

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

Ragayah Haji Mat Zin & Faridah Shahadan

IKMAS, UKM

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1. Introduction

- **Malaysia plunged into negative growth in the first two quarters of 2009**
- **With the export industries being closely connected through trade & production systems in the developed countries, the workers in these industries and the formal and informal establishments that support them are expected to be adversely affected**
- **Thus, the objective is to try to examine how:**
 - i. **the enterprises, their workers and families as well as the supporting services are impacted by the crisis**
 - ii. **emphasize the gender impact of the crisis by linking the value chain labor market effects and the gender implications**

Macroeconomic Impact and Policy Responses

- **Malaysian economy contracted by 6.2% in Q1 2009, but improved in Q2 2009 by contracting at a slower pace of 3.9%**
- **Production of passenger cars fell by 18.9% in Q1 2009 compared to a decline of 24.9% in Q4 2008**
- **Full employment since 1992 & hosts more than 3 mill foreign workers (about 20%) who are the first to go in a retrenchment exercise. However, total vacancies in 2008 was more than 64 times that of retrenchment**

Managing Retrenchment

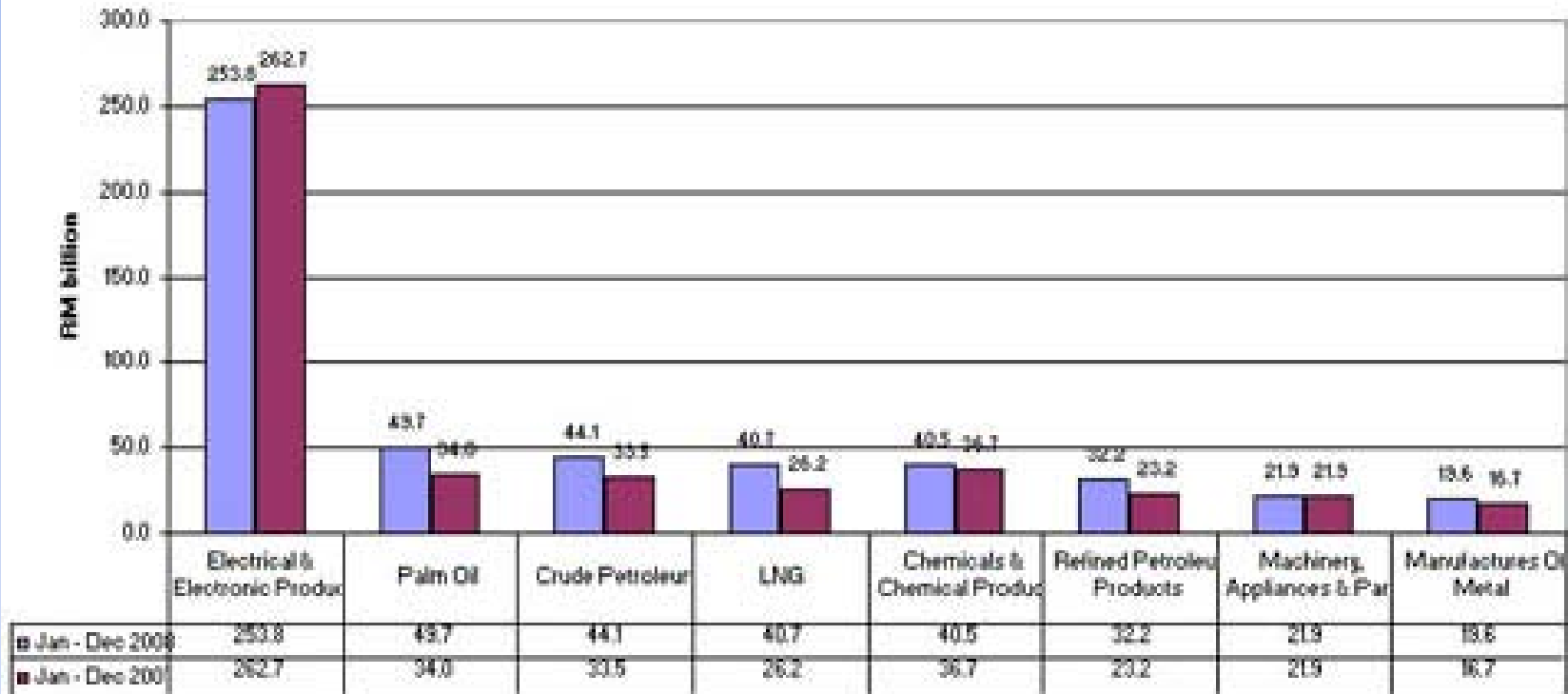
- Step 1: Discuss with employer & workers on measures could be taken to avoid retrenchment (freeze new emp. Or wage rise, reduce OT or working hours, defray bonus, pay cut, temp lay-off**
- Step 2: Assist workers in getting rightful compensation and in finding alternative jobs**
- Step 3: Facilitate workers to undergo training before placement in new jobs**
- Step 4: Facilitate workers to undergo training in skill set desired by employers and retain in present jobs**

