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TRADE AND INDUSTRIALISATION AFTER GLOBALISATION'S 2ND UNBUNDLING:
HOW BUILDING AND JOINING A SUPPLY CHAIN ARE DIFFERENT AND WHY IT MATTERS

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Malaysia's failure and Thailand's success

- Until 1982, Malaysian auto industrialization focused on kit assembly. The already small market was shared by more than a dozen assemblers.
- The resulting market fragmentation made it difficult for components producers to achieve economies of scales, thus, the locally produced parts and components were expensive.
- “This hindered the further localization. In 1979, the average local content achieved was merely 8 per cent” (Fuangkajonsak 2006).
- Policy became radically more state-directed under Prime Minister Mahathir bin Mohamed.
- In 1981, he established the [government-owned Heavy Industries Corporation of Malaysia \(HICOM\)](#) which aimed to establish a [Japanese-like fully integrated automobile industry](#), i.e. to build the whole supply chain.
- A [‘national car project’ – Proton](#) – was launched as joint venture with [Mitsubishi](#) (HICOM held 70% of the shares).

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Figure 10: National car Proton Saga (left) vs Mitsubishi Lancer (right)



Source: Wikipedia public domain photos.

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- Unfortunately, the first fruit of this effort (the Saga, Figure 10) appeared in 1985 – the year the 2nd unbundling started to destroy the economic foundations of single-nation automobile production.
- Tariffs and taxes meant that the Saga was 20-30% cheaper than similar models domestically (Fujita 1999); its market share rose to 73% (Uzir Mahidin and Kanageswary, 2004).
- Exports started in 1989, mostly to Britain under the GSP scheme which allowed in up to 14,000 units duty free; these were sold below the Malaysian domestic price (Wad and Chandra 2011 p.166).
- Proton upgraded from assembling imported key components and parts to manufacturing them locally. Localization efforts, however, did not go smoothly.
- Saga continued to rely on Mitsubishi for technology and design. Despite its local and export success, Proton's sale volumes remained small by industry standards (under 100,000 units per year for all models).

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- A second big push came in the 1990s as Proton introduced new models and produced them with varying engine sizes;. Malaysian production more than doubled from 1990 to 1997.
- Proton's plans, however, were even more ambitious. It announced a new project, 'Proton City', which would become an **integrated automobile manufacturing city** with a production capacity rising to 250,000 units in 2003.
- During this Proton expansion, **a second national car company** was set up (Perodua a joint venture with Daihatsu that produced a modified Daihatsu Mira called the Kancil).
- For many governments, **the 1997 Crisis** was the moment they realized that **the ISI dream was over**.
- Building a supply chain, like Japan and Korea had done, **was not optimal** and **indeed not possible after the 2nd unbundling**.
- Quite simply, offshoring had killed import substitution.

