

6. PROMOTION FOR STRENGTHENING THE ACTIVITIES OF AUTOMOBILE RELATED INDUSTRIAL ORGANIZATIONS

(1) Background

In all countries, the collaborative activities of manufacturers through industrial associations become extremely important along with industrial growth. For example, in Japan, high marks have been given to the large roles played by the Japan Automobile Manufacturers Association (JAMA) and the Japan Automotive Parts Industry Association (JAPIA) in helping to develop and strengthen the Japanese automobile industry.

JAPIA engages in 1) the collection, processing, and dissemination of auto parts related statistical data, 2) the exchange of opinions with governmental institutions and various other industrial organizations, 3) the improvement of the level of technology in the field through joint R&D, and 4) the promotion of exports through cooperation with other organizations. Among these activities, the joint R&D projects (1956 to 1975) are considered to have played a major role in strengthening the international competitiveness of Japanese auto parts.

The business environment surrounding the Malaysian automobile and automotive parts industry is becoming increasingly severe today. In particular, therefore, it is considered that the importance of activities of industrial associations is rising in the following fields:

- 1) Exchanges of needs and information among automobile companies and automotive parts manufacturers and coordination in mutually strengthening business standings through the industrial organizations;
- 2) Joint projects for ensuring long-term international competitiveness for promotion of exports of automobiles and automotive parts;
- 3) Intermediary activities for strengthening relations between foreign companies with advanced technical expertise in the automotive parts manufacturing field and Malaysian companies.

(2) Strengthening of Activities of MACPMA

To promote the growth of the auto parts industry, it is first of all desirable to boost the activities of the MACPMA, which counts about one-third of the auto parts manufacturers (primary subcontractors) in Malaysia in its membership. The main features of this would be

as follows:

1) Establishment of a Secretariat Organization

At the present time, the MACPMA has only one full-time staff member and therefore is limited in the range of its activities. If it is difficult to increase the number of full-time staff due to fiscal constraints, then consideration might be given to have member companies send over staff on loan at no charge for one or two year terms.

While the dispatch of staff to the secretariat would mean a considerable burden on the companies in terms of expenses, it would have great advantages in terms of the development of human resources.

Further, a system should be considered by which member companies would form subcommittees and set up non-permanent working groups to engage in various projects.

2) Strengthening of Information System

Information services should be further systemized. This is already being partially done at the present time.

- a) Collection of information and materials: Malaysian and foreign materials relating to auto parts should be collected and set aside in a library and arranged to enable member companies to freely examine them.
- b) Analysis and processing of information and materials: Domestic and foreign product trends, technical trends, trends in needs of automobile manufacturers, etc., should be analyzed and summarized in reports. In the future, statistics on the production and shipment of individual parts should also be prepared.
- c) Dissemination of information: The information processed in b) should be carried in periodicals such as the "MACPMA News" as much as possible to be disseminated to member companies and related organizations.

3) Business Consultations and Inquiries

- a) To enable members to deal with problems confronting them, opinions and needs should be solicited and consultations provided. The board of directors should quickly study problems facing the industry as a whole, opinions, and needs, and propose

appropriate action.

- b) Space should be arranged at an early date for the display of samples of products of member companies, and inquiries should be properly routed.

4) Planning and Coordination of Export and Joint Venture Promotion

- a) Dispatch of export and overseas investment promotion missions: The dispatch of export and investment promotion missions to foreign countries should be planned and executed in cooperation with MIDA, MATRADE, etc. In the seminars and business discussions in the target countries, it would be desirable to work with the respective trade and investment promotion organizations and auto parts industrial associations.
- b) Assistance in matching up companies for tie-ups: Members should be encouraged to register at the MIDA RICOM list, etc. On the other hand, efforts should be made to identify potential foreign investors.

5) Joint Activities with Related Organizations

- a) Joint research in auto parts: Joint research for improving the quality of auto parts should be conducted with cooperation from MITI, MIDA, SIRIM, FMM, AFM, etc., and the results should be shared with member companies.
- b) Management and technical seminars: Business meetings between members and auto parts and accessory users and technical seminars should be held periodically to lead to greater efficiency in management and improvement of technical expertise.

6) Strengthening of Ties with Foreign Auto Parts Industrial Associations

- a) Efforts should be made to implement the BBC scheme with companies in the ASEAN countries and to strengthen relations in fields of common parts.
- b) Relations should be established with corresponding industrial organizations in countries such as Japan which are investing in Malaysia so as to promote international cooperation.