- **First Stimulus Package of RM7 billion on 4th November 2008 mainly for the construction sector—criticized as being rather late while the amount (equivalent to about 1% of GDP) was too small**
- **Second Stimulus Package on 10 March 2009 of RM60 billion (almost 9% of GDP). Allocated over 2009-10 according to the four thrusts: reducing unemployment and increasing employment opportunities (RM2b); easing the burden of the people, in particular, the vulnerable groups (RM10 b); assisting the private sector (RM29 b); & building capacity for the future (RM19 b)**
- **Between 1 Oct 08 & 30 June 09, 38,363 workers lost their jobs while another 45,175 had experienced reduced income**
- **Between Jan-July 2009 the manufacture of motor vehicles, trailers and semi-trailers and the manufacture of other transport equipment industries laid off about 221 workers.**
- **Concern for the retrenched workers is because they are the vulnerables that might fall below the poverty line. Poverty incidence is 3.6% in 2007 & 3.8% in 2008**

Comparisons with E&E Sub-Sector

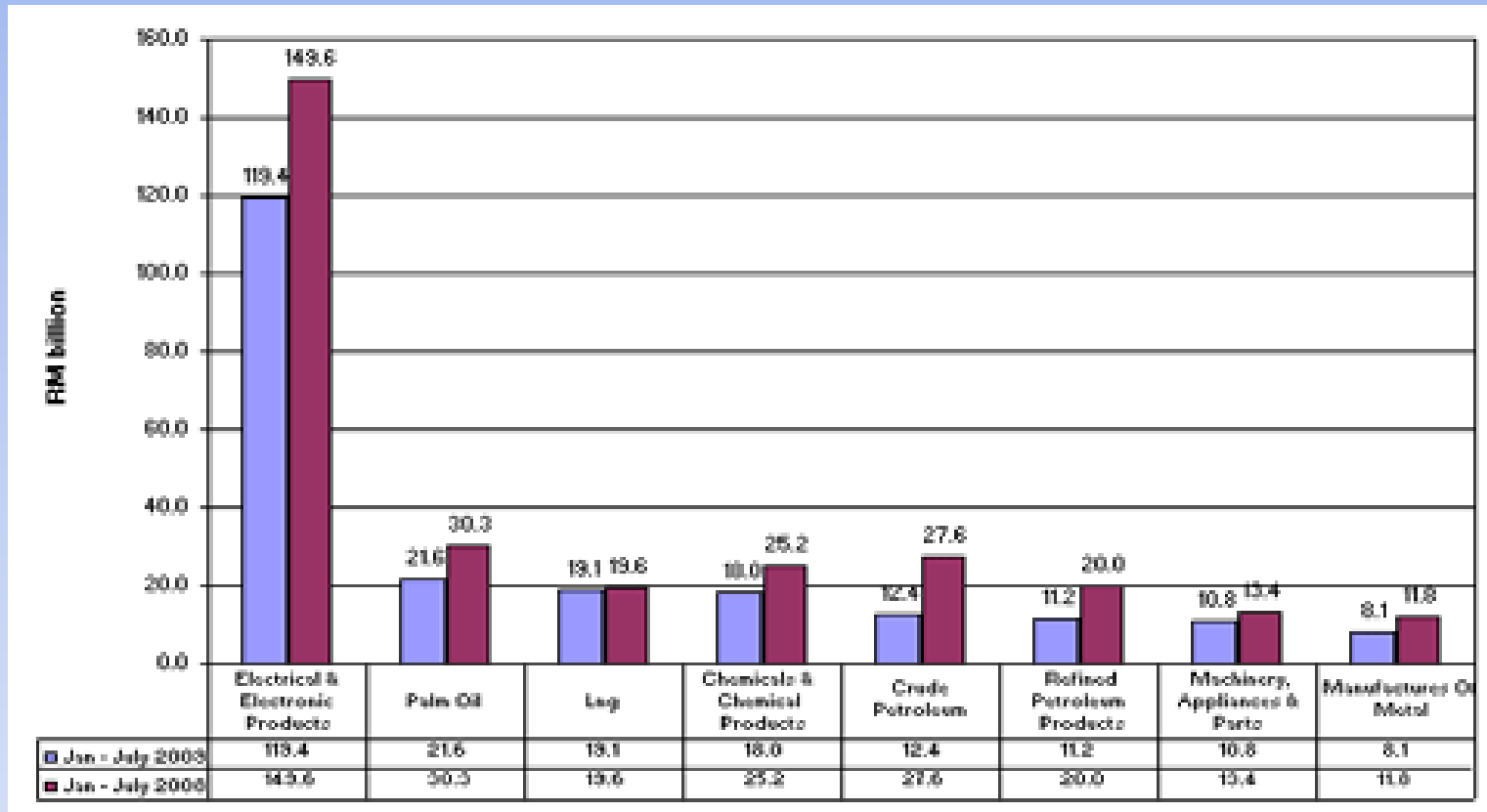
- **Mfg sector grew only at 1.8% in Q3 2008 (Q2 2008: 5.6%), fell 8.8% in Q4 2008, -17.6% in Q1 2009 & -14.5% in Q2 2009 due to the weakening global E&E demand. E&E industry contracted by 23.1% in Q4 2008, 35.8% in Q1 2009 & 31.1% in Q2 2009**
- **E&E products made up 38.3% of Malaysia's total exports in 2008 and 39.9% in January-July 2009 period**
- **Exports of E&E products grew only at 2.6% in Q3 2008 (Q2 2008: 9.3%), fell by 17.2% in Q4 2008, -19.1% in Q1 2009, and -22.8% in Q2 2009**
- **Between January and July 2009 the E&E sub-sector retrenched 8121 workers compared to about 221 workers laid off in the auto parts sub-sector for the same period**
