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This article discusses the historical development of Japanese investment in Malaysia between the years 1991 and 2003. When Tun Dr. Mahathir Mohamad took over the administration, Japanese investment in the country has been growing rapidly as Japan emerged as the largest trading partner of Malaysia. The consequence of crisis with the British government witnessed by 1982 Japan’s position in Malaysia has further strengthened through the implementation of the Look East Policy. Through this policy, the Japanese management system and work ethic has been widely publicized to continue the pro-Japanese orientation. Tun Dr. Mahathir Mohamad is responsible in projecting a more positive image of Japan in the 1980s and 1990s. The focus on domestic economic growth with focus on industrial, multi-ethnic community tolerance as well as political stability becomes Malaysia’s foreign policy throughout the administration of Tun Dr Mahathir Mohamad to attract Japanese investment. Although researcher found too many previous studies on Japanese investment in Malaysia, this research will be able to complement previous studies through the collection of the characteristics of Japanese investment in Malaysia during this period for other researchers’ guidance. This study will also collect data from different sources from previous researchers. The different data will also provide new insight to the reader about the history of Japanese investments in this period.

Keywords: Look East Policy, Japan, Mahathir, Malaysia, Investment

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INTRODUCTION

Japanese investment in Malaysia has increased significantly since the liberalization of Japan’s foreign investment regulations in 1969. Prior to 1960 there were only 15 Japanese firms in Malaysia (Adam & Shauki, 2014). By 1980, that number had increased to nearly 300 firms and the number of Japanese investments in Malaysia amounted to almost 1 billion dollars. Japan also has replaced the United States as the largest foreign investor in Malaysia. Kojima (1978) states that in the 1960s and 1970s, the main factors determining the Japanese investment in developing countries was the comparative advantage (Ibrahim & Ahmed, 2014). Japan's industrial sector after the Second World War is labour-intensive. When the Japanese development pace, the cost of labour and materials also increased, and resulted in the Japanese firms began to move their operations to developing countries with more labour supply and cheaper than the capital (Ibrahim & Ahmed, 2014).

Ozawa (1979) on the other hand, stressed the importance of limited natural resources in Japan. He argued that for a country like Japan which has limited natural resources, to avoid the constraints of limiting economic growth, Japan must ensure the manufacturing of cheap raw materials from abroad through direct investment in countries with an extensive supply of natural resources. This direct investment was necessary because it has direct control over the production process and the price (Mohamed, Anuar, Jaffar, & Sham, 2014). The Japanese Government played a key role in ensuring a successful investment abroad through assistance provided such as financial assistance, assistance for infrastructure development, improve the image of Japan in developing countries after the Second World War, other assistance through organizations such as the Japanese Economic and Trade Organization (JETRO) and so on.

Between 1951 to 1979, North America, Central America and South America are the three most important places for Japanese investment, respectively represent 27 per cent, 26 per cent and 18 per cent of Japanese abroad investment. The bulk of Japanese investment in the Asian region is in ASEAN. Each ASEAN countries has attracted major investments Japan with Indonesia accounted for 64 per cent from it or 12 per cent of the total Japanese investment abroad. Japanese investments in developed countries are concentrated in the mining sector, trade and banking and insurance. In developing countries, Japanese investment are concentrated in the manufacturing and mining (Kamaly, 2014).

The patterns of Japanese investment abroad can be explained easily. As Japan is a country with limited natural resources, an important motif in the country's overseas trade was to get raw materials and mineral supply (Menon, 2014). So mining is an important field for Japanese investment in countries that are rich in mineral resources, regardless of the level of GDP per capita income of these countries. Japan has a large investment in the sectors of trade and banking and insurance in North America and Europe because it is a developed financial markets, while in developing countries, Japanese investment in the manufacturing sector was driven by cheap labour, access to raw materials and the desire to protect the local market.

Since the Plaza Agreement in September 1985, the rising cost of production in East Asia and the withdrawal of priority for duty-free products under U.S. Generalized System of Preferences (GSP) resulted in an outflow of investment from East Asia in the second half of the 1980s, especially from Japan who suffer from shortage of blue collar workers. While Japanese investment aimed at the United States and the European Union in the late 1970s and early 1980s, with a small number channeled to Southeast Asia, major changes have occurred since 1986. The endaka phenomenon witness many of Japan small companies put their operations closer to clients in the host countries. By 1990, foreign investment in Malaysia is increasingly dominated by investment from the Asia Pacific region, particularly Japan. Japanese investment in Malaysia in the early 1990s dominated by proliferation of Japan’s Small and Medium Enterprises (SME), to meet the needs of Japanese larger companies here (Hussain, 2014).