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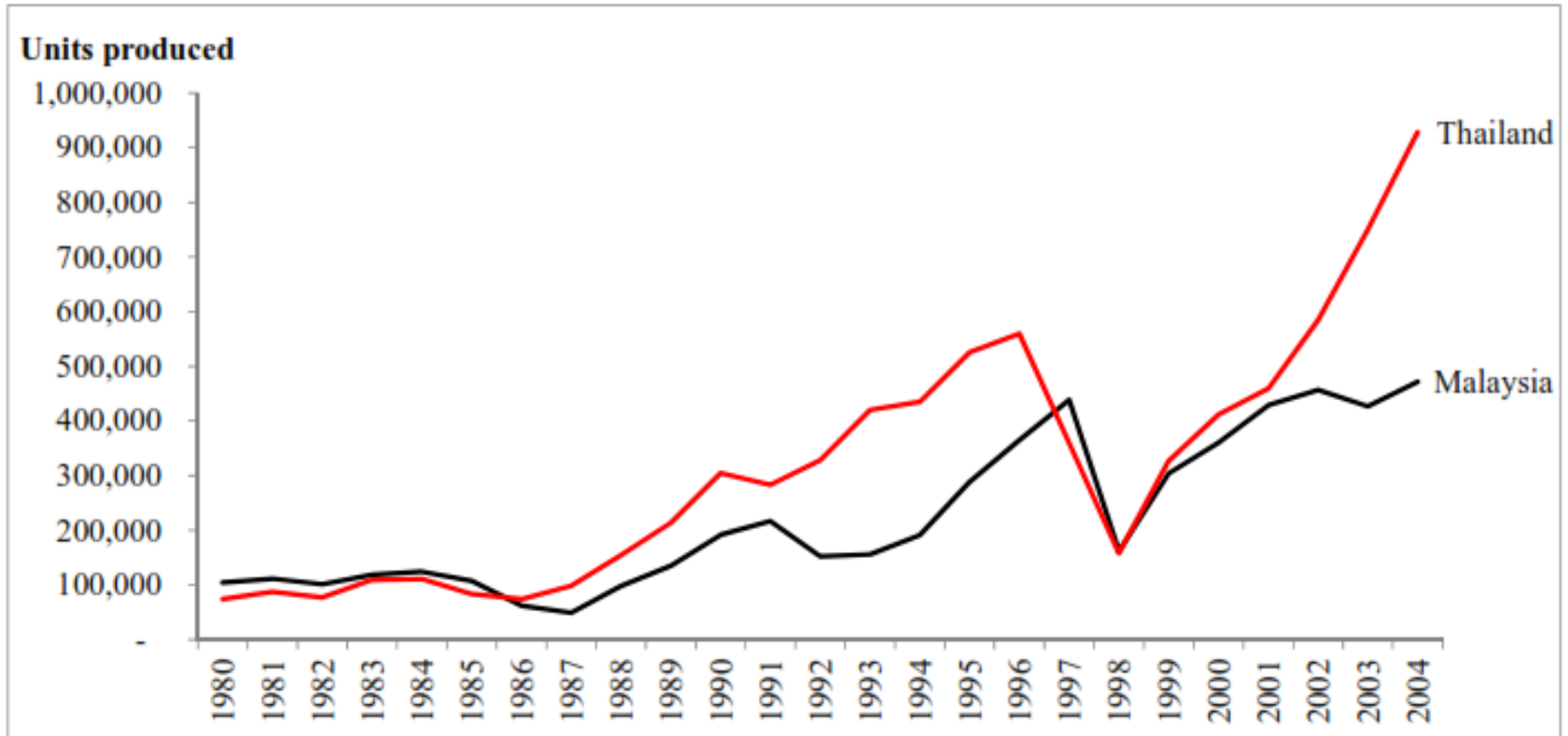
- The Malaysian government, however, persisted in pursuing its 1980-era strategy as far as possible. [Perodua was sold to its Japanese partner](#), but Proton was re-nationalised in 2000 and the new, highly advanced plant was completed (Tanjung Malim, with a production capacity of 500,000 vehicles per year).
- Proton introduced the first Malaysian-designed car – the Waja (Impian in Britain) – with the help of [technology it acquired when it bought the British car company Lotus](#).
- Proton moved up the value chain to [manufacturing its own engine in 2002](#). [Given the high costs of parts production, Proton's domestic market share continues to fall into 2010](#).
- Much of its [production capacity is idle](#). The government is looking for a foreign partner for Proton.
- After four decades of import substitution, Malaysian auto sector employment was about 50,000 – 70% of whom are working for Proton or Perodua, and about 80% are unskilled labourers (Wad and Chandra 2011).

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- Thailand's 1960s auto-industrialization plan also aimed for the whole supply chain, starting with CKD assembly.
- The Thai Board of Investment provided incentives that attracted automakers from the US, Japan, and Europe (Fujita 1999). Thailand raised local content requirements and effective rates of protection progressively.
- Japanese part suppliers established production in Thailand at the request of Japanese assemblers, thus recreating the close corporate ties that had long existed in Japan.
- Japanese assemblers also developed their own Thai supplier networks by helping local part firms raise their quality via technical assistance (Techakanont 2008).
- The economic slowdown and the progressive raising of the local content led GM, Ford, and Fiat to withdraw in the early 1980s just before Thailand's GDP growth took off.
- The booming domestic vehicle sales from 1987 came just as Japanese auto companies embraced the 2nd unbundling.
- Unlike Malaysia, Thailand abandoned the old wave to ride the new wave.

