The political economy of the automobile industry in ASEAN: a cross-country comparison

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The Political Economy of the Automobile Industry in ASEAN: A Cross-Country Comparison[1]

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Abstract

The automobile industry plays a leading role in a country's industrialization. Various countries have used different methods to identify a model of industrial development. For developing countries, establishing the automobile industry is crucial for promoting industrialization. After Southeast Asian countries had achieved independent, their automobile industries underwent establishment and development stages. The domestic and overseas competitiveness of the automobile industries in ASEAN have received global attention. How can the industrial development of Thailand, Indonesia, Malaysia, and the Philippines be understood? Researchers have proposed various views regarding the industrial development of these four ASEAN countries. We researched the political economy of these countries to understand the development of their automobile industries. Thailand's automobile industry was successfully developed because of the government's crucial role in implementing a coordinated market economy and national system of innovation. In Indonesia, government–business relations hampered the government's efforts to meet society and market needs, thereby limiting the country's industrialization. Malaysia must learn how to coordinate its industries with a market economy through liberalization and coordination. The Philippines has positioned its automobile industry on manufacturing automotive parts because of the country's limited industrialization. Theoretically, following the 1997 Asian financial crisis, these ASEAN countries have adopted market economy-oriented policies; however, because of the historical context of political economy, the development of their automobile industries has varied. Under the context of globalization, the economic systems of various countries have exhibited low convergence. In this study, we show that embedded liberalism is the preferred interpretation in ASEAN automobile industry development. In other words, researchers should look beyond convergence theory and consider the political economy characteristics of various countries. Accordingly, further comparative research must be conducted to clarify the differences in the economic systems and policies in ASEAN studies.

Keywords: Political Economy, ASEAN, Automobile Industry, Globalization, Embedded Liberalism

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Introduction

Automobile industries play a leading role in a country's industrialization. Countries such as Thailand, Malaysia, Indonesia, and the Philippines have adopted various strategies in attempting to identify a model of industrial development, establish their automobile industry, and promote industrialization.

After Southeast Asian countries had become independent, their automobile industries underwent establishment and development stages. In the twenty-first century, the domestic and overseas competitiveness of the automobile industries in Association of Southeast Asian Nations (ASEAN) have received global attention. According to Table 1, regarding the foreign trade of ASEAN countries between 2000 to 2010, vehicle exports and imports have increased by 47.4% and 12.4%, respectively. In addition, domestic trade in ASEAN countries has grown rapidly; from 2000 to 2010, the vehicle exports and imports increased by 77% and 94%, respectively. Trade growth has stimulated the development of various industries in these countries. In particular, in the ASEAN Economic Community (AEC), tariff reduction has driven the prospective development of automobile industries in this region.

Table 1 Value of vehicle imports and export in Thailand, Malaysia, Indonesia, and the Philippines (2000, 2005 and2010) Unit: US$1 million

	2000	2005	2010	GROWTH RATE%
DOMESTIC TRADE				
EXPORTS	1.06	4.88	9.22	**77.0**
IMPORTS	0.80	3.98	8.33	**94.1**
FOREIGN TRADE				
EXPORTS	3.33	9.10	19.13	**47.4**
IMPORTS	9.55	14.02	21.36	**12.4**
DATA SOURCE: STATISTICAL DATA SETS OF *ORGANISATION INTERNATIONALE DES CONSTRUCTEURS D'AUTOMOBILES* (OICA) AND WORLD TRADE ORGANIZATION (WTO) ABOUT VEHICLE IMPORTS AND EXPORTS, HTTP://STAT.WTO.ORG/STATISTICALPROGRAM/WSDBSTATPROGRAMTECHNOTES.ASPX?LANGUAGE=E(2015/9/1)				

The question is which of these ASEAN countries has achieved the strongest automobile industry performance. Tables 2 and 3 show the performance of automobile businesses in four ASEAN countries for the 1990 to 2010 period. The tables show that Thailand, with Japan as a foreign investor, has demonstrated the strongest performance in trade and production among these four ASEAN countries. Although Malaysia's trade transactions have been less than Thailand's and Indonesia's, Malaysia is the only country among these four countries to own a local automobile brand. Indonesia intends to follow Thailand's model of liberalizing automobile businesses; in addition, Indonesia has attempted to establish its national brand. Regardless of production or trade imports and exports, Indonesia's automobile industry is weaker than that of Thailand and Malaysia. The Philippines does not have a clear goal for industrial development, and its production and trade volumes are less than those of the other three countries are.

Table 2 Value of automobile manufacturing and vehicle imports and exports in Thailand, Malaysia, Indonesia, and the Philippines (1990–2010)

Trade growth rate (%)						Trade value			
		1990	1995	2000	2010	1990-2000	2000-10	1990-95	1995-2010
Thailand	Exports	0.11	0.49	2.42	18.7	210	67.3	69.1	247.8
	Imports	2.65	5.18	2.08	8.54	-2.2	31.1	19.1	4.3
Malaysia	Exports	0.12	0.28	0.31	1.33	15.8	32.9	26.7	25
	Imports	1.31	2.79	1.83	5.76	4	21.5	22.6	7.1
Indonesia	Exports	0.02	0.13	0.37	2.55	175	58.9	110	124.1
	Imports	1.52	3.14	1.87	5.56	2.3	45.6	21.3	5.1
The Philippines	Exports	0.02	0.22	0.58	1.82	280	21.3	200	48.5
	Imports	0.54	1.54	0.97	2.57	8	16.5	37	4.5
Source: Statistical data sets of OICA and WTO about vehicle imports and exports, http://stat.wto.org/StatisticalProgram/WSDBStatProgramTechNotes.aspx?Language=E(2015/9/1)									

Unit: US$1 million

Table 3 Production and manufacturing in Thailand, Malaysia, Indonesia, and the Philippines (1980–1995 and 1995–2010)

Unit: US$1 million

	Year				Growth rate (%)		
	1980	1995	2010	2014	1980-95	1995-2010	2010-2014
Malaysia Sales	9,762	285,792	605,156	666,465	12.9	7.4	30.5
Production	104,227	288,338	567,715	596,600	11.8	6.4	14.37
Thailand Sales	89,201	547,758	800,357	881,832	34.3	3.1	40.53
Production	73,985	525,680	1,644,513	1,880,007	40.7	14.2	117.16
Indonesia Sales	212,000	384,000	764,710	1,208,019	5.4*	6.6	220.55
Production	174,700	388,000	702,508	1,298,523	8.1	5.4	296.52
The Philippines Sales	70,000	128,162	170,216	296,492	4.9**	2.2	62.82
Production	41,900	127,016	65,625	-	13.5	-3.2	-

Source: Richard F. Doner and P. Wad, "Financial Crises and Automotive Industry Development in Southeast Asia", *Journal of Contemporary Asia*, Vol. 44, No. 4(2014), p. 668.