- **All these imply that the E&E sector was more severely affected and the impact of the crisis on the workers, their households and supporting industries might be different from the auto parts industry workers**

Exports by Major Products, January-December 2008



E&E exports fell by 3.4% 2008 compared 2007

Exports by Major Products, January - July 2009



E&E exports fell by 20.2% Jan-July 09 compared to same period 2008

Impact of the Crisis on the Auto- parts Industry: Macro Perspective

- The automotive sector is a key industry in the M'sian economy providing a livelihood to >200,000 people, with 4 passenger & commercial vehicle manufacturers & 9 motor vehicle assemblers
- It is expected that the M'sian motor vehicles sub-sector will not be directly or seriously impacted by the current global crisis as the shares of export of parts and accessories for motor vehicles in the value of manufactured exports and the total M'sian exports are very small, eg. only 0.33% and 0.27% respectively in 2006
- To mitigate the adverse effects from the global economic lag, the Second Stimulus Package provides an additional fund of RM200 million to the Automotive Development Fund & 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

Case Study of the Impact of the Crisis on the Auto-parts Industry

Reasons for problems of auto parts manufacturers:

- **Competition from ASEAN producers since March 2006 (AFTA)**
- **Some first tier vendors had over-expanded and are facing excess capacity when Proton did not make good its expansion plan**
- **Seasonal fluctuations in the industry, peaked before Ramadhan & tapered towards end of year before picking up at the end Q1**
- **Crisis worsened the situation**

