CHAPTER 2

AN OVERVIEW OF JAPANESE DIRECT INVESTMENT IN MALAYSIA

2.1 Introduction

According to JETRO, there are 846 Japanese related firms in Malaysia, 447 are manufacturing and 399 are non-manufacturing firms.[1] However, this is information on the Japanese firms that are registered with JETRO. The actual number of the Japanese firms may be different. For example, according to JETRO the number of the Japanese manufacturing firms in Kedah is 23, but there are 29 firms in the list of the KSDC.

The first Japanese firm was established in Malaysia in 1950, after the World War II. It was a trading company that imported Malaysian products to Japan. The second Japanese firm, also a trading company, was established in Malaysia in 1952.[2]

In 1957, after the Independence, the number of the Japanese firms in Malaysia dramatically increased. In 1958, ten Japanese firms opened their offices in Malaysia. All of them, however, were not manufacturing but trading companies. In 1959, the first Japanese manufacturing firm - Nozawa - invested in Malaysia and set up a factory that produced slate in Petaling Jaya.[3]

In the beginning of 1960s, only a few Japanese firms invested in Malaysia. However, after the Independence of Singapore from Malaysia, in 1963, some of the Japanese firms opened offices in Malaysia in order to separate their Malaysian and Singaporean branches. In 1965, the giant Japanese electric Multinational - Matsushita Electric Co.- established the first factory in Selangor, which produced TV sets, fans, irons.[4]

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[1] JETRO (1993), *Japanese Related Companies in Malaysia,* Kuala Lumpur.

[2] JETRO (1981), *The Situation of Japanese Firms,* Kuala Lumpur.

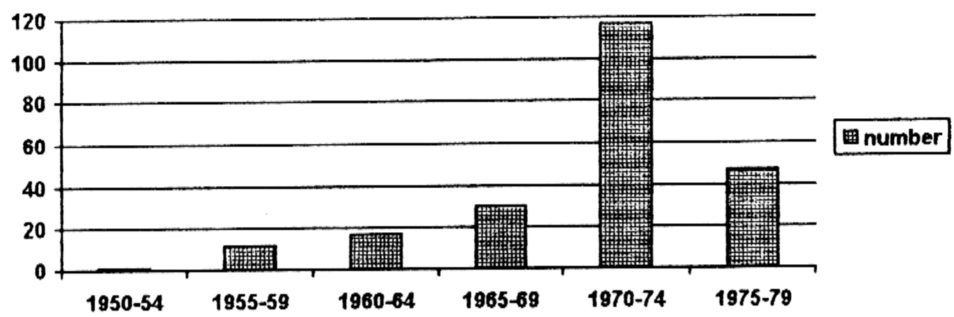
[3] *La International,* August, 1988.

[4] *Ibid.*

CHART 2.1

NUMBER OF JAPANESE FIRMS

ESTABLISHED IN MALAYSIA FROM 1950 TO 1979



Source: JETRO

After the FTZ was established in Malaysia, the influx of the Japanese firms came to the country. This inflow of the Japanese companies can be considered the first wave of JDI to Malaysia. Only in 1973, 52 Japanese firms set up their offices and/or factories in Malaysia, followed by 31 firms in 1974. Totally 83 Japanese firms invested in Malaysia during the years 1973-1974. It is a very impressive figure compared with 74 Japanese firms established during the period after the World War II until 1970. This first bunch of the Japanese investment consisted mainly of the electronics/electrical and textile companies, such as Hitachi, Clarion, Sony, the textile firms Toray (Pen group) and Kanebo. The first wave of JDI lasted for two years only, after that the pace of JDI in Malaysia had slowed down. Thus, just ten Japanese firms were being established in Malaysia annually.

Let us trace the movement of the JDI to Malaysia during the 1980s. In 1980, the JDI amounted to only RM 32 million. During the next two years it steadily increased and then fell down in 1983 and 1984. The amount of JDI was RM 37 million in 1983 and RM 80 million in 1984. From 1980 to 1985, the average amount of JDI was RM 100 million per year. This slow path of investment continued until 1987. Then, the second wave of JDI came to Malaysia.[5]

We speak about the first and the second wave of JDI to distinguish the differences between the two periods when the number of the Japanese firms in Malaysia was increasing fast. The first wave of the JDI lasted for two years only (1973-1974). During this time a lot of manufacturing companies set up factories in FTZ. However, this boom did not last long, because the area for investments was limited. Type of industries was limited to the electrical/electronics and textile firms. The second wave of the JDI has stretched for a much longer time. With the second wave the ceramic, chemical, plastic, machinery, electronics /electrical, etc. firms started to arrive in Malaysia. In terms of the size of investment, the two waves of the JDI are also different. The firsts to come to Malaysia were mainly the big multinationals. During the second wave of the JDI more SMIs invested in this country. We must mention that during the second wave of the JDI more companies started to invest in less developed areas, such as Kedah. This topic will be discussed later.