Because of the automobile industry in guiding economic development and industrialization, these four ASEAN countries hope that developing their automobile industries can facilitate industrial development; however, differences in the political and economic history, as well as the development of industry in these four countries, have led to varying results. How can the development of the automobile industries in these four ASEAN countries be understood? Do such developments have political and economic implications?

Previous studies have considered the industrial development of ASEAN countries as a whole. Researchers who advocate neoclassical economics consider that national industry typically develop according to their comparative advantage; also, market competition should be encouraged, and economic rationality should be adopted to optimize resources allocation (Balassa 1982; Bhagwati 1988, pp. 25-27). Scholar has even proposed a slogan" The End of History" (Fukuyama 1992).

However, neoclassical economics has fueled much discussion (Chu 2001, 67). Some researchers have indicated that slow economic development is related to market and international factors; economic development in developing countries has not been based on the principles of a free market (Zysman 1995, pp. 1-3; Doherty 1995, pp. 1-3; Jomo 2007, pp. 461-508). For example, regarding the concept of developmental state proposed by Japan, Johnson considered that the rapid development of East Asian countries after World War II was related to these countries' strenuous efforts to improve their economy (Johnson 1982; Kumon 1972, pp. 109-141; Rosovsky 1972, pp. 109-141). In addition to the theory of developmental state, dependency theory and dependency development theory(Doner 1991; Jenkins 1991, pp. 625-645), structure theory(Crouch 1986; Robison 1992; Robison 1986), institutional theory(Chang 1994), and government–business relations(Laothamatas 1992; Maclntyre 1991; Haggared 1998, pp. 78-104) differ substantially from neoclassical economics (these are referred to as the development school of economics hereafter).

Since the 2000s, international systems have developed a division of labor system in global production and manufacturing; consequently, developing countries have faced problems with industrial liberalization and protection removal(Wade 2003, pp. 621-644). These theoretical debates have overlooked the specific historical conditions and issues about global industrial innovation (Hill 2004, pp. 354-394). In addition, the development model for East Asian countries does not necessarily suit Southeast Asian countries (Jomo 2007A; Jomo 2000B; Stiglitz and Yusof 2001). In reality, since the 1997 Asian financial crisis, the political and economic environments of Southeast Asian countries have changed substantially. The aforementioned theoretical debates are mostly focused on the pre-financial crisis period and do not provide a comprehensive comparison. These theoretical limitations should be viewed from a different research perspective.

In the present paper, the long-term strategies of Malaysia, Thailand, Indonesia, and the Philippines in developing their automobile industries are analyzed and summarized. First, the political and economic characteristics of each country are analyzed from the perspective of the development of each country's automobile industry specifically between 1960 and 1997 (when the Asian financial crisis occurred). This period is referred to as the period of globalization (Doner and Wad 2014, pp. 664-687).[2] Second, how the automobile industries in these four ASEAN countries adapted to globalization is discussed. Finally, we offer a conclusion by our analysis.

The Political Economy Background of the Automobile Industry in ASEAN: the State, Government–Business Relations and Foreign Investment

1. The State

A. Malaysia

Malaysia appears to be a successful case that follows the development school of economics. After an incident of political violence on May 13, 1969, which occurred following the 1969 election, the state led by Malays adopted a new economic policy promoting industrialization as a

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[2] The beginning of globalization typically refers to the year of 1994 when WTO was founded. In this study, the 1997 financial crisis was used as a cutoff point because of the following considerations: (a) The financial crisis forced various countries to adjust their industrial policies. (b) After the financial crisis, ASEAN countries began to transform their political and economic structures. (c) After the financial crisis, the ASEAN announced the 1999 Hanoi Declaration in declaring that ASEAN countries would intensively integrate the region and accelerate trade liberalization.

characteristic of Malaysia's industrial development. The new economic policy not only changed the political and economic structure of Malaysia during its early independence period but also depoliticized the economic structure through legalized economic development (Tan 1992,pp. 208-305). The government implemented an economic policy to enable national power to influence various social classes; the Malay government regulated economic development to maintain its ruling power (Ho 1988).

In the 1990s, Malaysia's longest-serving prime minister, Mahathir bin Mohamad, promoted heavy industrialization to stimulate the national economy. Mohamad assisted the Heavy Industries Corporation of Malaysia in developing and implementing national heavy industrial projects and the Industrial Master Plan (IMP) to stimulate domestic automobile production. Mohamad intended to improve the situation in which most businesses were owned by Chinese capitalists. Through industrial adjustment (i.e., the plan to manufacture domestic vehicles), Malaysia's social structure was reorganized; the automobile industry was transformed from a parts assembler to an exporter of domestic vehicles. Since then, the automobile industry was considered as Malaysia's most strategic industry, which was crucial for achieving the 2020 target of establishing a national car brand in Malaysia.