The historical development of Japanese investment in Malaysia during the era of the administration of Tun Dr Mahathir Mohamad had been touched by many previous researchers, among the important research are from Chee Peng Lim & Lee Poh Ping (1979 & 1983), J. Tann Kok Aun (1982), Mehmet...
Sami Denker (1990 & 1994), Makoto Anazawa (1994), Khadijah Md. Khalid & Lee Poh Ping (2003) and finally Fumitaka Furuoka (2007). Although researchers saw there already too much previous research on Japanese investment in Malaysia during the administration of Tun Dr Mahathir Mohamad, this research will be able to complement previous studies through the collection of the characteristics of Japanese investment in Malaysia during this period for other researchers guidance. This study will also collect data from different sources from previous researchers. The method used is based on the screening methods of the resources available at the National Archives of Malaysia and libraries.

THE HISTORICAL DEVELOPMENT OF JAPANESE INVESTMENT IN MALAYSIA

In 1992, investment proposals from Japan was Malaysia’s third largest. During this period, Japanese giant shopping stores operating in Malaysia such as Jusco, Isetan and Sogo, as well as specialized stores such as Kinokuniya, Maruzen Nihonbashi and Mori-Toys has established business partnerships with local entrepreneurs. The third waves of Japanese investment in the manufacturing sector are concentrated mainly in the electrical and electronics industry involving investment from Japan’s Multinational Corporation and Small and Medium Enterprise. It is half from the total of Japanese investment in the manufacturing sector between 1988 to 1991.

In 1990, Kumpulan PERNAS and Sogo Co. Ltd., the largest Japan’s shopping mall group, signed an agreement with Kuala Lumpur City Hall for the acquisition of a 2.96 acres land for joint venture development project in constructing a building in Jalan Raja Laut, Kuala Lumpur. PERNAS Properties Sdn. Bhd. and Sogo Co. Ltd. will carry out joint venture to develop an area of 8.67 acres into commercial complexes and residential lots. The project will be developed in 3 phase, will cover the period of 8 years.

Under the first phase, a shopping mall and the monorail will be built. Under the second phase, an office tower as high as 75 floors and 303 residential units will be developed. It also will house a large hall and a cultural museum (Yokoyama, 2014). The third phase will see the development of a hotel with 515 rooms, parking to accommodate about 3,050 cars and a city air terminal. This shopping mall, which is expected to operate in 1992 will be handled by SOGO PERNAS Sdn Bhd, PERNAS will hold 30% equity with the rest held by SOGO. While the joint venture in the ownership and operation of commercial complexes is nothing new for PERNAS SOGO, for the complex it is the largest of its foreign operations. In addition to operate branches in Japan, SOGO through own efforts and a joint venture with local partner has set up branches in Taipeh, Bangkok, Singapore and Jakarta.

Japanese automobile firm, Daihatsu do joint venture with Perodua in 1992 to produce vehicles with lower horsepower than the Proton. As a result, Perodua Kancil was released in 1994. Japanese investment continue to be at the highest level around the year 1991-1992 when a large number of Japanese large firms mainly chemical and electronic corporates develop big export-oriented investment projects in Malaysia. Japanese investment from 1993 still show signs of not declined as Japanese Mutinational Corporation investment increased in Malaysia.