2.2 Foreign Direct Investment from Japan and Other Countries

Japan is one of the biggest sources of the foreign investment in Malaysia. The amount of approved investment by MIDA shows that Japan was the top investor in Malaysia in 1985, 1987 and 1989. In 1990, she was the second biggest investor, and the third biggest investor in 1986. From 1985 to 1990, the average annual investment by Japan was RM 1,536 million. In 1991, JDI amounted to RM 3,796 million and, in 1992, it was RM 2,635 million.

During the same period of time the average annual amount of the Taiwanese Direct Investment (TDI) was RM 1,601 million. This is higher than

[5] MIDA (1991), *Statistics on the Manufacturing Sector from 1985 to 1990*, Kuala Lumpur.

the average annual amount of the JDI. The TDI increased drastically after 1986. In 1987, the amount of TDI increased 20 times and reached RM 200 million. The following year it increased four times and reached RM 829 million. In 1989, TDI raised again and amounted to RM 2,159 million. Surprisingly, in 1990, TDI increased three times and reached RM 6,339 million. In 1991, TDI amounted to RM 3,607 million, it decreased slightly to RM 1,505 million in 1992. Compared with Taiwan, Japan's investment is more steady.

TABLE 2.1

FOREIGN DIRECT INVESTMENT IN MALAYSIA

FROM 1987 TO 1992 (RM MILLION)

Country	1987	1988	1989	1990	1991	1992
Japan	715	1,221	2,690	4,212	3,796	2,635
Taiwan	243	829	2,159	6,339	3,607	1,505
HK	88	298	352	374	600	83
Sin.	258	419	914	895	1,127	440
US	162	535	320	567	1,798	3,298
UK	76	196	764	867	566	1,283
Total	2,059	4,878	8,652	17,629	17,377	17,724

Note: Sin. - Singapore; HK, UK and US are short forms for Hong Kong, United Kingdom and United States respectively.

Source: MIDA

We cannot ignore another important source of FDI from Malaysia's neighbour country, Singapore. In 1986 and 1987, Singapore's was the second largest investment in Malaysia. In 1985 and 1989 Singapore was the third, in 1988 it was the fourth and in 1990 the fifth top investor in Malaysia.

The US is another important source of FDI for Malaysia. The US was the second largest investor in 1985, third top investor in 1988 and fourth in 1987.[6] It is interesting to notice that at the present time, the size of the UK investment is small compared with that of the other countries. The share of the UK investment in Malaysia was only 3 percent in 1985 and 1986, then it increased to 8 percent in 1989. This means that in terms of FDI, Malaysia is absolutely not dependent upon the former suzerain state. The amount of FDI in Malaysia from 1985 to 1992 is shown in Table 2.1.

Let us discuss the employment creation by the FDI. In 1988, 1989, 1990 and 1991 the TDI was the biggest job creator in Malaysia among the foreign investors. Once Taiwan occupied the second and once the third place among the top job creators. Japan was the biggest job creator twice, in 1987 and in 1992. In 1985, 1988 and 1990 Japan was the second largest job creator in Malaysia. The average employment creation by Japan from 1985 to 1992 was 26,073 jobs per year. This is a rather small figure compared with the average of 29,646 jobs per year created by the TDI. For the comparison, during the same period of time Singapore investors created the average of 22,892 jobs per year.

The average amount of the Japanese investment per a case was RM 5.747 million in 1985, RM 2.584 million in 1986, RM 13.234 million in 1987. Then, the amount increased to RM 21.183 million in 1989 and further increased to RM 31.437 million in 1990. In 1991, the average amount of the Japanese investment per a case decreased to RM 19.874 million. In 1992, it decreased again to RM 17.566 million per a case. This means that in the end of 1980s there was an increase in the size of JDI.