Under the new political-economy structure, Malaysia created the only national car brand (i.e., *Proton*; *Perusahaan otomotif*) in ASEAN countries. Through the creation of a national brand, Proton covered approximately 45% of the domestic market. In 1997, Proton acquired British Lotus Cars. Before this, a second domestic car company, Perodua, was founded in October 1992 and received considerable national support. This company created a large-scale vehicle parts market. In the 1990 period, Proton Cars had 350 suppliers, had invested MYR4.6 billion, and employed 30,000 people.[3]

Malaysia continued to protect the automobile industry but did not consider whether the industry was adequately self-reliant. In addition, related manufacturers relied heavily on the government and required national protection because domestic cars did not incline to minimize their costs. Woo-Cumings argued that industries that rely on national protection and do not seek industrial transformation are indicative of crony capitalism; moreover, countries that provide national protection to certain industries are not in an East Asian developmental state (Woo-Cumings 1999, pp. 1-31).

B. Indonesia

Among the four ASEAN countries discussed in this paper, Indonesia was the first to develop its automobile industry. In 1929, General Motors founded the first assembly factory in Java. Indonesia had a large domestic market and excellent advantages over industrial development.

When Indonesia achieved independence, the country's first president, Sukarno, implemented nationalization and localization (*Pribumi*)

[3] "How is the automobile industry in Malaysia?" in *China Automobile News*, June 3, 2002, the third section

policies on the basis of economic nationalism and confiscated enterprises originally owned by former colonists (Soong 1996, pp. 279-282). After National Vehicle Indonesia Service Company was founded, the automobile industry became crucial for promoting economic nationalism and establishing an aboriginal capital. During the New Order period after 1965, the automobile industry alternated between protectionism and the free market; no complete industrial plan was developed.

As Malaysia developed its plan for promoting domestic automobiles, Indonesia began to promote a similar plan in 1994 because of economic nationalism. In contrast to Malaysia, Indonesia's plan was not aimed at heavily industrializing Indonesia, but to justify the corruptive behavior of the Suharto family. Various WTO member countries complained about the domestic automobile plan; in addition, because of a proviso for assistance from the International Monetary Fund (IMF) following the 1997 Asian financial crisis, Indonesia's automobile market became an open market.

Regarding Malaysia's government-led industrial development, some researchers have analyzed the government's determination to develop an industry on the basis of the will to develop, and Malaysia and Indonesia plans to promote their domestic vehicle markets have been compared from this perspective. The goal of Malaysia's automobile industry was clear: to develop a national brand through national protection in order to establish national confidence, which served as a basis for formulating industrial and trade policies. For example, import permits, tariff protections, and national investment were promoted to encourage industrial development (Tai 2008,53-76). Enterprises were supported with national resources, thereby facilitating developing international brands (Chu 2011, p. 248).

Malaysia endeavored to develop its national brand; however, Suharto's slogan "developing a national economy" was aimed at benefiting Suharto's personal interests. During the New Order period, automobile policies in Indonesia alternated between open a market economy and nationalism. This is why the foundation of the automobile industry in Indonesia was not as solid as that in Malaysia.

D. The Philippines

In the 1950s, the Philippines were an economic power in Asia and had a large domestic market, which served as an excellent foundation for industrial development. On July 4, 1946, the Philippines achieved independence from the United States. The Roxas, Quirino, Magasaysay, Garcia, Macapagal, and Marcos (who became the president in 1965) administrations had adopted an import substitution strategy to protect national industries, enhance the industrialization level, and reduce import dependency. Because of this strategy, the Philippines' economy was the fastest growing in Southeast Asia, and its industries developed successfully in the early period of independence.[4]

[4] In East Asia, the level if industrialization in the Philippines in 1950 was second only to Japan.

The Philippines began to develop its automobile industry in 1960; subsequently, the country continued to implement new policies. In the 1980s, local automobile businesses closed down because of foreign exchange crisis when happening in 1983. At the end of the Marcos era, the government could not control the used vehicle imports, which had a negative influence on local automobile businesses. In brief, the Philippines did not take issues related to the automobile industry seriously, and local automobile businesses became uncompetitive because of the import substitution strategy. Although local automobile businesses strived for success, the industry exhibited slow growth because of the limited size of the domestic automobile market and overproduction. The sales volume of used vehicles was more than twice that of new vehicles. Accordingly, multinational companies were discouraged from investing in establishing factories in the Philippines (Xu 2012).[5]

The Philippines appears to have missed its opportunity to develop an automobile industry. When other Southeast Asian countries actively promoted an export orientation for their automobile industries in the 1980s, local capitalists in the Philippines controlled the economy and the import substitution strategy, which researchers have referred to as "booty capitalism," limited the country's industrial transformation (Hutchcroft 1998). Because of the limitations of a local capitalistic structure, the Philippines were unsuccessful in implementing its proposed industrial policies.

D. Thailand

Similar to the Philippines, Thailand was a weak country with a strong sense of community (Doner 1988, p. 1561). Although the Thai government was a military-led government, the government did not have strong control in leading its industries because of frequent coups.

In 1980, Prem Tinsulanonda gained support from the military and civilians and became the country's prime minister, and Thailand's political situation was relatively stable for the next eight years. In 1988, Chatichai Choonhave, a scholar, became the prime minister and led Thailand in transforming a war-torn region into a commercial market (Bunbongkarn 1996, p. 27). At the end of the Cold War, like other countries, Thailand considered economic development crucial and formulated economic development strategies. After the country had democratized, businesses began sending representatives to political parties, the parliament, and the cabinet, and these lobbyists became involved in political decision making. In contrast to Suharto in Indonesia, Mohamad in Malaysia, and Marcos in the Philippines, Thailand's political leaders did not have highly centralized leadership structure (Doner 1988,p. 1561). Because of this special structure, Thailand's industrial policies were oriented toward liberal corporatism (Laothamatas 1992).

