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IMPACT OF GLOBAL ECONOMIC CRISIS ON THE MALAYSIAN AUTO-PARTS INDUSTRY

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1. **Malaysia not insulated from global economic crisis:** Malaysia is not insulated from current global economic crisis and plunged into negative growth in the first two quarters of 2009. With the export industries in Malaysia being closely connected through trade and production systems in the developed countries, the workers in these industries, such as the auto parts industry, and the formal and informal establishments that support them are expected to be adversely affected by the crisis. Moreover, their families as well as the supporting services are also impacted through the value chain labor market effects, which also have gender implications.
2. Malaysia plunged into recession in 2009 and the government introduced two stimulus packages: By the first quarter of 2009, the Malaysian economy had contracted by 6.2%, mainly due to further deterioration of the manufacturing sector by 17.6% compared to -8.8% in Q4 2008. Particularly badly hit was the electrical and electronics industry, which contracted by 35.8% in Q1 2009 compared to a fall of 23.1% in Q4 2008. Production of passenger cars fell by 18.9% in Q1 2009 compared to a decline of 24.9% in Q4 2008. The second quarter of 2009 saw growth contracting at a slower pace of -3.9% and the manufacturing sector improving with a smaller rate of contraction of 14.5%. The Malaysian auto industry has insignificant exposure to global markets as the share of export of parts in the total Malaysian exports is very small, about at 0.27% in 2006. The main export markets for parts and accessories of motor vehicles are Thailand, Singapore, Taiwan, United Kingdom and Japan.
3. **Labor market has been cushioned by foreign workers and large number of vacancies:** The Malaysian economy has been in full employment since 1992 and had been relying on imported foreign workers since the late 1980s. There are about 2.10 million registered and another million or so unregistered foreign workers in the country, constituting more than 20% of total employment. The foreigners are the first to go in a retrenchment exercise, thus acting as a buffer for the domestic workers. However, total vacancies far exceed total retrenchments and many employers find difficulty in filling the vacancies.
4. The Government introduced the First Stimulus Package of RM7 billion on 4th November 2008 mainly for the construction sector. This Stimulus Package has been criticized as being rather late while the amount (equivalent to about 1% of GDP) was too small. Thus, when the economy worsened, the Government decided on the Second Stimulus Package that was

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announced on 10 March 2009 worth RM60 billion (almost 9% of GDP) or about US\$16 billion. It is being allocated over 2009-10 according to the four thrusts: reducing unemployment and increasing employment opportunities (RM2 billion); easing the burden of the people, in particular, the vulnerable groups (RM10 billion); assisting the private sector in facing the crisis (RM29 billion); and capacity for the future (RM19 billion). Of the RM60 billion, RM15 billion is fiscal injection, RM25 billion Guarantee Funds, RM10 billion equity investments, RM7 billion private finance initiative (PFI) and off-budget projects, as well as RM3 billion in tax incentives.

5. Between 1 October 2008 and 30 June 2009, 1,088 employers are involved in retrenching 29,415 workers permanently, of which 21,938 are locals while the rest are foreign workers. Another 231 employers have gone under the Voluntary Separation Scheme (VSS) involving 8,212 local workers and 8,948 foreign workers. Relatively more male workers were being retrenched or given the VSS than female workers. Eleven employers only temporarily lay off their workers, involving 4,488 locals and 265 foreigners, where more female workers are affected relative to their male counterpart. Pay-cut involved 490 employers, but this affected the most workers, that is, 15,386 female and 15,026 male local workers as well as 5,475 male and 4,534 female foreign workers. Between January and July 2009 the manufacture of motor vehicles, trailers and semi-trailers and the manufacture of other transport equipment industries laid off about 362 workers.

6. **Poverty incidence rose from 3.6% in 2007 to 3.8% in 2008:** The concern for the retrenched workers is because they are vulnerable to falling below the poverty line. For those foreign workers who have not been sent home, many have managed to get alternative jobs while local workers are being assisted in retraining and finding new jobs. Poverty incidence is low in Malaysia, being only 3.6% in 2007, but increased to 3.8% in 2008. Unlike the 1997-98 crisis that affected mainly the urban population, the current crisis mainly hit the rural areas due to the fall in commodity prices. With so many vacancies, the workers should not have a problem to find other jobs if they are not choosy in what they do. Still, if the workers remain unemployed or suffer from reduced income, it might also affect their household members as their contributions to the family expenditures would be reduced as well.