For the comparison, TDI per one case was RM 1.24 million in 1985, RM 0.72 million in 1986, RM 6.588 million in 1987, RM 7.473 million in 1988, RM 11.308 million in 1989 and RM 23.70 million in 1990. In the beginning of

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[6] *Ibid.*

1990s, the amount of TDI per a case began to decrease. Thus, in 1991, TDI per a case was RM 16.545 million and, in 1992, it amounted to RM 10.985 million per a case. The average amount of the United States' Direct Investment (USDI) per a case was RM 4.302 million in 1985, RM 2.145 million in 1986, RM 7.396 million in 1987, RM 9.730 million in 1988, RM 10.691 million in 1989 and RM 43.636 million in 1990. In 1991, the USDI per a case was RM 38.253 million and, in 1992, it amounted to RM 80.439 million per a case. These figures show that the JDI was almost equal to the USDI.

Based on these data, we can conclude that the JDI does not pale in comparison with investments by other countries in terms of employment creation as well as capital investment.

2.3 Japanese Direct Investment in Malaysia and Other Countries

In 1985, Japan invested abroad US $ 2 billion. This amount kept increasing each year. Thus, in 1986, Japanese investment abroad amounted to US$ 3.8 billion. It was US $ 7.8 billion in 1987, US $ 13.8 billion in 1988 and US $ 16.284 billion in 1989. Then, beginning from 1990, the amount of JDI started to decrease and became US$ 15.6 billion in 1990. In 1991, it fell down to US$ 12.3 billion. In 1992, it was US$ 10.5 billion. Still, this influx of JDI abroad can be considered as high, because the average annual JDI from 1981 to 1984 was just US $ 2.3 billion.[7]

North America has always been the most important destination for JDI. In 1985, the share of JDI in North America was 52 percent of the total amount of JDI abroad. In 1986, it was 57.7 percent and reached 66.6 percent in 1988. These were the boom years of the JDI in North America. Later North America's share of JDI decreased. Thus, it was 58.9 percent in 1989, 43.9 percent in 1990, 47.3 percent in 1991 and 41.7 percent in 1992.

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[7] Ministry of Finance, Japan (1994), *Situation of Foreign Investment*, Tokyo.

TABLE 2.2

JAPANESE DIRECT INVESTMENT BY REGIONS

IN 1985, 1987, 1991 AND 1992 (US $ MILLION)

Region	1985	1987	1991	1992
North America	5,467	15,357	18,823	14,572
Latin America	2,616	6,579	3,337	2,727
Oceania	525	1,413	3,276	2,406
Europe	1,930	6,576	9,371	7,061
Asia	1,435	4,868	5,936	6,426
Total	12,217	33,364	41,584	34,139

Note: The figures are the accumulated value of approvals and notifications

Source: Ministry of Finance, Japan

Europe was becoming a more important destination for JDI. Europe's share of JDI gradually increased from 13.7 percent in 1985 to 29.7 percent in 1990. Then it decreased to 21.9 percent in 1991 and further decreased to 20.9 percent in 1992. For comparison, JDI's share in Asian countries was 19.6 percent in 1985, 21.1 percent in 1986 and the lowest 17.2 percent in 1988. Beginning from 1989, Asia's share of JDI started to grow. It increased to 19.8 percent in 1989, remained same in 1990, increased to 23.8 percent in 1991 and jumped to 31 percent in 1992. This data shows that the main destination of JDI kept changing. The first popular destination was the US, then the vector changed to Europe, and since 1990 Asian countries started to attract more of the JDI's attention.

According to the notification of the Japanese firms by the Ministry of Finance, Japan, JDI to Malaysia was US$ 79 million in 1985, US$ 158 million in 1986 and US$ 163 million in 1987. In 1988, it increased dramatically to US$ 387 million, then increased again to US$ 673 million in 1989 and reached US$ 725 million in 1990. In 1991, JDI in Malaysia was at its highest level and amounted to US$ 880 million. In 1992, it decreased to US$ 704 million.

The share of JDI in Malaysia in the whole world's share was 3 percent in 1985, 4 percent in 1986 and decreased to just 2 percent in 1987. In 1988, it started to gradually increase, and was 2.8 percent in 1988, 4 percent in 1989 and 4.6 percent in 1990. Then, in 1991, the share jumped up to 7.2 percent and slightly decreased to 7 percent in 1992. All these figures show that gradually but steadily Malaysia is becoming an important destination for JDI.

