9 September 2023, <https://www.channelnewsasia.com/asia/malaysia-ev-electric-vehicles-tesla-supercharger-sustainability-speed-bump-3755341> (accessed 1 February 2024).

<sup>80</sup> Hidayath Hisham, “Malaysia Committed to Capturing Slice of RM12.6b ASEAN EV Pie”, *Malaysian Reserve*, 11 November 2023, <https://themalaysianreserve.com/2023/11/22/malaysia-committed-to-capturing-slice-of-2-7b-asean-ev-pie-said-zafrul/> (accessed 6 February 2024).

<sup>81</sup> Shafiqul Aliff, “MITI Formulates Framework for EV Development”, *Malaysian Reserve*, 14 January 2022, <https://themalaysianreserve.com/2022/01/14/miti-formulates-framework-for-ev-development/> (accessed 27 January 2024).

announced their plans to launch their respective electric car models around the same time in 2025.<sup>82</sup> Although the national frontrunners have lost their first mover advantage—since there are already over forty EV models currently being sold in the Malaysian market by foreign companies like Tesla, Hyundai, BMW, Mercedes, Rolls Royce, and Volvo—the decision to remain competitive by venturing out of their comfort zone is bound to serve them well in the long run.<sup>83</sup>

## CONCLUSION

Proton has played a central role in Malaysia's industrialization drive. Due to the focus on domestic ownership and endogenous technological development, it embodies many of the intrinsic struggles experienced by the country, with the firm having sought reconciliation between its technological ambitions, the quest for job creation, and the promotion of bumiputra entrepreneurship.

Despite an initial period of growth and consolidation in the domestic market, greater competition as well as the emergence of a formidable second domestic car producer, Perodua, saw Proton's market share erode. The firm's limited success at establishing a presence in overseas markets indicated persistent issues with quality and procurement, and also prevented the firm from attaining economies of scale. These reasons, among others, led to the end of Proton's partnership with Mitsubishi.

Following the further decline in market presence, the joint venture with Geely has marked a turning point in Proton's economic fortunes. The partnership with the privately owned Chinese company has allowed

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<sup>82</sup> Jonathan Lee, "MITI Expects Proton, Perodua EVs by 2025; CKD EVs to be More Affordable", *Yahoo! News*, 22 November 2022, <https://malaysia.news.yahoo.com/miti-expects-proton-perodua-evs-085737502.html> (accessed 29 January 2024).

<sup>83</sup> Bernama, "Malaysia on Track to Be Electric Vehicle Powerhouse in Southeast Asia", 24 July 2023, <https://bernama.com/en/news.php?id=2209251> (accessed 17 January 2024).

the former champion access to leading-edge design capabilities, which has reversed its downward trajectory.

While encouraging, Proton still faces substantial challenges. The auto sector is increasingly competitive, and a growing range of international firms have established themselves in the Malaysian market. Advancing trade agreements means that many policy instruments that were used to cushion the producer from the full force of international competition are increasingly precluded.

Going forward, the firm will need to continue its drive to improve efficiency, raise value-added, and—most importantly—increase exports. The establishment of the firm overseas is the ultimate guarantor of success, as conquering market share in more hostile climes will be the result of a compelling product as opposed to local regulations providing protection and cossetting. Thus, Proton will have truly established itself as an international player in the auto sector, when, in addition to figuring on the local currency, it is ubiquitous on the streets of key overseas markets.

## APPENDIX

*Appendix Table 1: Timeline of Key Changes in Proton's Ownership*

<b>Year</b>	<b>Developments</b>
1979	<ul style="list-style-type: none"> <li>• National Car Project is presented to the Government of Malaysia</li> </ul>
1980	<ul style="list-style-type: none"> <li>• Cabinet approves the establishment of the Heavy Industries Corporation of Malaysia (HICOM)</li> <li>• HICOM is incorporated with the Finance Minister Inc. as shareholder</li> </ul>
1982	<ul style="list-style-type: none"> <li>• Cabinet Ministers approve the National Car Project</li> </ul>
1983	<ul style="list-style-type: none"> <li>• Joint venture agreement is signed between HICOM, Mitsubishi Motors, and Mitsubishi Corporation</li> <li>• Perusahaan Otomobil Nasional (Proton) is established</li> </ul>
1992	<ul style="list-style-type: none"> <li>• Proton is listed on the Main Board of the Kuala Lumpur Stock Exchange</li> </ul>
1993	<ul style="list-style-type: none"> <li>• Perodua, the second national automobile manufacturer, is established</li> </ul>
1996	<ul style="list-style-type: none"> <li>• Proton acquires a controlling interest in the Lotus Group</li> </ul>
2004–07	<ul style="list-style-type: none"> <li>• Mitsubishi sells its equity in Proton</li> <li>• Mitsubishi's stake is purchased by the Malaysian government (via Khazanah Nasional, the Employees Provident Fund Board, and Petronas)</li> <li>• Negotiations with Volkswagen AG, Peugeot, and General Motors break down</li> </ul>
2012	<ul style="list-style-type: none"> <li>• Khazanah divests entire stake in Proton to DRB-HICOM</li> </ul>
2017	<ul style="list-style-type: none"> <li>• DRB-HICOM divests 49.9 per cent stake in Proton and 51 per cent stake in Lotus to Geely</li> </ul>

*Source:* Authors' compilation from various sources.

Appendix Table 2: DRB-HICOM's Ownership

Shareholder	Description	Share
Etika Strategi Sdn Bhd	<ul style="list-style-type: none"> <li>Private company controlled by business tycoon and long-time Mahathir loyalist Syed Mokhtar al-Bukhary</li> </ul>	55.92%
Employees Provident Fund	<ul style="list-style-type: none"> <li>Federal statutory body under the purview of Malaysia's Ministry of Finance</li> </ul>	9.49%
Lembaga Tabung Haji	<ul style="list-style-type: none"> <li>Malaysia's hajj pilgrims fund board</li> </ul>	3.67%
The Vanguard Group Inc	<ul style="list-style-type: none"> <li>Investment management company based in Pennsylvania, USA</li> </ul>	1.66%
Eastspring Al-Wara' Investments Bhd	<ul style="list-style-type: none"> <li>Asset management company in Malaysia</li> </ul>	1.10%
Dimensional Fund Advisors LP	<ul style="list-style-type: none"> <li>Investment management company based in Texas, USA</li> </ul>	0.98%
Eastspring Investments (Singapore) Ltd	<ul style="list-style-type: none"> <li>Investment management company based in Singapore</li> </ul>	0.86%
BlackRock Fund Advisors	<ul style="list-style-type: none"> <li>Investment management company based in New York, USA</li> </ul>	0.57%
Kumpulan Wang Persaraan	<ul style="list-style-type: none"> <li>Federal statutory body managing the pension scheme for Malaysia's public employees</li> </ul>	0.38%
Great Eastern Life Assurance Co Ltd	<ul style="list-style-type: none"> <li>Singaporean multinational insurance company</li> </ul>	0.34%
PMB Investment Bhd	<ul style="list-style-type: none"> <li>Investment management company based in Malaysia</li> </ul>	0.23%
Eastspring Investments Bhd	<ul style="list-style-type: none"> <li>Asset management company in Malaysia</li> </ul>	0.21%
Individual Investors	<ul style="list-style-type: none"> <li>Non-institutional investors</li> </ul>	22.00%

Note: Data from 30 September 2023 to 30 January 2024.

Source: Authors' compilation based on Financial Times data. <https://markets.ft.com/data/equities/tearsheet/profile?s=DRBHCOM:KLS> (accessed 12 February 2024).

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