The government of Thailand continued to influence the country's

[5] Ford Motor Company closed down its factories in the Philippines at the end of 2012.
Ford Motor Company indicated that its factories closed down because of no supply for automobile parts and no cluster effect.

domestic automobile industry. Latin American countries relied on foreign investment to develop their economy; accordingly, many businesses were forced to merge with or were acquired by multinational companies (Amsden 2003). In Thailand, local capitalists were responsible for production and learning; consequently, were counter to the prediction of dependency theory. As indicated by Doner, although Thailand's industrial policies were effective in attracting foreign investment and supported the connection between multinational companies and local capitalists in the 1980s, the government maintained its independence and assisted with the communication between local capitalists and multinational companies to expand the market and improve technology (Doner 1988, p. 1561). The private sector played a crucial role in Thailand's industrialization, with the government acting as a facilitator (Ikemto 1992, p. 172).

2. Government–Business Relations

A. Malaysia

Government–business relations in Malaysia and Indonesia influenced the development of their automobile industries. In Malaysia, such relationships mainly benefited specific ethnic and racial groups. According to the new economic policies implemented by the Mohammad administration, protecting the automobile industry was imperative to protect the interests of various ethnic groups.[6] Regarding the ownership structure of Proton, most shareholders were Malay business groups.[7] To protect their interests, the social benefits of the domestic car plan were considered more crucial than the profits gained by businesses. Therefore, although the management of domestic car businesses was unsatisfactory, the government continued to assist domestic car manufacturers.

Automobile businesses in Malaysia were notorious for the approved-permit system. In Malaysia, all vehicle imports required an approved permit. This system was implemented to protect assembly factories in Malaysia and to enable Malay enterprises to import and sell vehicles. Holding an approved permit was equivalent to having a quota of vehicle imports; accordingly, an approved permit meant a profitable privilege. Malaysia *Sin Chew Daily* reported on enterprises that had obtained an approved permit through their favorable relations with the government.[8] The protective industrial

[6] Before Proton was founded, Japan-based car manufacturing groups and Chinese people had majority control over the automobile assembly industry; Malays sold cars only for downstream businesses. However, after the domestic car plan was developed, the structure of share ownership changed. Regardless of the new economic policy or national heavy industrial plan, automobile businesses and related automobile parts businesses were required to meet national requirements and to encourage Malays to invest.

[7] For information on the ownership structure of Proton, please refer to "A political and economic analysis of rent-seeking theory and the automobile industry in Malaysia" by Dai, W. P., published in *Chinese Association of Political Science* in September 2007 at the Department of Public Policy and Management, I-Shou University, Kaohsiung.

[8] *Malaysia Sin Chew Daily* listed ten enterprises that held an approved permit in 2005.

policy became one of political favoritism related to the allocation of profits.

B. Indonesia

The relationship between each former president in Indonesia and businesses influenced the development of its automobile industry. Since the 1950s, the national automobile assembly factory led by the government was highly powerful; the person in charge was called the king of cars and maintained a close relationship with Sukarno. The main job of all automobile manufacturers was to obtain distribution rights for import vehicle licenses(Chalmerd 1994, 17); capitalists were relatively unconcerned about production technology(Hansen 1971, 57-58). To protect corporate interests, most companies established favorable relations with Suharto. Many companies with excellent government–business relations cooperated with Japan and had their products included in the government's protection list (Chalmer 1994, pp. 25). In brief, the industrial policy related to the reduction plan appeared to facilitate the development of local automobile businesses; however, this policy was the ruler's excuse to develop government–business relations (Chalmer 1994, 25).

Another example was that Suharto proposed the pioneer program in 1996. According to this program, the government could grant the status of "pioneer" to local companies whose capital, equipment, and technology achieved a certain standard; in addition, these companies were exempted from consumption taxes and import tariffs. However, this program was revealed to be protecting a company owned by Tommy Suharto, the son of President Suharto. The industrial structure was determined by government–business relations and thus could not be improved. Researchers have considered Indonesia's automobile industry an unindustrialized industry(Aswicahyono 2000, pp. 209-241).

C. Thailand

In Thailand, government–business relations were crucial (Chen 2008). However, government–business relations had no influence on the automobile industry. The reason is that Chinese businesspersons in Thailand did not pay much attention to industries related to automobile manufacturing.[9]

D. The Philippines

Former leaders of the Philippines announced plans to develop the country's automobile industry; however, their attempts were unsuccessful. Other East Asian countries had adopted an import substitution strategy to protect their manufacturing industries, as well as export discipline to force the manufacturing industry to sell domestic products and increase its international competitiveness (Studwell 2014). The Philippines should have followed other East Asian countries in capitalizing on the opportunity to transform the import substitution strategy into an

http://www.sinchew-i.com/special/aplist/index.phtml?sec=723&artid=200507190274(2007/3/31)

[9] Chia Tai Group in Thailand did not cooperate with Faw-Volkswagen Automotive Co. Ltd in Shanghai, China, in producing MG cars (a British brand) in Thailand until 2014.

export-orientation strategy. However, local capitalists in the Philippines (e.g., landlords, urban elites, and Chinese businesspeople) focused on the import substitution strategy and had no intention of transforming their focus from agricultural production to industrial manufacturing; the government lacked the capital to lead heavy industrialization. Such political and business structures hindered industrial progress in the Philippines.

3. Foreign Investment

A. Malaysia

To manufacture cars, the heavy industry group in Malaysia chose to cooperate with Mitsubishi Motors and limited other foreign investment. However, in the late 1990s, the automobile industry in Malaysia began to decline (Wade 2003,p. 8) because it did not cooperate with foreign investors or be linked with international businesses. Although the Tan Chong Group cooperated with foreign investors to assemble Nissan and Renault cars, the government controlled the development of the automobile industry. Rosli and Kari found that under national protection, local manufacturers and automobile parts businesses had no opportunity to communicate with international assembly factories, resulting in automobile businesses in Malaysia becoming uncompetitive(Rosli and Kari 2008,103-118).