Next, let us examine the Malaysian share of JDI in the whole Asia's share. In 1985, Malaysian share was 16.5 percent, in 1986 it increased to 19 percent. Then it fell down to just 9 percent in 1987, but quickly recovered and reached 16 percent in 1988. It increased further to 20 percent in 1989. In 1991, Malaysian share of JDI in the whole Asia's share was 23.6 percent and remained the same in 1992. This means that after 1987, Malaysia was becoming a more important destination for JDI in Asia. The quarter of the JDI in Asian countries belonged to Malaysia. However, the fastest growing player among the Asian countries is China. Until the end of 1980s, there was practically no Japanese investment in China. Then, in 1988, China's share of JDI in Asian countries was 12 percent. In 1990, the share slightly decreased to 11 percent. Then, in 1991, it jumped to 20 percent and reached 35 percent in 1992.

2.4 Japanese Direct Investment in Malaysia, Thailand, Philippines and Indonesia

In 1988, JDI in Malaysia, Thailand, Philippines and Indonesia increased, compared with 1984. The total amount of JDI in these four countries in 1984 was US$ 681 million, in 1985 it decreased to US$ 609 million. In 1986, the amount of JDI in the above-mentioned countries decreased to US $ 553 million. But, in 1987, JDI in Malaysia, Thailand, Philippines and Indonesia doubled and reached US$ 1,030 million. Then, in 1988, it increased three times and amounted to US$ 1,966 million. In 1989, JDI in the above-mentioned countries increased to US$ 2,782 million; in 1990, it increased again and reached US$ 3,242 million. In 1991, it slightly decreased to US$ 3,083 million.

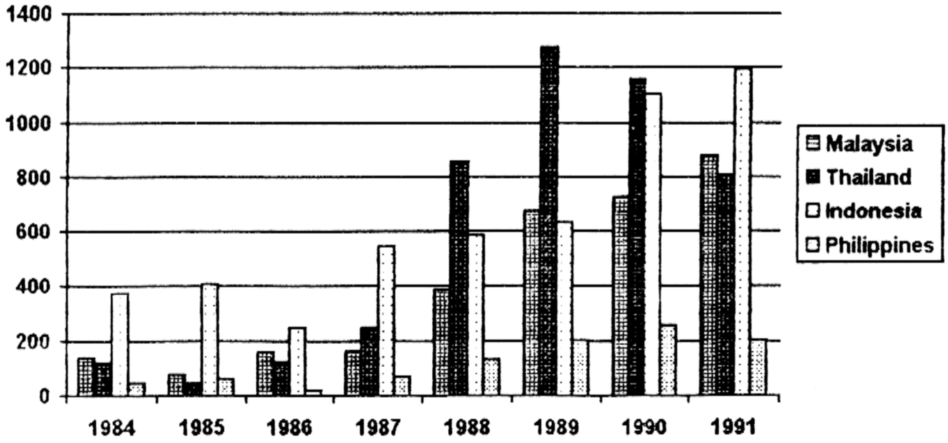
Among the four countries, Indonesia always received the highest amount of JDI, except in 1988. In 1984, JDI in Indonesia amounted to US$ 374 million, which was more than double of JDI's amount in Malaysia in the same year. Then, in 1986, the amount of JDI decreased to US$ 250 million, which was just US$ 100 million higher than JDI in Malaysia in the same year. In 1988, the JDI in Indonesia increased to US$ 586 million, which was three times more than the amount of JDI in Malaysia in the same year. However, this amount was far from the peak time of JDI in Indonesia in 1980, when JDI was recorded at US$ 2,434 million. In 1989, the JDI in Indonesia amounted to only US$ 631 million. In 1990, it increased to US$ 1,105 million and slightly increased again in 1991 to US$ 1,193 million.

In the middle of 1980s, JDI in Thailand was lower than it was in Malaysia. Then, in 1987, the amount of JDI in Thailand doubled and became US $ 250 million, this exceeded JDI in Malaysia in 1987 by US$ 90 million. In 1988, JDI in Thailand increased threefold and reached US$ 859 million which was the highest amount of JDI in the four countries and more than twice of the amount of JDI in Malaysia in same year. In 1989, the JDI in Thailand increased to US$ 1,276 million, then, in 1990, it increased to US$ 1,154 million. In 1991, there was a decrease in the amount of the JDI in that country which totaled to US$ 807 million.