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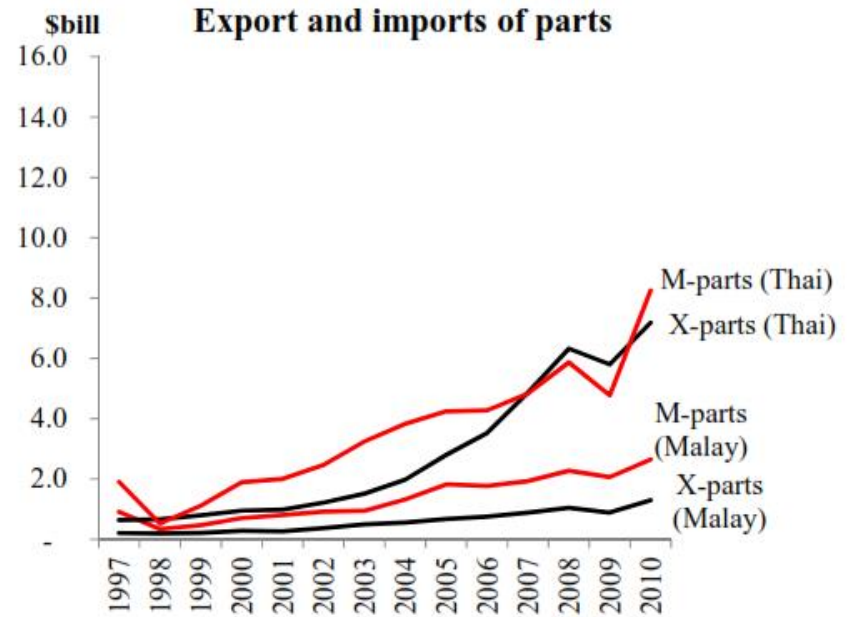
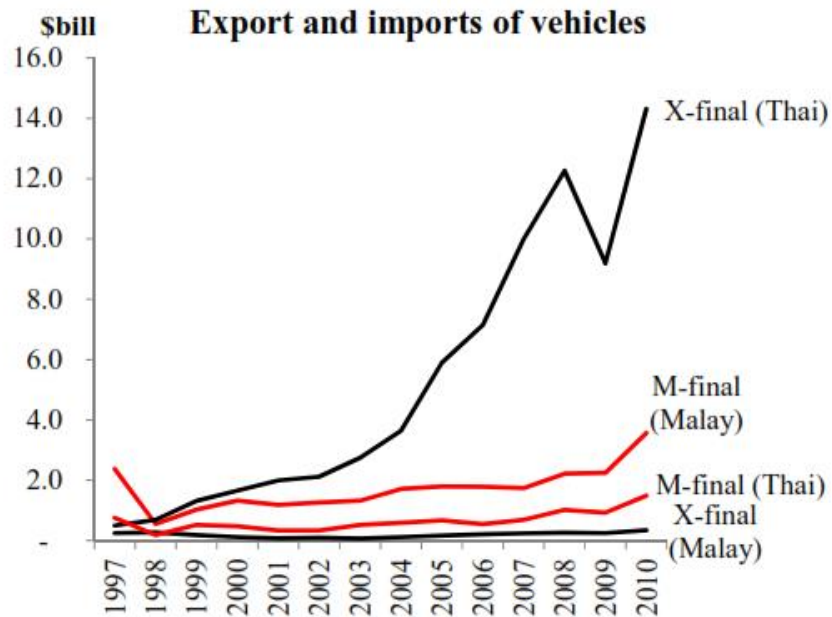
Figure 12: Vehicles produced, Malaysia and Thailand, 1980-2004



Source: Fuangkajonsak (2006 Table 1).

Malaysia's failure and Thailand's success

Figure 13: Trade in autos and parts, Malaysia and Thailand 1997-2010



Source: WITS online database, SITC v.3.