(3) Other Measures for Strengthening Activities of Auto Parts Industry Related Organizations

Malaysia has many industrial organizations other than the MACPMA in the sector called the "engineering subsector" by the Study Team. These industrial organizations are mostly

organized on a regional or sectoral basis and differ in terms of the number of member companies and level of activities as well. On the other hand, due to such constraints, they resemble each other in the scale of operations and nature of activities. Most are engaged in more aggressive activities than even national industrial organizations such as the MACPMA.

Even if it is difficult for MITI and other government organizations to provide direct financial assistance to such industrial organizations, it would be desirable for them to provide assistance for the following activities through the use of technical know-how, information, institutions, and supporting facilities:

- 1) Improvement of management know-how through the advice of experts, seminars for improving the level of technical expertise, and roving factory guidance
- 2) Mutual stimulation of business managers and engineers by visits to each others companies
- 3) Collection, processing, and dissemination of overseas market information and technical information
- 4) Overseas matching activities on the industry level
- 5) Periodic exchanges with foreign industrial organizations

7. HUMAN RESOURCE DEVELOPMENT PROGRAMME

Malaysia aims to become a fully developed country by the year 2020. Vision 2020 is guiding the direction of Malaysia's development efforts toward the year 2020. One of the factors emphasised in Vision 2020 is human resource development. The government seeks to raise the level of management expertise, technological know-how and employee skills in small- and medium-sized industries.

Human resource development has been identified as one of the major problems in promoting the automotive industry in Malaysia through interviews with related organizations and private companies in this survey. Especially the necessity of training highly skilled manpower and engineers and upgrading management expertise at small and medium enterprises is emphasised for the development of the industry.

From this point of view, human resource development programmes are proposed to secure the manpower required by the automotive parts and components industries.

(1) Establishment of an Advanced Skill Development Centre for the Automotive Industry

1) Objectives

To set up an advanced skill training centre for engineering supporting industries targeting specific technologies which are required by the automotive industries. The centre will be set up with the following purposes:

- i. To train and produce highly skilled workers and technicians to meet the increasing demands of the automotive industry.
- ii. To pool resources in the provision of training programmes which would not be viable for individual companies to provide.
- iii. To establish a mechanism to coordinate and utilise the resources available from industries and institutions.

2) Responsible Organisation

An Advanced Skill Development Centre for the Automotive Industry will be newly formed

under the auspices of the Ministry of Human Resources with the cooperation of the private sector, and public education and training organisations.

3) Function of the Centre

The Centre will have the following functions:

- To develop training courses with the cooperation of the industries
- To implement training courses to produce highly skilled technicians with a high level of engineering knowledge as pre-employment training
- To implement training courses to achieve the immediate skills and knowledge upgrading of company workers as post-employment training
- To provide in-house training courses

Pre-employment Training

Period:	3 years
Content:	Diploma Level
Entrance Requirements:	SPM/SPVM, Certificate Level

