



**ASSESSING OPPORTUNITIES AND THREATS TOWARDS THE
IMPLEMENTATION OF AFTA**

**[A STUDY ON PROTON CAR'S PERFORMANCE IN LOCAL MARKET
TOWARDS THE IMPLEMENTATION OF AFTA]**

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ABSTRACT

Malaysian government developed a policy to promote an integrated automobile industry to strengthen Malaysia's industrial base. The main objective were to reduce imports, save foreign exchange, create employment, develop strong forward and backward linkage with the rest of the economy and transfer industrial technology.

Proton has an extensive market share in Malaysia and sells its products widely throughout the region. The home market provided its with the necessary volume and viability for its success. In the year 1990's they have acquired about 65% of the total sales in Malaysia. However it is going to be a totally different story once AFTA was fully implemented on the automobile industry. ASEAN Free Trade Area (AFTA) was established in the fourth ASEAN summit held in Singapore in January 1992 which initiated to promote intra ASEAN trade, investments and economic developments in this region. Through AFTA, the tariffs should be reduced to below 5 percent by 2002 and other non-tariff barriers are to be eliminated among the ASEAN country.

However Malaysia has requested a minimum two years exemption from AFTA differed to year 2005. As found out from the finding analysis of Proton's made

1.0 INTRODUCTION

1.1 ASEAN AUTOMOTIVE MARKET

ASEAN is a key strategic automotive market. There are many reasons for these. ASEAN population is 510million. Young population is the major share from this figure. Currently the car sales in this region have been increasing every year. For the year 1998 the sales was 500,000 vehicles. In 1999 car sales were 740,000 vehicles. For this year the sales is projected to reach 1 million vehicles and 1.5million in the year 2003. The leading supplier for the whole ASEAN region is Proton. It has 22% of the market. This is mainly due to its monopoly in the Malaysian market. Toyota is second in the list with 20% share. According to Mr. Jerry Kania of Ford Motor Company, if look closely to the ASEAN market we will find out that the integrated sales of this region could be fifth largest in the world by the year 2005.

Another reason is the growing economic growth of the ASEAN countries. The GDP growth was effected in the year 1998 because of the economic problem. However the ASEAN countries have recovered sooner than expected. For the past ten the GDP growth for the ASEAN countries was above the average value of world GDP growth. This is expected to continue for another ten years. ASEAN economic growth is one of the highest compare to other countries and this makes it more attractive than other countries. Raw materials are available a lot in this ASEAN region. ASEAN is the largest producer of natural rubber, tin, crude palm oil and cocoa. These are an attractive consideration for channeling foreign direct investment (FDI) into ASEAN and setting up a regional headquarters.

Since the market is very attractive, many foreign giants from Japan and US have already invested in this region. From 1995-1999, US giants like Ford,