Philippines seem to be backward among the four countries in terms of the amount of JDI. JDI in Philippines was just US$ 46 million in 1984 and did not increase to more than US$ 100 million until 1987. Then, in 1988, the amount of JDI in Philippines increased to US$ 134 million. which was still less than half of the JDI's amount in Malaysia in the same year. In 1989 and in 1990, the JDI in Philippines was increasing and amounted to US$ 202 million and US$ 258 million respectively. In 1991, the amount of the JDI in that country decreased to US$ 203 million.

Next, we shall examine the JDI in the manufacturing sector in Malaysia, Thailand, Indonesia and Philippines during the years 1986-1988. In 1986, the amount of JDI in the manufacturing sector of the above-mentioned Asian countries accounted for US$ 190 million, which was 35 percent of the total amount of JDI in these countries. In 1987, the amount of JDI in manufacturing sector increased to US$ 704 million, and further increased to US$ 1,360 million in 1988.

CHART 2.2
JAPANESE DIRECT INVESTMENT
IN MALAYSIA, THAILAND, INDONESIA AND PHILIPPINES
FROM 1984 TO 1991



Source: Ministry of Finance, Japan

In 1986, the amount of JDI in manufacturing sector in Indonesia was US$ 26 million, or 12 percent of the total JDI in Indonesia. This was lower than JDI's share in the manufacturing sector in Malaysia in the same year. In 1988, JDI in the manufacturing sector in Indonesia increased to US$ 298 million. However, this was lower than the amount of JDI in Malaysia in the same sector in the same year. This means that JDI in Indonesia was mainly concentrated in non-manufacturing sector, this may be mining or petroleum.

During 1986-1988, the amount of JDI in manufacturing sector in Thailand exceeded JDI in Malaysia's manufacturing sector. Conversely, the amount of JDI in manufacturing sector in Philippines was always lower than the amount of JDI in Malaysia's manufacturing sector.

Let us compare the distribution of JDI by industries in manufacturing sector in Malaysia, Thailand, Indonesia and Philippines. From 1986 to 1988, JDI in Indonesia amounted to US$ 619 million, it was mainly concentrated in metal products (US$ 197 million) and wood/pulp products (US$ 153 million). These two industries received more than half of the total JDI in manufacturing sector in Indonesia.

From 1986 to 1988, the total amount of JDI in Thailand was US$ 924 million. The electronics/electrical industry received US$ 320 million, it was the highest share. The second biggest recipient of JDI in the manufacturing sector in Thailand was machinery (20 percent of the share). Metal products industry received 15 percent of the total JDI in manufacturing sector. The JDI in the manufacturing sector in Philippines was relatively small and distributed evenly among the industries.

From 1986 to 1988, JDI in Malaysia's manufacturing sector was US$ 559 million. It is interesting to notice that JDI in Malaysia was concentrated only in electronics/electrical industry. JDI in electronics/electrical industry amounted to US$ 286 million, which was more than 50 percent of the total JDI in Malaysia from 1986 to 1988.

TABLE 2.3

THE TOTAL AMOUNT OF JAPANESE DIRECT INVESTMENT IN MANUFACTURING SECTOR IN INDONESIA, THAILAND, MALAYSIA AND PHILIPPINES FROM 1986 TO 1988

(US $ MILLION)

Industry	Indonesia	Thailand	Malaysia	Philippines
Food, Beverage	32	23	1	30
Textile Products	71	41	6	6
Wood Products	153	17	8	1
Chemical Products	55	38	31	18
Metal Products	197	147	41	4
Machinery	7	185	39	5
Electronics/electrical	20	320	286	44
Transport Equipment	33	39	91	30
Miscellaneous	51	96	42	18

Source: Ministry of Finance , Japan

We can conclude that JDI in Indonesia was concentrated in non-manufacturing sector, while JDI in Thailand and Malaysia paid more attention to the manufacturing sector of these countries. Then, JDI in the manufacturing in Indonesia was concentrated in metal and wood/pipe industries. In Thailand it concentrated in electronics/electrical, machinery and metal industries. JDI in Malaysia was heavily concentrated in electronics/electrical industry.