Post-employment Training

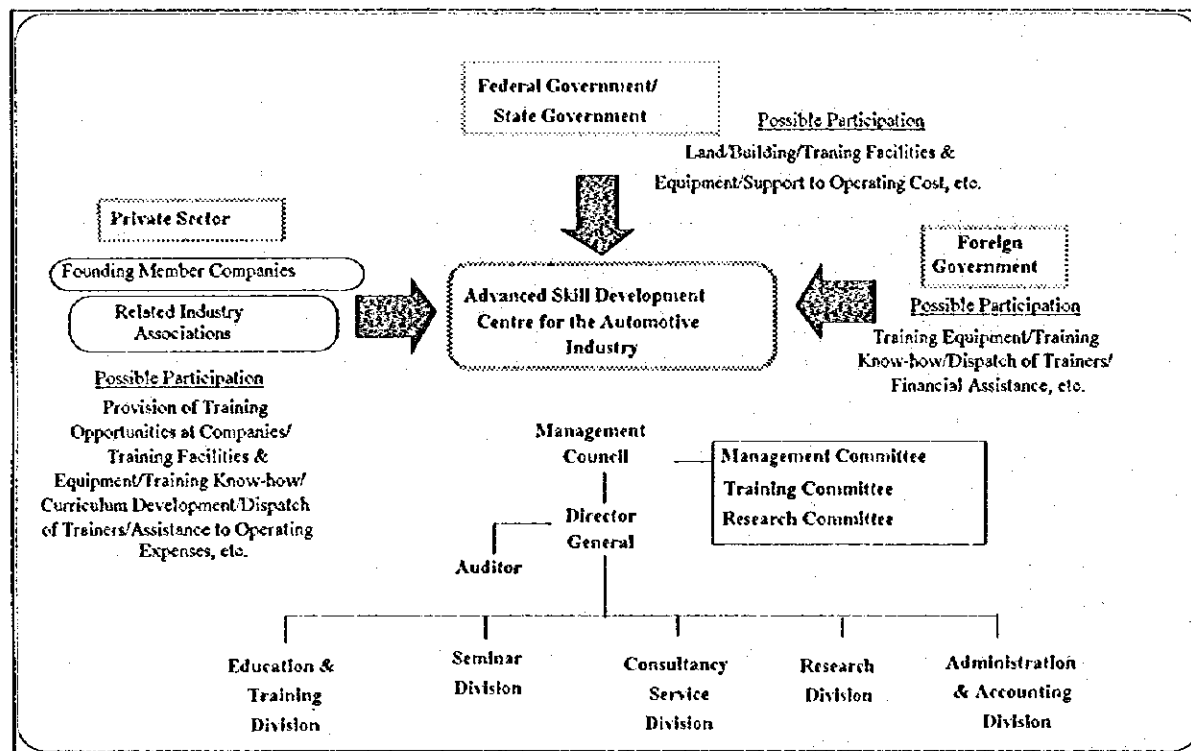
Long-term Course

Period:	2 - 3 years
Content:	Diploma Level
Entrance Requirements:	SPM/SPVM plus a certain period of work experience

Short-term Course

Period:	1 week - 3 months
Content:	Training in up-to-date technologies
Entrance Requirement:	Work experience in specific technologies is emphasized.

Fig. 5-6 Organisation of Advanced Skill Development Centre for the Automotive Industry



(2) Establishment of an SMI Management Institute

1) Objectives

As part of a programme to strengthen the consultancy skills of officials engaging in SMI development, a training centre with the following purposes should be established.

- i. To modernise the management of SMIs by upgrading their managers' skills
- ii. To upgrade the consultancy competency of official personnel engaging in SMI development
- iii. To provide consultancy service to SMIs

2) Responsible Organisation

The Institute will be set up under the auspices of the Ministry of International Trade and Industry. The Institute will be newly established or established by expanding the National Productivity Corporation.

3) Function of the Institute

The functions of this Institute are as follows:

- To develop curricula for small and medium scale enterprises
- To provide long-term training courses on SMI management
- To provide short-term seminars on SMI management
- To provide consultancy service to SMIs
- To promote technical exchange activities among companies

Long-term training courses

Period:	6 months to 1 year
Courses:	Business management, Production management
Content:	Combination of training in the Institute, correspondence courses, and practice/team projects at SMIs.

