

## **THE PROTON SAGA: WHY WOULD MALAYSIA SELL ITS 'SYMBOL OF DIGNITY' TO CHINA?**

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*An automobile that former prime minister Mahathir Mohamad described as 'a symbol of Malaysians as a dignified people' – and once voted 'Man of the year' – looks set for Chinese ownership in a saga that may run and run*

China's Geely Automobile Holdings has emerged the clear leader ahead of France's Renault and Peugeot parent PSA in the queue of suitors for Malaysia's Proton carmaker.

That's great for Geely – the news it is in pole position to buy a 51 per cent controlling stake in the country's largest carmaker has sent its shares to an all-time high (they have tripled in the last 12 months) and sets up its push into Southeast Asia. If the deal goes through, Geely will get access to Proton's assembly line in Malaysia, allowing it to ship vehicles tax-free anywhere in the Association of Southeast Asian Nations block, a combined market of 623 million people.

Geely shares soar to record on report it's buying Proton's Malaysia car assembly

But the motivation on the other side is less clear. Just why is the Malaysian government marrying its favourite child off to a foreigner? It's a particularly pertinent question given that, with an election widely predicted to be held this year, Prime Minister Najib Razak is already under fire regarding Chinese influence on the economy following his trip to Beijing in November that secured funding for infrastructure projects worth 143 billion ringgit. History, as ever, holds the answer.

The Malaysian National Car Project was conceived in 1979 by the former prime minister, Mahathir Mohamad (now a key critic of Najib), approved by the Cabinet in 1982 and established as Proton – Perusahaan Otomobil Nasional Berhad – in 1983. Mahathir thus became probably the only head of state to found and head a national automobile company. In 1985, Mahathir opened the Shah Alam plant. "The Proton Saga," he declared of the first model, "is more than just a quality automobile. It is a symbol of Malaysians as a dignified people".

Why Malaysia's hopes for a post-racial politics are fading – even if Mahathir is not 'anti-Chinese'

The word Saga was derived from a native Malaysian tree denoting resilience and indigenous identity, putting it alongside Germany's Volkswagen, Italy's Cinquecento and Russia's Zhiguli (or Lada) as a car of the people, owned, funded and driven by the citizens of an emerging industrial nation on the road to prosperity in a globalising economy.

The Shah Alam plant, installed by the Japanese company Mitsubishi, was in fact largely obsolete, and the car was assembled from kits of the Mitsubishi Lancer Fiore. All the same, the car was voted Malaysia's 'Man of the Year' – making Malaysia perhaps the first country ever to extend such an honour to an automobile. By the next year, 1986, Proton had cornered 64 per cent of the domestic market for cars below 1,600cc, but demand outstripped supply and the government was losing 35,000 ringgit (US\$15,000 at the time) on each Saga sold. Mahathir announced the car would go on sale in the United States, where Volkswagen and Honda were already penetrating the market for quality affordable automobiles.

Year of the Rooster: good fortune for Malaysia's dwindling Chinese community?

The entire management team assembled at Kuala Lumpur's international airport for the dispatch of the first car. An Islamic cleric offered a prayer and the managing director sprinkled blessed water on a white Proton Saga, over which a banner was draped reading 'On to the USA'. (That white is the ethnic Malay colour of death appears not to have been considered an omen.)

Mahathir had been impressed by the American entrepreneur Malcolm Bricklin, who had arrived in Kuala Lumpur with a letter of recommendation from former US secretary of State Henry Kissinger. Bricklin had successfully launched the low-cost Yugoslav Yugo and the Japanese Subaru in the US. He had, however, failed with his gull-winged car, the Bricklin (a debacle that would presage the disastrous tie-up between de Lorean and Lotus, a company that would come to be 100 per cent owned by Proton).

Can the Trans-Pacific Partnership be salvaged? Forget Trump – Malaysia, Australia, New Zealand think so

Bricklin started importing Protons to the US having omitted to mention he had not secured proper permission from the authorities. He sold his company in the middle of negotiations with the Malaysians, causing a massive financial deficit and loss of face to Mahathir. The Malaysian management team were replaced with an all-Japanese line-up: "If that happens to a Japanese," the Malaysian finance minister said of the fiasco, "he commits hara-kiri".

In 1993, the company returned to Malaysian management. Proton had increased domestic market share with new models and made inroads into European export markets, above all Britain, but as the incoming managing director observed: "It's tough now, and it's going to get a lot tougher. Proton is the cornerstone of the country's industrialisation programme."

He was not exaggerating: the entry of the privately owned Perodua, with superior engineering from Toyota, into the domestic auto market ended the state-owned monopoly of Malaysian auto production.

The real reason Malaysia's Mahathir is taking on the Sultan of Johor

The second half of the 1990s saw competition and losses increase at home and abroad. Foreign dealerships deserted Proton and the marque became synonymous with poor quality for the buyer and poor returns for the taxpayer. The acquisition in 1996 of upmarket Lotus and entry into high end rallycross put polish and Lotus engineering back into the brand, unlike the disastrous acquisition of Italian motorcycle legend MV Augusta.

The Asian recession in 1997 postponed, but did not cancel, the building of the US\$580 million Tanjung Malim plant as part of Proton City. Build quality improved, safety standards rose to award-winning levels and the company invested in new hybrid power units. The first half of the first decade of the 2000s saw sales plummet, but the latter half saw a domestic comeback, and, in 2012, the privatisation of the company by the Malaysian conglomerate DRB-HICOM. With production slipping again by 25 per cent in 2015, the government approved a soft federal loan of 1.25 billion ringgit (US\$284 million) on one condition: find a foreign partner.

Mahathir versus the sultan: How Chinese investment could sway Malaysian election

The sometime 'Man of the Year' also has the dubious distinction of being the subject of one of the most critical unofficial websites ever to be aimed at a car. So what will the successful suitor get for the rumoured 51 per cent investment? Domestic market share, in which indigenous carmakers are protected by high tariffs on foreign imports through the National Automotive Policy, access via Proton's Tanjung Malim plant to manufacturing for Southeast Asian markets, a brand with global rallycross credentials and access to Lotus technology: something a Chinese-badged car has yet to achieve.

And what might Malaysia and Proton get from a Chinese conglomerate that owns Volvo and the London Taxi Company? Geely is foreign, but it's not French, and Malaysia is 25 per cent Chinese. Brand Malaysia, which has suffered of late, is keeping its people's car marque, and the jobs of 12,000 employees, alive, while owners DRB-HICOM divest up to 51 per cent of their loss-making holding. There's also the little matter of that US\$284 million soft loan. Geely's superior technology is another factor, but that's under the bonnet. Face matters to both parties. Like the resilient indigenous tree, where a bit of cross-grafting never did any harm, the Proton saga will run and run.

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