7. **The automotive sector is expected not to be seriously affected by the current crisis.** Despite the global uncertainties, the performance of the Malaysian automotive industry was encouraging where the total industry volume (TIV) of new vehicles registered in Malaysia for 2008 increased by 12.5% to reach 548,115 units while the production of new vehicles rose by 20.2% to 530,810 units. The Malaysian auto industry expected that the Malaysian motor vehicles sub-sector will not be directly or seriously impacted by the current global crisis. The Second Stimulus Package provides an additional fund of RM200 million to the Automotive Development Fund to assist and promote the continued development of the industry inclusive of the parts and components sectors. To boost sales of motor vehicles, the government has also allocated funds to support the scheme of scrapping old cars. TIV in 2009 is forecasted to reach 500,000 in 2009, a drop of 8.8% compared to 2008.

8. **Four factors account for the problems faced by the auto parts enterprises:** The survey revealed that various factors affect their demand other than the current crisis. First, Malaysian is the competition from ASEAN producers since March 2006 to meet the ASEAN Free Trade Area (AFTA) requirements. Second, some first tier vendors had over-expanded and are facing excess capacity when Proton did not make good its expansion plan. Third, there are seasonal fluctuations in the industry, dipping toward the end of the year.

9. **Revenue, domestic and export orders dipped in 2008 and recovered in 2009:** All the respondents supply components and parts to the domestic manufacturers and assemblers, but 50% of them do export, with their export revenue ranging up to about 50%. Their biggest

export destinations in 2008 were Indonesia, Japan, Philippines, Singapore, USA and Europe. Although these enterprises have to a certain extent been negatively affected by the crisis, 70% have experienced an increase in demand for their products in 2009. In terms of domestic orders, 70% of respondents experienced a decrease of between 12% and 95% after 30 June 2008, 20% experienced an increase in their domestic order by 11.6% and 20%, while 10% experienced no change. Most respondents suffered a decrease in their export orders. Almost all respondents expect the demand for their main products to remain constant or increase over the next 6 months.

10. Cutting back production and reduce working time are the main coping mechanisms for the enterprises: Between 30 June 2008 and 30 June 2009, there seems to be a general reduction in employees of the enterprises. One third of respondents indicate that they did face financing difficulties. The main measures employed to cope with the crisis are cutting back production, reducing non-labor and labor costs, halting new recruitment, and canceling/delaying the upgrading of their existing facilities and seek new markets. Unskilled production workers, temporary/contract workers and foreign workers are badly affected. Non-production workers excluding management were hardly affected. Overall, not many respondents have to make adjustments and the adjustments did not affect a large percentage of the total workforce or female workers.

11. A majority of respondents were involved in the labor adjustment schemes: Of the 52 workers who responded, 11 had been laid off, 18 were involved in the labor adjustment schemes, while the rest had made some adjustments in their expenditure as cautionary measures due to the uncertainties created by the crisis. Most of the respondents (75.0%) only finished secondary schooling. On average, the respondents have worked for 10.1 years in their current enterprises. The majority of the workers (71.2% with 66.7% male and 76.0% female) had received training from the enterprises where they worked and normally they received training once a year. Most of the workers (87.0%) are working in enterprises that are categorized as 1st tier auto-parts supplier/manufacturer. All the respondents are permanent workers and the majority of them have a written job contract of more than one year.

12. Reduction in average weekly work hours and earnings after 30 June 2008. While 40.0% of the workers are members of the trade unions, in most cases the trade unions were not consulted in the decisions made by the enterprises on various labor adjustments due to the crisis. Among the respondents, 51.1% claimed that the labor adjustment schemes had reduced their personal income. However, despite undergoing income reduction, some of the workers did not reduce their remittance payments to his/her household (38.9%), expenditure on education for the family (36.0%) and expenditure on durable goods for themselves (37.9%). Nevertheless, a majority made partial expenditure reductions on their food/nutrition (84.8%), housing (72.4%), payments for health expenditures (78.3%), housing (73.7%), expenditure on utilities/transport/communications (69.2%) and remittance payments (52.3%).