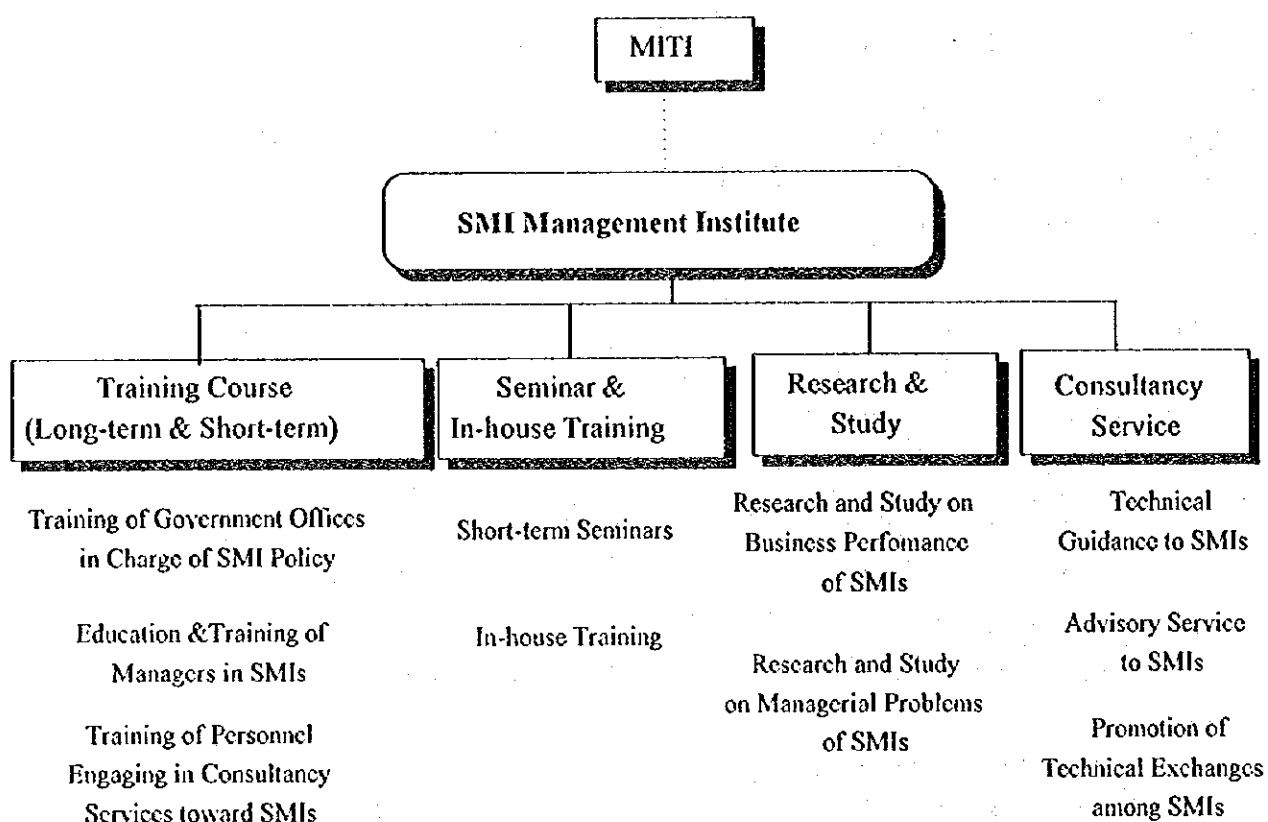
Short-term seminars

Period:	Night courses, one-day courses, 1 to 2-week courses
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Courses: Examples of courses are as follows:

- Production control
- Quality control
- Inventory control
- Sales management
- Human resource management
- Financial management
- Small- and medium-size enterprises development
- Consulting skill

Fig. 5-7 Functions of SMI Management Institute



8. TECHNICAL GUIDANCE VISITS TO AUTOMOTIVE PARTS MANUFACTURERS BY EXPERTS

(1) Background

A look at the level of technology of the automotive parts industry in Malaysia shows that the overall level is low although the international level has been reached in foreign affiliated companies and a handful of large scale Malaysian companies. Especially, in the engineering subsectors in which most companies are small, assistance in the fields of production technology and management is requested.

To promote the Malaysian automotive parts industry into an internationally competitive industry in terms of QCD (Quality, Cost, and Delivery), it is necessary to solve various problems the industry has, and to provide technical assistance to individual companies.

This programme is designed to build up the industry so that it can produce automotive parts for the overseas markets with sufficient international competitiveness in quality, cost, and delivery. This program of technical assistance to automotive parts manufacturers by experts is comprised of two individual assistance schemes. One is short term assistance focused on the development of medium size manufacturers, and the other is long-and-medium term assistance to companies which have the potential to become leader companies. Both kinds of support are basically provided at the factory level.

(2) Proposed Projects

1) Short Term Support to Companies

Medium size local manufacturers would be individually visited, their factories studied, and assistance provided on production technology and management. In the implementation of the project, assistance to SMIs would be provided by joint technical teams of the SIRIM and the SMI Division of MITI, together with foreign experts. For that purpose, the establishment of a technical support task force within MITI is expected.

The assistance is aimed at the improvement of production technology through the diagnosis of factories so that technical problems are identified, analyzed and solved. The assistance would emphasize not only the acquisition of skills, but also product planning, design, quality

control, total quality control (TQC) activities, and other managerial aspects of the industry. Specific fields covered by the assistance would include (a) the improvement of product quality, (b) the expansion of production capacity, (c) the reduction of delivery time, (d) the renovation of factory layouts, and (e) the development of processing methods, facility operation, and maintenance.

It is recommended that a technical assistance team comprised of an expert on production technology, an expert on product design, an expert on quality control, and a management consultant provide one to two week support to each company two or three times a year.