- **Survey: brief & relatively mild impact on the auto parts firms. Revenue, domestic & export orders dipped in 2008 but recovered somewhat in 2009 (demand of 70% respondents have risen in 2009). Firms pessimistic with only 40% expecting an increase in demand of 10% to 20% for their main products over next 6 months**
- **Supporting industries also not greatly affected**
- **1/3 respondents faced financing difficulties, 87.5% did not face difficulties for trade financing and only 25% faced difficulties regarding financing for other business**
- **Enterprises coped with crisis by cutting back production, reducing non-labor and labor costs, halting new recruitment, and canceling/delaying the upgrading of their existing facilities while some would try to seek new markets. Temporary/contract workers, unskilled production workers & foreign workers are relatively badly affected**

Case Study of the Impact of the Crisis on the Affected Workers

- **Only 39 respondents (59% female). Of these, 23% were laid off, over 60% were involved in the labor adjustment schemes**
- **82.4% are working in enterprises that are categorized as 1st tier auto-parts supplier/manufacturer**
- **68.6% claimed the labor adjustment schemes reduced their personal income. 25% lost 100% while rest lost between 10-50%**
- **Some workers did not reduce their remittance payments to his/her household (42.9%), expenditures on education for family (50%) & expenditures on durable goods for themselves (52.4%)**
- **A majority made partial expenditure reductions on their food/nutrition (83.3%), housing (72.4%), health (72.4%), utilities/transport/communications (65.5%) & remittance (50%).**
- **About 76.3% experienced changes in their level of anxiety over their future well-being, with 73.3% felt that it had increased while the rest claim that it had decreased due to the economic crisis**

- **41.1% resort to other family members for support while 25.6% turned to the enterprise, 20.5% to the trade union, and 17.9% to friends and neighbors**
- **Family members provide counseling and emotional support, cash gifts, cash loans and job referrals**
- **Friends, neighbors & NGOs also provide cash loans and counseling**
- **About 18.2% of the respondents sold their personal belongings to raise money, while a small a small percentage borrow from community-based saving and loan associations**
- **Some got involved in other income generating activities**

Case Study of the Impact of the Crisis on the Affected Households

- **Only 35% of the respondents are heads of their households. However, 84.2% of them have family members who work/worked in the auto parts industry as the heads of their households**
- **95% of households derived their income from wages/salaries**
- **About 47% spent <RM10-RM15 (US\$2.90-US\$4.30) per day per person; 16% spent MYR15-RM25 (US\$4.30-US\$7.15); 26% spent RM25-RM35 (US\$7.14-US\$10); only 18% spent RM75-RM85 (US\$21.4-US\$24.30 → most respondents are from the low-income groups but not under the poverty line (about US\$1.75)**
- **52.38% rent their accommodation at an average rental of RM483 per month, while the rest own their houses**
- **Assets owned are refrigerator, television and electric fan (95.2%), stove/oven and mobile telephone (90.5%), car/van (85.7%), motorcycles/scooters (66.7%), radio/music system and DVD/VCD (57.1%) and jewelry (52.4%)**

- **90.5% agree that the labor adjustments at their enterprise have reduced their households' incomes & 33.3% of the respondents also have household members that experienced a decline in income or lost a job as well**
- **In order to cope, they reduce completely their remittance payments (35%), entertainment (26.3%), housing (25%) and their expenditures on utilities/transport/communications (20%)**
- **However, most make partial adjustments in all categories especially in food/nutrition (82.4%), utilities/transport/communications (80%), housing (75%), remittance payments (65%), and health (58.8%)**
- **Out of the 21 affected households, there are 96 household members with 46 females. Only a small percentage of household members sought support from various sources, or borrow money and take additional paid work in order to cope with the crisis**

Concluding Remarks

- **Study shows auto parts industry and its value chain up to the workers' households and the supporting informal sector are not badly affected**
- **Most of the workers that suffered a reduction in income are production workers, 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.**
- **The 2nd Stimulus Package also plans for long-term human capital development by providing support to retrain and find the retrenched workers new jobs or study for a higher degree**
- **Policy implications—need to ensure accessibility to assistance and effective implementation of the programs**



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