However, although the number of Japanese manufacturing projects approved was maintained at a high level, but the amount of capital investment is low compared with 1990-1991 which reached the level of peak due to two factors. First, the increasing of interest and confidence of Japanese companies that already invests in Malaysia to earn profits in their operations. This has led to the expansion of their firms as well as diversifies the firms’ projects. Second, the number of Japanese investors affected by the Small and Medium Enterprise in manufacturing has increased since five years previously. Most of the Small and Medium Enterprise investor are vendors are already doing business in Malaysia and in the ASEAN region. With respect to Japanese investment based on the type of industry, approximately 78% of Japanese investment channelled into five industrial sectors, namely electrical and electronics, chemical, chemical production, natural gas, metal production, manufacture of non-metal material, as well as the production of wood and wood products.
Seeing the positive trends of Japanese entry to Malaysia, Perwira Habib Bank (PHB) established the Japanese Desk in September 1991. It is placed under the Corporate and International Banking Department with the objective of providing services required by the Japanese entity in Malaysia. It will also provide consultancy services. To support and develop Japanese business, the Japanese Desk PHB has established close ties with several Japanese banks, like Mitsubishi Bank Ltd., Tokai Bank Ltd., Long-Term Credit Bank of Japan Ltd., Kyowa Saitama Bank Ltd. and Bank of Tokyo. A close relationship with the Government of Japan also made, and non-governmental organizations in Japan such as JACTIM, JETRO, JICA and Japan Overseas Co-operation Volunteers (JOVC) that will strengthen the image of PHB in Japanese companies.

Until the year 1999 Proton and Perodua dominate 75% of domestic demand in passenger car and continues to dominate when Malaysia is at the peak of the Asian financial crisis in July 1998, with the number of vehicles request decline by 80%. Based on political stability, foreign and local investments in socio-economic development programmes, especially infrastructure, education and policy liberalisation to attract foreign investment and encourage exports, Malaysia in the 1990s had entered the stage of take-off when the manufacturing and industry sector played a major role in the industrialisation process. A study of JETRO in 1992 states the encouragement for Japanese companies to invest in Malaysia. Local market share is the main motivation, followed by demand for supply by Japanese producers, export to third world countries and the availability of suitable labour force. The local market share including supply for Japanese manufacturers and wholesalers, with supply for Japan itself is more important.

Japanese businessman, most of which reside in Malaysia for a period of 3 to 6 years, supported by institutions such as Japanese Chambers of Commerce, Japan External Trade Organization, the Japanese Club and the Japanese School of Kuala Lumpur (Kuara Runpuuru Nihonjin Gakkoo). These institutions are closed to non-Japanese even though the Japanese club women group run a very popular bazaar every year at Young Women's Christian Association of Malaysia (YWCA). As a support to the growing Japanese society, structural changes in the patterns of Japanese direct investment and an increasing number of Japanese tourists since endaka, the 1980s saw the proliferation of Japanese investment in the service sector, hotels, restaurants, clubs and bars, convenience stores, tourism and advertising agencies (Kim, Kim, & Choi, 2014).

Japanese restaurant and karaoke bar has emerged around the business district of Kuala Lumpur. This is not only for the needs of Japanese society, but also attracts middle-class local people. Most of the biggest hotel now has a first-class Japanese restaurant to cater dinner for the Japanese and their clients. Although Japanese chef and standard of food served is very high, the price is much less than what is paid for the same meal in Japan. Despite the rapid growth of the Japanese restaurant which offers a cheap meal, Japanese restaurant does not impress the local people because they saw the food is disappointing and too little in quantity (Hashemi Nabi & Malarvizhi, 2014).

To independent observers, there is a feeling of 'neo-colonial' about the presence of Japanese people in Kuala Lumpur today. Since the launch of the Look East Policy, some Japanese-style exclusive club has opened. Usually located in prestigious office blocks in the centre of Kuala Lumpur, the clubs offer memberships (with appropriate sponsorship) to people who can pay the participation fee of several thousand dollars. Monthly service fee is usually no more than 50 dollars including tips for food and drink. These clubs offer sports and exercise facilities, and eat and drink area with Japanese-style service. Their operating systems emulate the old club system during the British colonial era (Postigo, 2014). While historic clubs such as the Royal Selangor Club and the Royal Lake Club still retained the style of prestige, there is also a wave of modern club to cater for the leisure time of the growing middle class. It is a measure of their confidence that Japan also established a club based on the pattern of colonial (Kambayashi & Kiyota, 2014).

Golf is also a very important activity in Japanese corporate culture. Like karaoke, it combines business and leisure in a way that harmony. In Japan, executives spent Sunday at the golf course...
for a couple of hours to play golf, not for entertainment, but in the context of their responsibility work. Ranked second after social drinking, so important is the ability to play golf for the promotion of a person's work. It is so important until a lot of mini golf areas have been built since the 1970s even in dense areas in Tokyo. Agricultural land around the city has also been sold to the developer of the golf clubs. Playing golf is seen as a source of prestige and success in one's career.