13. The economic crisis and labor adjustment caused changes in their level of anxiety: About 78.3% of the respondents experienced changes in their level of anxiety over their future well-being, with 24.3% claiming that this level had decreased while the other 75.7% felt that it had increased due to the economic crisis. The economic crisis and labor adjustment caused changes in the sleeping pattern of 46.2% of the respondents, where 88.9% admitted that their sleeping pattern has become less regular. The stress from having to adjust their expenditure and life style due to the decrease in the households' income sometimes may lead to family conflict and quarrels, which was experienced by about 9.3% of the respondents.

14. Family members are the most important source of support: In seeking help from various parties, the respondents indicate that other family members are the most important

source of support as 46.2% resorted to this source. About 28.8% turned to the enterprise, 23.1% to the trade union, and 13.5% to friends and neighbors. Family members provided cash gifts, cash loans and job referrals. The respondents also received cash loans and counseling from friends and neighbors as well as NGOs. About 19.2% of the respondents sold their personal belongings to raise money during the crisis, while a small a small percentage borrow from community-based saving and loan associations. Others borrow money to tide them over or got involved in other income generating activities.

15. Reduced income of the workers resulted in adjustments in expenditure for their households: The sizes of the affected households range from 2 to 11 members, with the number of females in the household varying from 1-6. Only 36.1% of the respondents are heads of their households. However, 62.9% have family members who work/worked in the auto parts industry as the heads of their households. About one third of the households (33.3%) have one member that worked for at least one hour during the previous week, while another 45.8% have two members that worked for at least one hour during the previous week. Most households (91.7%) derived their income from wages/salaries, followed by pension or social security while rental income and incomes from household enterprises are less important sources of income.

16. About 43% of respondents spent less than RM10-RM15 or about US\$2.90-US\$4.30 per day per person. Another 31% spent MYR15-RM25 (about US\$4.30-US\$7.15) and 20% spent RM25-RM35 (about US\$7.14-US\$10) per day. Only 6% spent RM75-RM85 (about US\$21.4-US\$24.30) per day, implying that most respondents are from the low-income groups but not under the poverty line. Most (55.3%) respondents own their houses, while the rest rent their accommodation at an average rental of RM478 per month. The most common assets owned by the respondents are mobile telephone (94.7), refrigerator (86.8%), television (86.8%), stove/oven (84.2%), electric fan (78.9%) and followed by car/van (76.3%), motorcycles/scooters (71.1%), DVD/VCD (55.3%) and radio/music system (50.0).

17. Of the total affected households, 68.4% agree that the labor adjustments at their enterprise have reduced their households' incomes. To worsen the situation, 25.0% of the respondents also have household members that experienced a decline in income or lost a job as well. Hence, in order to cope, they reduce completely their remittance payments (19.4% of respondents), their entertainment (22.9%), housing (16.7%) and their expenditures on utilities/transport/communications (16.7%). However, most make partial adjustments in all categories especially in housing (63.2%), utilities/transport/communications (61.1%), remittance payments (58.3%), food/nutrition (58.1%), and health (46.9%).

18. Malaysia is fortunate that the auto parts industry and its value chain up to the workers' households and the supporting informal sector are not badly affected by the crisis: The Malaysian labor market has been experiencing full employment since 1992. So while quite a few has been retrenched, those who are willing and not picky can find alternative jobs as the number of vacancies far exceeds the number of retrenchments. Malaysia also hosts over 3 million foreign workers and the first to be retrenched are these workers. Generally, it seems that most of the workers that suffered a reduction in income are production workers, and from the responses of the workers, it appears that their circumstances are quite bad, but they have not fallen into poverty as the demand contraction lasted only for several months and currently production is increasing. In fact, quite a number of the firms are suffering from labor shortage. Moreover, the government is providing support to retrain and find the retrenched workers new jobs or study for a higher degree.