B. Indonesia

During the New Order period, Japanese automotive MNCs(Multinational Enterprises) injected capital into local businesses (i.e., Chinese businesses) to evade policy controls and operate in Indonesia. The Astra Group leveraged its relations with Suharto to obtain a license under the guise of promoting local business. However, the assembly factory was a joint venture of Astra Group and Toyota(Chalmers 1996, 31; Audet and VanGrasstek 1997,pp. 220-221). Japanese automobile manufacturers cooperated with local automobile manufacturers to expand the overseas market, which is why Japanese MNCs continued to monopolize Indonesia's automobile industry.[10]

C. Thailand

Thailand is willing to cooperate with MNCs and is an example of development-by-invitation. Thailand's automobile industry began developing at the later stage of the development of the ASEAN automobile industry. However, Thailand was not under pressure to remove a colonial economy. When the Plaza Accord in 1985 forced the Japanese yen to appreciate against the US dollar, Japanese automakers were forced to move overseas to minimize production costs; Thailand became the first investment choice for Japanese MNCs (Rasiah 1999; Lim 2006,p. 8). Through cooperation with foreign investment, a specialized supply chain system formed in Thailand's domestic automobile manufacturing industry. Researchers have argued that this be why Thailand became the hub of Southeast Asia's automobile manufacturing industry(Kohpaiboon 2007,p. 8). Because of large investment

[10] For information on how local funds and foreign capital were jointly used to acquire the government's protection during this period, please refer to Chalmers (1996).

projects, the manufacturing growth rate in Thailand between 1990 and 1994 was ranked highest in the world (Fujita 1998, p. 154).

Despite the 1997 Asian financial crisis, Thailand did not limit the level of foreign investment. Conversely, the 1999 Foreign Business Act promoted foreign investment and allowed foreign investors to hold 100% of shares in subsidiary companies in Thailand. In addition, foreign investors were encouraged to purchase factories on the verge of bankruptcy. This approach solved the overcapacity problem caused by the shrinking domestic market through increasing exports. In addition, liberalization measures allowed foreign investors to gain profits rapidly; accordingly, foreign investors were very willing to enter Thailand's market.

D. The Philippines

Among the four ASEAN countries, the Philippines were the least active in utilizing foreign investment. During the Marcos era, the Philippines attempted to use foreign resources to develop its national economy and borrow funds from the World Bank and Asian Development Bank. In the 1980s, the Philippines founded the Board of Investment to attract foreign investment. However, the purpose of foreign investors was mainly to finance domestic capitalists rather than facilitate industrialization through what dependency theory refers to as a triple alliance. Marcos often purchased and nationalized large enterprises in the name of national development, which was a deterrent to foreign investment.

At the end of Marcos' presidency, the import substitution policy remained in effect; in addition, the United States dominated the market; accordingly, because of a lack of funds, the Philippines had to loan funds from other countries (Bello, Guzman and Malig 2004). The Philippines was under considerable pressure because the country accumulated a large amount of foreign debt and was, therefore, unable to invest in basic industries. When the Philippines' foreign debt became high, Japan relocated its automobile industry to Thailand. Compared with Thailand, the political situation in the Philippines was more unstable, and the economic market exhibited slower growth.

Adjustment and Transformation of ASEAN Automobile Industry under the Global Framework

In 1990, ASEAN countries were confronted with globalization and regional integration. Because MNCs encouraged cross-border investment and world trade had grown substantially, the industrial structure in various countries changed considerably. Cooperation among automobile businesses was an essential item in the ASEAN Industrial Cooperation Scheme. When the AEC was formed in 2015, international automobile manufacturers restructured their businesses globally. Determining how to develop industries in various countries has been a considerable challenge. The question is how did these four ASEAN countries systematically adjust their markets worldwide?

(1) Malaysia

Among the four ASEAN countries, Malaysia's automobile industry was the most protected (Wad and Govindaraju

2011,pp 152-171).[11] The success of the automobile industry in Malaysia at the early stage was largely due to the protection policy. Resistance to industrial liberalization had a strong influence on industrial liberalization. Malaysia proposed the Malaysian Scenario and temporarily excluded automobile assembly and vehicle imports from common effective preferential tariffs (CEPT) without removing tariff protection mechanisms. Malaysia continued to leverage an excise duty and therefore violated the ASEAN Free Trade Agreement.[12]

Using approved permits to restrain automotive imports is considered a violation of free trade. The facilitator of industrialization in Malaysia, Datuk Seri Mahathir Bin Mohamad, who was a consultant for Proton, followed economic nationalism and refused to cancel the approved-permit system.[13] To confront liberalization, the development of Malaysia's automobile industry was focused on political considerations instead of economic benefits (Doner and Wad 2014,pp. 681-682).[14] The protection policy facilitated developing the automobile industry and promoting resource centralization, but failed to promote innovation in Malaysia's domestic automobile industry. High costs and the small scale of businesses resulted in inefficient resource allocation. Industrial survival and preventing foreign cars from dominating domestic markets were driven by political and economic interests; consequently, reforms could only be achieved at a slow pace.

(2) Indonesia

After the 1997 financial crisis, the IMF required all interventionist industrial policies to be discontinued before it would provide economic assistance(Nag, Banerjee and Chatterjee 2007, p. 26 and p. 41). Accordingly, recent industrial developments have been focused on market liberalization. In 1999, Indonesia proposed the 1999 Automotive Policy Package, signed the Trade and Investment-Related Guidelines, and incorporated the automobile industry in the Inclusion List of ASEAN Free Trade Agreement to reduce tariffs on vehicle imports. In 2002, the CEPT was imposed, and vehicle import tariffs were lowered to less than 5%. Among the ASEAN countries, Indonesia's market was liberalized the most rapidly. Because of market liberalization and domestic demand, manufacturers from various countries worldwide entered Indonesia's automotive market, creating

11 Wad described the automobile industry in Malaysia as an unwilling liberalizer (Wad and Govindaraju 2011).

12 In 2007, negotiations between the United States and Malaysia regarding FTAs and auto tariffs were a crucial subject. US automobile manufacturers hoped to manufacture cars in Malaysia. Malaysia imposed a 10% import duty and 80%–200% excise duty on cars imported from non-ASEAN countries. The United States hoped that Malaysia would cancel these types of taxes.