2.5 Employment

According to the survey conducted by JETRO (1991), among 129 Japanese manufacturing firms that had answered the questionnaire 40 firms employed less than 100 workers each, 50 firms employed between 101 to 200 workers each and 16 firms employed between 301 to 500 workers each. Only eight firms employed between 500 to 1,000 each. The remaining 15 firms employed more than 1,001 workers each.[8]

Among 40 firms that employed less than 100 workers, only 3 firms were engaged in electronics/electrical industry. Twelve firms produced metal products. Among 15 Japanese firms that employed more than 1,001 workers, 11 firms were engaged in electronics/electrical industry and only one firm produced metal products. The size of the textile firms ranged from small to big, while the chemical and chemical products firms were of relatively small size.

2.6 Capital Investment

The data on capital investment is very limited. The JETRO survey does not provide with this information. The lists of the Japanese companies obtained from the Consulate-General of Japan and Japan Club also omit this information. Only the survey by JACTIM (1990) simply states that among 129 firms that answered a questionnaire, 27 firms, or 22 percent of all firms, invested less than RM 2.5 million in capital investment. Eighty-nine firms invested more than RM 2.5 million in capital investment. The remaining 3 companies were reluctant to discuss this topic. From JACTIM survey, which provides us with a very limited information, we get an impression that the Japanese firms in Malaysia invested large amount of capital.[9]

2.7 Ownership Patterns

According to the JACTIM research (1990), the share of the wholly owned Japanese firms among the Japanese affiliated firms was 45 percent. This became possible because the Malaysian Government adopted a liberal policy

[8] JETRO (1991), *The Japanese Firms in ASEAN Countries*, Tokyo.

[9] JACTIM (1990), *The Situation of Japanese Firms in Malaysia*, Kuala Lumpur.

towards the export-oriented firms and allowed the presence of the wholly foreign owned firms.

TABLE 2.4

THE DISTRIBUTION OF JAPANESE FIRMS IN MALAYSIA BY SECTORS IN 1989

Industry	WJO	JVM	JVJ
Food, Beverage	2	0	1
Textile Products	3	1	2
Wood Products	2	2	1
Chemical Products	1	3	3
Ceramic	1	1	4
Steel/Iron	3	5	5
Metal Products	3	3	3
Machinery	1	0	0
Electronics/electrical	25	2	9
Transport Equipment	1	8	1
Others	13	9	9
Total	55	34	38

Note: WJO - Wholly Japanese owned firm

JVM - Joint venture with Malaysian majority

JVJ - Joint venture with Japanese majority

Source: JACTIM

Among the foreign companies, the approved projects with the wholly foreign ownership made 10 percent in 1985, 11 percent in 1986, 36 percent in 1987 and 36 percent in 1988.

Among the Japanese companies, electronics/electrical firms tend to have 100 percent Japanese ownership, while firms engaged in food, textile and wood industries tend to have a Japanese minority ownership. The firms in metal industry tend to hold a Japanese minority ownership.

2.8 Reasons to Invest in Malaysia

There is a number of reasons why the Japanese firms invest in Malaysia, and these reasons are interrelated. It is not easy to single out the sole motivation for the Japanese firms to invest in Malaysia.

Chee and Lee (1979) mention the following seven attractive factors which brought foreign investors to Malaysia: 1) availability and cost of labour; 2) the size of market; 3) political and economic stability; 4) incentives; 5) foreign exchange regulations; 6) availability of materials and infrastructure facilities and 7) trade unions problems. They said that the most important factor was the economic and political stability, while incentives and wages level did not vary a great deal from those in other Asian developing countries. Another important factor is the familiarity with Malaysian market.[10]

JETRO (1991) named the following motivations for the Japanese companies to invest in Malaysia: 1) to sell production in Malaysia and to secure position in market; 2) to establish the final assembling factory in Malaysia for the horizontal intra-firm specialization; 3) to establish a manufacturing plant for parts/intermediate production; 4) to follow the related companies. The most important among the above mentioned factors is the firms' interest to sell their production to Malaysia, about one-third of the total number of the questioned companies named this reason. Twenty three percent of the firms mentioned the factor "Two", while 20 percent of the firms mentioned the factor "Four".