2) Medium and Long Term Support to Companies

Companies which are particularly excellent in their operations could receive a wide range of technical and managerial assistance continuously over the medium and long term so as to create leader companies with international competitiveness in quality, cost, and delivery. The fields of technology to which assistance is given would include production technology and R&D technology. The development of production technology aims at the improvement of international competitiveness, while that of R&D technology aims increasing the localisation of automotive parts. Further, in line with the former, target products with potential competitiveness would be selected and assistance provided until they are sufficiently competitive in the overseas markets in price and non price areas. On the other hand, the level of R&D technology to be required would not be the state-of-the-art technology but would be R&D sufficient to produce parts which are presently not localised.

(3) Supports from International Organizations

Because of the limited supply of available human resources in the downstream automotive parts industry in Malaysia, it is desirable that experienced experts from overseas technical cooperation organizations join the technical assistance team. The technical assistance team should be comprised of an expert on production technology, an expert on R&D technology, an expert on die technology and an expert on management and marketing. It should provide assistance to the designated company for a period of six months to three years so as to develop leader companies.

9. PROMOTION OF JOINT R & D ACTIVITIES

(1) Background

In order to strengthen industrial sectors and to achieve continuous high economic growth, R & D activities, particularly in the private sector, are strongly requested. In the private sector, particularly in SMIs, however, R & D activities are often given little importance.

In order to promote private sector R & D activities, Malaysian government agencies and universities have various supporting schemes. The joint R & D support schemes are the most commonly known activities among them. In SIRIM, for example, there are the Joint Research Venture Programme (JRVP) and the SIRIM Tripartite Research Venture (STRIVE). In the case of current joint R & D schemes, the costs of R & D are basically shared 50 - 50 by both private and public sectors.

The terminology of "joint" in current schemes mainly means the sharing of R & D expenditures. The private sector requests R & D activities from some relevant organizations such as UTM and SIRIM on a contract basis, usually signed MOU. The results of the R & D are provided to a particular company. However, the fruits of the R & D activities are said to be larger in the accumulation of experience by engineers who participate in the activities rather than research results such as the new products which may be developed. Under the current scheme, the experience and know-how of R & D activities are accumulated among the researchers in the public sector, and contributions to the development of R & D engineers in the private sector are rather small. In the proposed joint R & D activities, the Study Team put higher emphasis on the "joint efforts among engineers both from public and private sectors" and the "joint efforts among a large number of private companies" rather than the "share of R & D costs."

(2) Concept of Joint R & D Activities

One of the major objectives of the proposed joint R & D scheme is to accumulate R & D experience among engineers of the private sector. For this, the establishment of a new scheme is not needed. The goal could be achieved by changing the process and ways of conducting actual R & D activities under the existing schemes. The major emphasis should rather be placed on the training of engineers of SMIs where engineers have very few chances to participate in R & D activities, for which each R & D scheme should be designed in such a way that SMIs could easily participate.

Another objective of the scheme would be the promotion of R & D activities of which the development risks and costs are too high for one company to bear. For this, a number of private companies could join together and promote the R & D activities together with other supporting research organizations. The selection of development targets is very important. They should be practical but also rather ambitious. One of the examples would be the development of new types of engines. An engine is composed of various kinds of parts and components. Thus, the number of companies which are required to participate in the development scheme would be large. The participating companies could further be subdivided according to the kinds of products or production processes, and development sub-targets would also have to be set.

A good example of the above would be the joint R & D project of "fuzzy computer" in Japan. To carry out the project, the government first established an overall plan of development target and schedule, as well as the budgetary allocation for the support of the project. The development target was further subdivided, and participating companies were recruited. These participating companies undertook research work for each subdivided target as a group, the results of which were reported to other groups. From the results of this project, no new product of commercial use was developed. However, the project is evaluated highly due to its contribution to the accumulation of technological know-how for new computer development in all of the participating companies.

Although higher emphasis should be placed on the accumulation of experience by those participating in the R & D project rather than the development results, in Malaysia, a further clear objective of the creation of practical output should be decided on at the initial stage of planning.