13 http://www.sinchew-i.com/special/aplist/index.phtml?sec=723&artid=200510142558 （2006/11/20）

14 Certain researchers have considered that, compared with Thailand, Malaysia has abundant natural resources to back national income, protect Malays' interests, and withstand the financial pressure to a higher degree.

an inflow of foreign investment. Since 2013, the automobile industry has attracted a large amount of foreign investment, accounting for 25% of all foreign investment in Indonesia.[15]

Despite the high domestic demand and increasing foreign investment, knowledge and production technologies in automobile manufacturing were outdated(Banerjee and Chatterjee 2007, 26). MNCs were focused on exploiting the domestic market rather than developing a regional research and development (R&D) center. Japanese MNCs factories controlled automotive parts production and local companies only provided automotive parts according to contracts. Critical automotive parts were typically imported, rendering industrial development stagnant. Compared with in Thailand, the performance of Indonesia's automobile industry was unsatisfactory and failed to meet the standards of the international market. Consequently, the automobile industry in Indonesia was completely knocked down and lacked international competitiveness (Soejachmoen 2011,pp. 41-42).

(3) Thailand

The financial crisis crippled Thailand's automobile industry, resulting in an abrupt drop in market demand, and the government of Thailand chose to continue with its liberation policy. After the 1997 financial crisis, Thailand allowed foreign investors to hold 100% of shares of subsidiary companies in Thailand. Major multinational companies gradually selected Thailand as their automobile production base. They adopted several industrial strategies.

First, in 1998, one 5-year economic development plan was formulated with the objective of transforming Thailand's automobile industry into the automobile manufacturing center of Asia and using domestic supply chains to enhance the benefit of automobiles.[16] Second, during the 1997 financial crisis, many of Thailand's automobile parts factories were on the verge of bankruptcy. The 1999 Foreign Business Act promoted foreign investment, allowed foreign investors to hold 100% of shares of subsidiary companies in Thailand, and motivated foreign companies to acquire factories facing bankruptcy. Third, multinational companies with sole proprietorship were founded.[17] Fourth, the domestic manufacturing system was specialized, with foreign investors controlling assembly companies and local capitalists supplying parts (Office of Industrial Economics 2006, p. 19). Also, according to the Free Trade Agreement among Thailand, Australia, New Zealand, and India, taxes on automotive parts were reduced; automotive parts

15 Refer to Indonesia Investment Coordinating Board (BKPM) website of Indonesia's National Bureau of Statistics, http://www7.bkpm.go.id/(2014/11/28)

16 "Master Plan for Thai Automotive Industry," refer to http://www.oie.go.th/policy7/Mplan/Auto/MP_Ex_Auto_en.pdf。(2010/08/01)

17 To join the WTO, Thailand had to sign the Agreement on Trade-Related Investment Measures (TRIMs). According to the TRIMs, the automotive market should cancel the origin requirements and allow a 5-year grace period for developing countries. According to this timeframe, Thailand began to relax its origin requirements in 1997 and lifted them in 2000.

were included in the negotiation list for the bilateral free trade agreement between Thailand and China.[18] In 2008, Thailand proposed the Vision 2020 solution, which included the automobile industry in the investment promotion program for the five major industries, to attract foreign investors.

(4) The Philippines

Because of the financial crisis, domestic consumer markets in the Philippines began to decline, automobile assembly factories began to downsize, and the automobile manufacturing industry entered a slump. In 2002, the government proposed the motor vehicle development program to reduce taxes and attract investment, hoping to promote Philippine brand vehicles (Trade Union Congress of the Philippine 2014). Subsequently, President Benigno Simeon Aquino III proposed the Philippine Manufacturing Industry Roadmap, which was aimed at industrializing the automobile industry, and called his goals "Vision 2022" in an attempt to solve the problem of Filipinos seeking job opportunities overseas by providing job opportunities in the domestic manufacturing industry.

A lack of foreign investment hindered industry localization. When international automobile manufacturers restructured their global deployment of businesses, the automobile industry in the Philippines was marginalized because of manufacturers establishing their factories in emerging countries and entering markets in various countries through their huge factory capacity, cost advantage, and trade liberalization. Accordingly, imported cars became cheaper than domestic cars, thereby reducing domestic industrial competitiveness.[19] In response to the integration of regional economy, multinational companies concentrated their production bases in Thailand and closed down their factories in the Philippines. Only Ford Motor Company attempted to establish an automobile manufacturing center in the Philippines; however, they eventually closed down their production line. The Philippines failed under the framework of free trade.

(5) Investment Strategies of MNCs in ASEAN

According to ASEAN Brochures published by the Japan Automobile Manufacturers Association (JAMA), Thailand was the first choice for Japan to transfer its technology and to develop human resource training programs. In recent years, Indonesia has also attracted human resource training plans but lacked technology transfer. In

18 "Master Plan for Thai Automotive Industry," refer to http://www.oie.go.th/policy7/Mplan/Auto/MP_Ex_Auto_en.pdf(2015/08/01)

19 Philippine Automotive Competitiveness Council compared the costs of vehicles manufactured in Thailand and the Philippines: the assembly costs in The Philippines (16%) were higher than those in Thailand (13%); 49% and 23% of automotive parts were produced in Thailand and the Philippines, respectively; the production costs in Thailand was lower than those in the Philippines by 14%. Refer to PACCI, "Expectations and Aspirations of the Philippine Automotive Manufacturing Industry", http://pacci.ph/expectations-and-aspirations-of-the-philippine-automotive-manufacturing-industry/(2014/2/20)

Malaysia, certain foreign manufacturers have transferred their technology to local manufacturers because of Malaysia's independent development strategy. Japanese MNCs did not transfer their technology or develop human resource training plans in the Philippines (Table 5).