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[10] Chee, P.P. and Lee, P.P. (1979), *op.cit.*

2.9 Production Pattern

Chee and Lee (1979) said that the four major types of the manufacturing activities of the Japanese firms were: 1) electrical machinery (15.8 percent); 2) chemical and chemical products (12.7 percent); 3) wood, rattan, etc. (10 percent); 4) textile (9.5 percent). In terms of concentration, the Japanese firms are heavily concentrated in electronics/electrical and textile industry. There are 21 electrical and electronics foreign owned firms in Malaysia, 10 of them are Japanese owned firms. In the textile industry, there are 23 foreign owned firms, 15 of them are Japanese companies.[11]

According to MIDA, the approved capital investment of the Japanese firms was concentrated in textile and electronics/electrical industry. The share of the Japanese firms in textile industry was 47 percent, their share in electrical and electronics industry was 31 percent. In 1987, the share of the Japanese companies in these industries slightly changed. It increased from 47 percent to 49 percent in textile industry and decreased from 31 to 30 percent in electrical and electronics industry. It is interesting to notice that from 1978 to 1987 the share of the Japanese companies in petroleum industry significantly increased from 0 to 20 percent. The list of approved foreign equity of the major countries by industries during 1980-1988 shows that the sector with the biggest Japanese equity was electrical & electronics products, which was 43 percent of the total approved Japanese equity. The sector with the second largest Japanese equity was chemical and chemical products, which share was 11 percent. The third largest Japanese equity share was in food manufacturing (6 percent). This means that during 1980-1988, the Japanese investment in Malaysia was heavily concentrated in electrical & electronics products.[12]

Meanwhile, Singapore's investment was concentrated in food manufacturing (29 percent), electrical and electronics products (10 percent), textile and textile

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[11] *Ibid.*

[12] Ministry of Finance, Malaysia (1989), *Economic report 1989/1990*

products (9 percent). Hong Kong's investment was concentrated in textile and textile products (24 percent) and electrical and electronics products (14 percent). Approved Taiwanese equity was concentrated in four sectors, namely: 1) electrical and electronics products (23 percent); 2) food manufacturing (18 percent); 3) rubber products (17 percent); 4) chemical and chemical products (16 percent). The US and UK companies were concentrated in two sectors each. The US firms mainly brought their investment to 1) electrical and electronics products and 2) chemical and chemical products. The UK firms were concentrated in 1) chemical and chemical products and 2) food manufacturing.

2.10 Location of the Japanese Companies

The Japanese affiliated firms are not spread evenly all over Malaysia. According to JETRO, there were totally 447 Japanese affiliated manufacturing firms in Malaysia; 179 of these firms were located in Selangor, 80 firms were located in Penang, 74 in Johor.[13] These three states are called "the industrial states"; 333 Japanese firms, or 75 percent of the Japanese firms in Malaysia, are located there. The other 11 states of Malaysia (including the Federal Territory) have only 25 percent of the total number of the Japanese firms in Malaysia, or the average of 10 firms per a state.

In 1991, the situation remained almost same as it was 15 years ago. Thus, in 1978, there were 368 Japanese companies in Malaysia. Half of them were located in Selangor. Penang and Sabah each had 47 firms. There were 24 Japanese firms in Johor. This means that the "top four" states had 80 percent of the total number of the Japanese firms. By 1991, the number of the Japanese firms in Sabah has decreased, because some of the timber and timber-related firms were relocated to the other tropical rain forest countries,

[13] *The Star*. June 16, 1992.

such as Indonesia and Philippines. Nevertheless, it can be said that by 1991 the Japanese firms have come to the less developed states of Malaysia.

Among the states that succeeded in attracting the Japanese manufacturing firms are Negeri Sembilan and Kedah. In 1978, there were only 4 Japanese firms in Negeri Sembilan and 3 firms in Kedah. In 1991, there were 18 Japanese firms in Negeri Sembilan and 23 firms in Kedah. The reason why the Japanese firms began to pay attention to the rural areas was the shortage of the labour force and industrial land in the cities.

In 1991, 70 of the total 179 Japanese firms in Selangor were engaged in electrical and electronics industry, 30 firms were engaged in steel & non-ferrous manufacturing and 21 firms produced transport equipment. That is, more than 65 percent of the Japanese firms in Selangor belonged to these three sectors.

In 1991, there were 80 Japanese manufacturing firms in Penang; 35 percent of them were engaged in electrical and electronics industry, 15 percent of the firms produced petroleum products, 10 percent manufactured textile products. These figures show that Penang has relatively more textile and petroleum firms than other states. There are 74 Japanese firms in Johor, more than 50 percent of them are electrical and electronics companies.