The process to be followed in the recommended types of development projects is briefly summarized as follows:

- 1) Establishment of a target / objective
 - development target selection and proposal of a rough design of the development target products
- 2) Proposal of schedule and budget
 - decision on the governmental financial support and development target year
- 3) To invite participating companies
 - recruitment of participating companies: i.e., assemblers, related vendors

and sub-vendors and selection

- 4) To determine sub-groups according to the rough specifications
- 5) To determine the level of expenditures and their allocation
- 6) To appoint researchers belonging to research organizations, universities and other organizations, including foreign advisors
 - selection and appointment of researchers and supporting staff members and selection of a leader for each sub-target group
- 7) To register the participating researchers / engineers of each company involved
- 8) To confirm the proposed specifications, and detailed schedule
 - determination of development schedule for each sub-target group and their coordination
- 9) To implement "joint R & D" activities
- 10) To hold periodic meetings
- 11) To terminate the project

(4) Expected Effect

The major effects expected from the proposed joint R & D projects are as follows:

- 1) The engineers in the private sector will gain development know-how through participation in the projects.
- 2) A system where many companies participate will reduce the expenditure burden of each company.
- 3) Participating companies' technological level would increase tremendously through the accumulation of experience in the engineers who take part in the project.
- 4) Mutual edification effect would be expected through mutual communication among engineers from various fields and organizations.

10. AUTOMOTIVE DEMAND STABILIZATION PROGRAMME

(1) Background

For the Malaysian automotive parts industry to experience sound growth, a steady increase in the domestic demand for motor vehicles is highly desired. Although it has shown a favorable growth in the past 6 to 7 years, the trends of domestic demand for motor vehicles in Malaysia in the 1970s and 80s were characterized by wide fluctuations.

In spite of the current relatively high car ownership ratio in Malaysia, it is considered that there is still a fairly large potential demand for motor vehicles. For one thing, more than 50% of the motor vehicles in use in Malaysia are more than 10 years old. This is partly due to the current relatively loose regulations over the use of old cars. A delay in converting these old cars to new cars currently creates serious problems both in terms of driving safety and in protecting the environment from untreated fuel gas emission. For another, the new car price in Malaysia has been kept relatively high through the high import duty on CBU, CKD parts and other imported automotive parts and components, and the excise duties and sales taxes on locally manufactured motor vehicles.

It would be possible for the domestic demand for new cars in Malaysia to expand further if the above regulatory constraints were lifted. If such demand stimulating measures were introduced, however, it could work both for amplifying the fluctuation of demand and for stabilizing the demand, depending on the timing. Thus, it is proposed that a system be established that could initiate the introduction of the above measures toward the direction of stable demand increase, by taking into account the demand trends due to other factors.

(2) Stricter Control on the Use of Old Motor Vehicles

The main purpose of strengthening the regulatory control on the use of old model cars is more for the improvement of driving safety and the protection of the environment, and the creation of the demand for new cars is just a secondary effect. From this viewpoint, it is desirable to establish an overall and effective system of mechanical routine checks of old model cars, which covers not only commercial vehicles but also passenger cars. In the case of Japan, for example, the replacement of old cars with new cars is promoted by the following measures: a) the interval of obligatory mechanical check period is set longer when the cars are new and shorter as they become older; and b) the number of inspection items becomes larger as the car becomes older, which makes the maintenance costs of old cars very high. In Malaysia, a

system could be established that requires regular mechanical checks at intervals of every 3 years up to the 9th year after new car purchase, every 2 years up to 15 years and every year after the 15th year, for example, and a larger number of inspection items could be set for the yearly check than for the 2 year and 3 year regular checks.

The introduction of such a mechanical check system, however, requires the establishment of a large number of checking facilities and the installation of all the necessary equipment. Further, it would also create a large replacement demand for new cars. In this context, it is advisable that the related organizations should fully examine the possibility of the implementation of a new system and its effect, and consider the best timing of introduction.

(3) Establishment of an Automotive Demand Observation Committee

With the growth of the automotive industry in Malaysia, it is considered that the trend of domestic demand for motor vehicles will have a large influence not only on the automotive parts industry but also on the entire Malaysian economy. For motor vehicle demand, it is possible to make rather accurate short-term demand projections by collecting each company's sales data because there is a time lag between the order placement by users and the delivery of motor vehicles.

It is proposed to establish an automotive demand observation committee which will be organized by the representatives of MOT, MOF, MITI, MMVAA, MMTA and so on. It is hoped that this Committee would observe the trend of domestic demand for motor vehicles with the cooperation of automotive industry organizations, and recommend to the related governmental organizations the implementation of policies affecting motor vehicle demand such as the introduction of a regular mechanical check system, the reduction of import restrictions on CBU, the reduction of import duties on automotive parts, the modification of excise duties and sales taxes on domestic car sales, and so on.