Table 5 Japanese MNCs technology transfer and human resource training programs in the automobile industry of ASEAN countries (post-2005)

	Technology transfer	Manpower training
2005		● Toyota: Thailand
2006		● Nissan: All ASEAN countries
2007	● Honda: The Philippines ● Nissan: Thailand	● Honda: Malaysia
2008	● Mitsubishi: Malaysia	● Nissan: Indonesia, Malaysia, Singapore ● Fuji heavy industry: Singapore
2009		● Toyota: Thailand
2010	● Isuzu: Thailand	● Nissan: Indonesia
2012	● Daihatsu: Indonesia	● Daihatsu: Indonesia
2013	● Daihatsu: Malaysia	● Honda: All ASEAN countries ● Mitsubishi: The Philippines ● Suzuki: Indonesia ● Toyota: The Philippines ● Toyota: Thailand
2014	● Mitsubishi: Thailand	● Mitsubishi: The Philippines ● Toyota: Indonesia

Source: ASEAN Brochures published by the JAMA, refer to http://www.jama-english.jp/asia/publications/index.html (2015/9/10)

According to Table 6, between 2010 and 2014, investment events in the region mainly occurred in Thailand and Indonesia. Indonesia accepted both factory investment and technology investment, and hence its domestic market attracted Japanese MNCs. Comparatively, the Philippines were disadvantaged.

Table 6 Major investments by Japanese MNCs in ASEAN countries (2010–2014)

Unit: the number of cases

	Thailand	Malaysia	Indonesia	The Philippines
Factory investment	4	3	5	*
Technology investment	*	*	2	*

Source: ASEAN Brochures published by the JAMA, refer to http://www.jama-english.jp/asia/publications/index.html (2015/9/10)

According to Table 7, Japan invested mostly in Thailand and Indonesia than others. In addition, most of Japan's new investments were in Indonesia. However, Thailand had a larger workforce compared with Indonesia. Japan invested more in automotive parts factories in Thailand than in Indonesia. Furthermore, Thailand did not have strict rules for setting up franchises, which is why Japanese MNCs were willing to establish R&D centers in Thailand. Malaysia followed protectionism and restricted franchises operated by foreign investors. The Philippines attracted only a small amount of foreign investment, and its industry was small; after 1997, the Philippines had almost stopped developing the automotive industry. Therefore, Thailand attracted most Japanese investors, and Indonesia displayed potential for developing its automobile industry.

Table 7 Japanese investments in ASEAN automobile industries

Unit: number of companies

Item	Manufacturing and sale	Parts	R&D	The number of investment events	Holding more than 50% of shares	The number of employees	Investments after 1997	Characteristics
Thailand	14	8	3	25	17	87,174	7	Foreign investors had dominance
Malaysia	13	1	1	15	4	24,767	5	Limited dominance
Indonesia	18	6	1	25	10	54,336	13	Concentrated after 1997
The Philippines	9	4	0	13	6	7,529	1	Almost no new plan

Source: Driving Growth Towards the Future 2015 published by JAMA, refer to HTTP://www.jama-english.jp/Asia/publications/pamphlets/hand_in_hand_2015.pdf（2015/9/1）

During the Sukarno period, the assets of foreign investors were confiscated, and industrial policies were frequently changed; accordingly, foreign investors were indecisive in investment injection. Although Indonesia's automobile industry appears promising and may even be superior to that in Thailand, the level of technology in Indonesia lags that in Thailand and Malaysia (Soejachmoen 2011, p. 19).

Rethink Industry Development Theory

DiMaggio and Walter indicated that because of the uncertainty in global competition, convergence among organizations increases spontaneously(DiMaggio and Walter 1983, 147-160). The question is whether this view can be applied to the automobile industry in the four ASEAN countries examined in this paper.

Theoretically, the motivation of East Asian countries to industrialize came from their industrial development under their national crises following World War II. The East Asian countries formed an alliance with foreign investors and entered international markets; in addition, East Asian countries promoted their industrial policies and upgraded their industries (Chu 2000). Compared with East Asian countries, Thailand, Indonesia, Malaysia, and the Philippines were in a challenging situation, both politically and economically. The question is whether a new development theory for emerging countries can be constructed under the framework of globalization and on the basis of the experiences of these four ASEAN countries in developing their automobile industries according to the neoclassical economics and development school.

First, according to neoclassical economics, developing countries identify their suitable products under the market mechanism of international specialization; the role of a country has become insignificant. Neither developed nor developing countries have been withdrawn from intense global competition. Under the framework of globalization, industrial development can be categorized as a liberal market economy or coordinated market economy orientation. For liberal market economies, market mechanisms are crucial, and the government does not intervene to solve market problems; for a coordinated market economy, government offices utilize various relations and networks to solve market problems (Soskice 1999, 101-134).

Theoretically, coordinated market economies satisfy the requirements of industrial development in emerging countries because developed countries rely on MNCs to participate in global industrial specialization; in developing countries, the government plays a crucial role in industrial development. (Chu 2000) Researchers have referred to government-led economic development in developing countries and the reform of technological capabilities as national systems of innovation (Chang and Kozul 1994, 859-91; Nelson 1993). The reason for the success of Thailand's automobile industry is the government's role as a coordinator and system innovator. Relative to Thailand, Malaysia, which adopted the protectionist approach, must develop a coordinated market economy between liberalization and coordination.

Second, in the era of globalization, social systems of production are crucial. Industrial development is more than simply an economic activity—it also requires certain social conditions; in other words, social specialization is crucial for industrial development (Hollingsworth and Boyer 1997). Ruggie proposed "Embedded Liberalism" and indicated that in the era of globalization, governments must be connected with society and markets to become an industry facilitator (Ruggie 1982, pp. 379-415). Dorner also indicated that in developing countries, stagnation of industrial innovation has been due to the influence of power and interests (Doner, Hicken and Ritchie 2009, pp. 152). This view can explain the following phenomenon: Indonesia had a large domestic market and attracted considerable foreign investment in its automobile industry; however, government–business relations rendered Indonesia's government unable to connect with society and markets. Conversely, society and markets in Thailand exerted distinct functions on the automobile industry. Therefore, to transform Indonesia's automobile industry adjusting political and business structures is more crucial than formulating industrial policies.