2.11 Sales by Japanese Firms

Japanese firms are performing successfully in Malaysia and were able to achieve high sales, which they initially planned. Many companies were even able to continue to reinvest to the existing facilities and were trying to expand their production. The total sales by the Japanese firms that have responded to the JACTIM survey have sharply increased during the years 1987-1989.

According to JACTIM (1990), the accumulated sales of 119 firms that answered the questionnaire accounted for RM 3,652 million in 1987, RM 5,673 million in 1988 and reached RM 8,194 million in 1989.[14]

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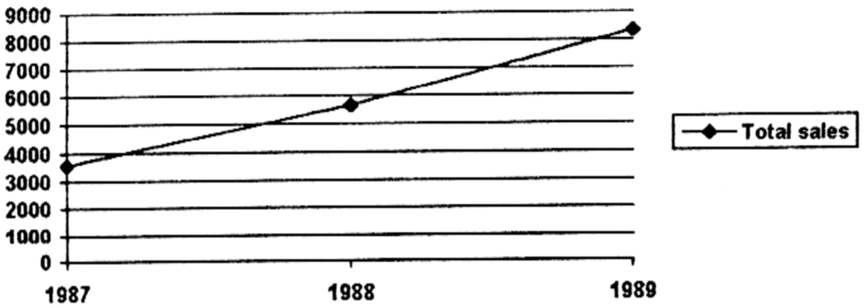
[14] JETRO (1991), *op.cit.*

CHART 2.3

SALES BY 283 JAPANESE FIRMS IN MALAYSIA

IN 1987, 1988 AND 1989



Note: Figures are accumulated values of sales by 283 Japanese firms which answered the JACTIM questionnaire

Source: JACTIM

In 1989, the share of the electrical and electronics industry in sales was more than 50 percent and accounted for RM 4,671 million. The second largest share in sales belonged to the transport equipment industry (20 percent of the share) and accounted for RM 1,129 million. The sales in metal and non-metallic industry amounted to RM 968 million. It was 11 percent, or the third biggest share, of the total sales by Japanese firms. These figures show that the leading Japanese firms in Malaysia were the firms producing electrical and electronics products.

The total sales for domestic market by the Japanese companies accounted for RM 3,199 million, which was 40 percent of the share. The total sales for the foreign markets accounted for RM 4,995 million, or 60 percent of the share. This means that the Japanese firms are generally export-oriented.

In 1989, the biggest sales for the domestic market belonged to the transport equipment industry. The sales in this industry amounted to RM 130 million, or 35 percent of the total sales for the domestic market by the Japanese companies in Malaysia. Electrical and electronics industry occupied the second place in the sales for the domestic market, with the revenue of RM 784 million in domestic sales. The third biggest share in domestic sales belonged to metal and non-metallic products industry, where sales amounted to RM 676 million.

In 1989, the electrical and electronics industry had the biggest share (77 percent) in sales for foreign markets, which amounted to RM 3,383 million. Textile and textile products industry occupied the second place in sales for foreign markets with the revenue of RM 259 million from export sales. Metal and non-metallic products industry had the third biggest share in foreign sales (RM 244 million). These figures show that the transport equipment industry's production is too heavy to be exported, while it is suitable for domestic market. The production of the electrical and electronics industry, being light and comparatively of a small size, is suitable for export. The metal and non-metallic industry's production is suitable for both domestic and foreign markets.

At the end of 1980s, the overall sales for foreign markets by the Japanese firms sharply increased. In 1987, the total amount of export sales of the Japanese companies that answered the questionnaire accounted for RM 2,111 million. The revenue from export sales increased to RM 3,501 million in 1988 and increased again to RM 4,995 million in 1989. This may be caused by the liberalization of the regulations on the foreign investment of the export-oriented firms.

Among the destinations for exported goods, Japan is the biggest customer of the Japanese firms in Malaysia. In 1989, sales to Japan amounted to RM 1,335 million, or 26.7 percent of the total sales for foreign markets. The second biggest customer is the USA with 22.9 percent of the share and RM 1,144 million in sales. The third biggest customer of the Japanese firms operating in Malaysia is Singapore. Sales by Japanese firms to Singapore amounted to RM 770 million, or 15.4 percent of the share.