11. PROGRAMME FOR ASSISTING IN THE DEVELOPMENT OF OVERSEAS MARKETS

(1) Background

Up to the present, the Malaysian automotive parts industry has been developed under various kinds of protective and supportive measures of the government, and has been able to refrain from direct competition with foreign products in the domestic market. However, the environment is rapidly changing, which can briefly be summarized as follows:

a. Liberalization of ASEAN regional market

The ASEAN countries agreed to speed up the reduction schedule of regional tariff rates under the AFTA (CEPT). At the latest, by the year 2003, the regional tariff rates, including rates for temporary exclusion items, will be reduced to the level of 0%- 5 %.

b. Reevaluation of Local Content Policies

At the GATT meetings, trade related investment restricting measures (TRIM) were debated and they were recognized as unfair practices which would hinder free trade. As a result, all the member countries agreed to abolish such measures. It was decided that the advanced countries would abolish them by the year 1995, while the developing countries, leaving aside some less developed nations, would abolish them by the year 1998. Malaysia's local content policy for automotive parts such as MDI and LMCP would fall under the category of such measures and be required to be abandoned by the year 1998.

c. Changes in the Procurement Strategy of Automotive Parts User Companies

Some of the Malaysian automobile manufacturers and assemblers, which have used local parts, are currently considering a switch in their procurement sources from the local to overseas market in order to reduce production costs.

In order to cope with these environmental changes, the Malaysian automotive parts industry is being pressed to boost its competitiveness. There are several requirements for this. One of the requirements would be achieving production volume exceeding minimum production

scale merits, which means a broader market.

In those countries in which the domestic market is sufficient in size, the industry could first develop the domestic market. For the Malaysian manufacturers, however, the domestic market is usually not sufficient in size. Thus, they need to start the development of overseas markets from an early stage of development.

In spite of the above, the majority of the automotive parts manufacturers in Malaysia are still selling their products primarily to the domestic market. Even among those companies which are exporting, many of them consider it dangerous to rely excessively on unstable overseas markets and therefore are not eager to increase exports beyond their current levels. In order to increase exports of automotive parts from Malaysia, recognition of the importance of export markets by the automotive parts industry is a primary necessity. Based on that consensus, manufacturers are jointly to take actions to penetrate into overseas markets. The government must also provide suitable assistance to such activities of the industry.

(2) Proposed Programme

1) Collection of Basic Information and Market Surveys

The overseas network of MATRADE should effectively be used for collecting a) basic statistics on production, sales, and export and import figures of each country, b) industry journals and publications, c) lists of companies, and d) other materials relating to the trends of the automotive parts industry and the market. The collected materials would be made available to domestic automotive parts manufacturers through the information services of MATRADE.

2) Collective Industrial Activities for Participation in Overseas Trade Fairs and for the Dispatch of Trade and Investment Missions

MACPMA should organize automotive parts manufacturers that are enthusiastic about export promotion, and arrange overseas trade fairs and overseas trade and investment missions specialized in automotive parts at an industrial level. For these activities, MATRADE and MIDA should provide the following assistance:

- a. Assistance to each participating company in preparing product samples, catalogs,

company brochures, etc.

- b. Listing potential importers in each target country and establishing preliminary contacts with these potential companies.
- c. PR activities through the mass media (newspapers, etc.) in the export target country.
- d. Planning and sponsoring of seminars and business meetings.
- e. Participation procedures for trade fairs.
- f. Securing and providing exhibition space for each participating company at trade fairs.
- g. Planning and execution of general promotional activities at trade fairs.

(3) Remarks for Implementation

Of the proposed programmes, the collection of basic information and the conduct of market research could be started as soon as the activities of the Research and Development Bureau, MATRADE become fully operational. Further, various kinds of schemes already exist in MATRADE or MIDA, which support the industry to participate in overseas trade fairs or to dispatch trade and investment mission teams.

Thus, the current problem appears to lie not in the current supporting schemes but rather in that the Malaysian companies do not have well established export handling organizations or that the industrial associations are not active enough to promote such joint promotion activities.

To overcome the above various kinds of problems, efforts should be directed toward making effective use of the existing various export promotion supporting schemes which already exist.

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