Third, in the environment of globalization, MNCs in developed countries possess advanced technology. If developing countries do not participate in the international market, they will not learn from more advanced markets. In addition, developing countries should not ignore the new technological nationalism. MNCs operating in developed countries play a critical role in facilitating market globalization.

This is why Thailand is a successful example; however, Thailand has only positioned itself in the industrial-specialization system; the country's automobile industry has neither established a domestic brand nor changed its position in the production system. Thailand is only a follower and thus continues to differ from developed countries. Because Thailand was never colonized, automotive businesses in Thailand are satisfied with current industrial developments. Under the new technological nationalism, Malaysia and Indonesia may experience difficulties in developing domestic brands and revitalizing their national economies. The Philippines, which did not adopt economic nationalism, practically positioned itself in the automotive parts market.[20]

Fourth, Doner recently indicated that in the era of industrial revolution, the industrial transformation in developing countries depended on the desire of political leaders to promote innovation and related institutions and the structure of political arrangements (Doner, Hicken and Ritchie 2009, pp. 151-171). In discussing ASEAN, Doner indicated that domestic political economy (particularly the political account of variation and domestic political pressures) determine the system and influence long-term strategies for developing automobile industries (Doner and Wad 2014, pp. 664-687). According to the present study, "the role of the state", "government–business relations", and "foreign investment" influenced the transformation of the automobile industry in these four ASEAN countries during the era of before globalization. Malaysia was limited by national protectionism, industrial specialization in Indonesia was influenced by the political and business structure, and the Philippines had to face the transfer of foreign investment; these limitations involved the political and economic interests of domestic initiators.

This view accords with embedded liberalism proposed by Ruggie. Under the context of globalization, liberalized market economies are a common feature. However, economic development is typically embedded in the historical context of various countries, and the responses of a country promote industrial activity suitable for the political and economic system of the country (Streeck and Thelen 2005). In other words, various industrial systems have been constructed according to different political and economic systems; some industrial systems have succeeded whereas others have failed.

Finally, we discussed the ideal: the influence of the political economy on industrial intuition, as well as the influence of industrial institution on industrial activity. Although Thailand's automobile industry is a successful case, it has only comparative advantages but cannot become a natural path or

[20] Regarding ASEAN automotive parts trade, the Philippines was the only country that had a trade surplus.

transformation paradigm for other developing countries to imitate. In the international environment, different countries have their adjustment methods; thus, economic systems vary among countries. Thailand's automobile industry has not achieved the Washington Consensus and has not been liberalized completely. Malaysia has adopted a state intervention strategy according to the development school of economics; however, this strategy was not a panacea for policy development. Developing countries have difficulties in identifying best practices regarding policy.

Conclusion

In the late 1990s, the financial crisis and globalization had a substantial influenced on Thailand, Indonesia, Malaysia, and the Philippines. In this study, we compared the automobile industries of these four ASEAN countries and found that their automobile industries feature the following characteristics.

(1) Thailand was the most willing to cooperate with foreign investors for industrial specialization, and its industrial goal was clearest; political and business factors had no influence on its industrial development; its export demand was greater than domestic; in addition, Thailand gained most benefits under globalization in the AEC.

(2) Malaysia considered the automobile industry as a national industry; however, because of domestic political and economic structures, Malaysia emphasized the importance of national interests instead of market development. The powerful government that led industrial developments did not pay adequate attention to globalization and AEC regional integration.

(3) Previously, Indonesia's automobile industry was the exclusive domain of state leaders; Indonesia lacked a favorable industrial foundation, automotive parts industry, and clear development goals, and its market was prematurely liberalized. In recent years, foreign investors have favored Indonesia's domestic market; accordingly, similar to Thailand; Indonesia has liberalized its market. The automobile industry in Indonesia appeared to be thriving, and Indonesia intended to establish national car brands; however, because of domestic political economy structures, the country's production technology required improvement and industrial supply chains needed to be established.

(4) Although the Philippines intended to develop its automobile industry, the country was limited by long-term import substitution and had no clear industrial goals. Therefore, the Philippines was unsuccessful in developing its automobile

industry. In addition, regional integration forced foreign assembly factories to withdraw from the Philippines; consequently, the Philippines became an import market. In recent years, the Philippines have become exporters of automotive parts, and favorable outcomes have been reported.

Table 8 The political economy and the automobile industries in ASEAN

	Industrial features	Political economy characteristics	The role of the state	Government-business relations	The role of foreign investors	Globalization and adjustment
Thailand	Asia's Detroit; Export demand was greater than domestic demand	Lack of a powerful government	Liberalization and adjustment	Unapparent in the automobile industry	Motivating job specialization	Gradual participation
Malaysia	The only domestic brand	Ethnic Politics	Leading the industry	Ethnic preference	Selective cooperation	Delayed participation
Indonesia	The domestic market was valued.	The interests of powerful leaders led political and economic development	No consistency	Relations and licenses	Nontechnical specialization	Forced to participate (IMF conditions)
The Philippines	Specialized in automotive parts	Long-term import substitution	No clear goals	Hindering industrialization	Withdrawal from the market	Gradual participation

Table 8 summarizes the characteristics in the four ASEAN countries. Globalization resulted in similar economic developments in many countries; however, industrial developments have varied among countries. Industrial developments have been influenced by the political economy characteristics of various countries. Despite various political economy considerations and difficulties, these four ASEAN countries continue to develop their automobile industries. When conducting this research, we found that researchers should look beyond convergence theory or "learning from someone." (Hall and Soskice 2001, 36-44) As indicated by the renowned economist János Kornai, "transformation" does not mean that the economic system changes from a controlled economy to a market economy; various economic systems can be explained by comparing these economic systems.

In other words, the characteristics of economic systems can be understood through comparing the attributes of different systems(Kornai 1998). In the present comparison case, the political economy system determined the industrial development of ASEAN countries. In other words, researchers should look beyond convergence theory and consider the political economy characteristics of different countries. Through comparative research, researchers can clarify the differences in systems and policies among various countries, which is why we conducted this comparative study

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