The function of a golf course is a place where business negotiations or political discussion can be carried out without fear or spy. But golf club membership is very expensive, ranging from 100 to 400 million yen, equivalent to individual salaries of few years, and often purchased as a form of investment. Japanese expatriates can afford to buy an apartment in Japan after he retires by selling his membership in the prestigious golf club. In Malaysia, Japanese citizen bliss with golf as corporate sports and building construction golf clubs as one type of investment abroad has become a significant feature of their presence. As a result of the development of Japanese investment, golf course construction was transferred directly to Malaysia. In Malaysia, the development of the golf course is in the hands of the Japanese, sometimes in collaboration with local capital. It has entered the Malaysian economy in the larger business. Golf club associated with the development of resort, hotel, condos, golf course design, and international membership fee that is seen as a form of investment.

CONCLUSION

During the administration of Tun Dr. Mahathir Mohamad, there is a greater intervention from the Government to promote heavy industries. The increase in yen value has caused drastic changes in Japanese investment, bring in a third wave to Malaysia. The close relationship between Malaysia and Japan was much influenced by the private role of Tun Dr. Mahathir Mohamad. Japanese investment in Malaysia should be seen in the context of the Japanese firms' global or regional strategy, especially logistics strategy or network between the firms in the ASEAN region. They have restructured or build networks between firms that based on comparative advantage change of ASEAN member countries In this case, Regional Headquarters or Operational Headquarters in Singapore has played a more important role. The price of transfer is a method of accounting used by Multinational Companies to maximise profit after tax losses. Four basic resources for funding activities of Japanese firms and their expansion are unappropriated profit fund rounds, Japanese banks or foreign banks, and financial resources of the parent company. After the rising value of the yen and the relaxation of foreign equity ownership guidelines under the Investment Promotion Act 1986, more Japanese firms choose to establish their ownership of subsidiary completely. A new network of Japanese firms consists of networks in firms, networks between firms, and networks between local and Japanese firms.

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End notes

1 Chee Peng Lim & Lee Poh Ping, Japanese Direct Investment in Malaysia, with Special Reference to Japaese Joint Ventures in Sueo Sekiguchi (editor), ASEAN - JAPAN RELATIONS Investment, Singapore, Institute of Southeast Asian Studies, 1983, p. 61.


3 Ibid., p. 165.

4 The Plaza Agreement was an agreement between the Government of France, West Germany, Japan, United States and British. The Plaza Agreement agreeing to do depreciation on the United States dollar against the Japanese Yen and German Mark, through intervention in the foreign exchange market. All five Governments signed the deal on 22 September 1985 at the Plaza Hotel, New York. There are two reasons for the weakening of the value of the dollar, which is reducing the current account deficit of the United States and help the US economy out of the recession that began in the early 1980s.

5 U.S. Generalized System of Preferences (GSP) is a program designed to encourage economic growth in developing countries by providing preferential duty-free entry for up to 5000 products when imported from one of the 128 countries and territories specified. For more information about GSP, kindly see Office of the United States Trade Representative, U.S. Generalized System of Preferences (GSP) Guidebook, Washington, D.C., Office of the United States Trade Representative, 2012, pp. 1-35.


8 The phenomenon in which the value of the Japanese Yen is high against the currencies of other countries.


11 File of Jabatan Perdana Menteri, Speech by Dato’ Seri Dr. Mahathir Mohamad at the Japanese Chamber of Trade and Industry, Malaysia (JACTIM) 10th Anniversary Dinner at The Hilton Hotel, Kuala Lumpur on Friday, at 8.15 p.m., 26 November 1993, p. 3.


Ibid., p. 207.

Ibid., p. 208.


The Japanese school of Kuala Lumpur is operated by the Government of Japan and taught by Japanese teachers that came from Japan, or Japanese people residing in Malaysia and local teachers. It is open to children of Japanese expatriate spouse only; the children of a mixture of local people and Japanese are not admitted. It is an institution devoted to helping Japanese children that is not in Japan because their father served overseas. This helps them to meet the stringent Japanese curriculum when they return to the homeland.

File of Jabatan Perdana Menteri, *Speech by The Prime Minister of Malaysia The Honourable Dato Seri Dr. Mahathir bin Mohamad at the Business Meeting with Investors in Tokyo, Japan on Friday at 3.00 p.m., 28 November 1997*, pp. 16, 42.

