

CHAPTER 4

GENERAL PROFILE OF JAPANESE DIRECT INVESTMENT IN KEDAH STATE

4.1 Introduction

The first Japanese manufacturing firm, Nissui, invested in Northern Malaysia in the end of 1959. This company established a joint-venture, Malay Seaproducts, with a Malaysian partner. The factory processed fish in Malaysia and exported it to Japan. Then, a Japanese sugar company, Nitto, built a factory in Northern Malaysia to process sugar cane and produce white sugar. These two companies are the typical examples of the resource-oriented FDI. Both factories were located in Penang state, which was a more developed place and had a good infrastructure, that is, seaport, railway and international airport.

In 1973, the first Japanese investment came to Kedah state. This means that the time gap between the first Japanese investment in Penang and Kedah was 14 years. For a long time Kedah, being a less developed state without special natural resources, could not attract the Japanese investors. Availability of the natural resources is an important factor for the Japanese investors. Thus, a Japanese firm established joint-ventures for wood processing in Sabah and Sarawak as early as the 1960s.

In this chapter we first discuss the economic background and development of Kedah state. This is followed by an analysis of the general features of JDI in Kedah and in such developed areas as Klang Valley, Penang or Johore.

4.2 Economic Profile of Kedah

Kedah is located in the North-West of the Peninsula Malaysia and occupies the area of 9426 km². It makes Kedah a middle-size state. Its estimated population is 1,367,000 people, which is about 7 percent of the total

population of Malaysia. The working-age population (12-64 years old) is 768,000 people, labour force amounts to 500,000 people. In 1985, the unemployment rate in Kedah was 8.0 percent. This figure is higher than the national average unemployment rate (7.0 percent). However, in 1990, the unemployment rate decreased to 6 percent, which was the same with the national average level of unemployment.¹

Kedah consists of 11 districts and its population is mainly concentrated in three districts, namely Kota Setar, Kuala Muda and Kubang Pasu. Kota Setar is the center of the state and includes Alor Setar, which is the capital of Kedah and has a population of more than 350,000 people. Kuala Muda, with 240,000 residents, is located in the South of Kota Setar and includes the industrial city Sungai Petani. Kubang Pasu is situated near the Thailand border, its population is 160,000 people. More than a half of Kedah's population lives in these three districts.²

In 1985, the GDP in Kedah amounted to RM 2,523 million, which was about 5 percent of the national GDP in the same year. Then, in 1990, Kedah's GDP increased to RM 3,601 million, making 4.5 percent of the national GDP in 1990. Agriculture, forestry, livestock and fishery had the biggest share of 37 percent in the whole Kedah's GDP in 1990. It was higher than the national average share of these industries (18 percent). The manufacturing sector had a share of 20 percent in Kedah's GDP, which is lower than the national average of 27 percent. This means that, in 1990, Kedah state was still less industrialised and the state's economy depended on the agriculture.

The government service was about 15 percent of the GDP's share, which was higher than the national average. Wholesale & retail trade and hotel & restaurants had only a share of 4.5 percent in the Kedah's GDP, which was

¹ KSDC (1991), *Investor Guide for Kedah*, Alor Setar, Kedah.

² *Information Malaysia 1991 Yearbook*, Berita Publishing, Kuala Lumpur.

lower than the national average. These figures show that Kedah state is not very developed in service sector.³

Per capita GDP in Kedah was RM 2,092 in 1985, and RM 2,600 in 1990, lower than the national average level. The difference between the GDP of Kedah state and the national GDP has slightly decreased since 1985. Thus, in 1985, the national GDP was 1.72 times bigger than that of Kedah. In 1990, the national GDP was 1.68 times bigger.⁴

In 1990, the share of households below the poverty line in Kedah decreased to 30 percent from 36.6 percent in 1985. However, this figure is still higher than the 1990 national average of 17 percent. The average household income in Kedah was RM 690 in 1985, it has increased to RM 860 in 1990. This was lower than the national average of RM 1,254 in 1990. Household income in Kedah is lower than the national average because of the state's dependence on the agriculture sector, while the manufacturing and service sectors are less developed.⁵

In 1970, the state government decided to set up the KSDC. The aim of this organisation is to promote the development in Kedah. The KSDC has played a major role in the promoting the state to the foreign investors, including Japan. Recently the KSDC has sent a delegation to Nagoya in Chubu prefecture with the mission to bring more Japanese investors to Kedah. (This can be compared with the similar step of the Penang Development Corporation that has sent a delegation to Kanagawa. The delegation established strong relations with the Japanese companies in that city, including the exchange training program between the two places). The KSDC has established total six industrial estates

³ Kedah State Government (1991), *Profile of Kedah*, Alor Setar, Kedah.

⁴ KSDC (1991), *op.cit.*

⁵ *Ibid.*

in Kedah. There are more than 600 manufacturing establishments in the industrial estates of Kedah.⁶

4.3 General Features of Japanese Direct Investment in Kedah

To examine the features of the Japanese firms in Kedah, we have used the secondary data which was obtained during the first stage of this research from 1991 to 1992. The main sources of the information were the various Malaysian and Japanese government agencies, such as the Consulate-General of Japan in Penang (for general information on Kedah), the KSDC (data on location, employment, etc.), JETRO (industrial categories of the firms, etc.) and JACTIM (data on the Japanese expatriates).

4.3.1 Development of Japanese Direct Investment in Kedah.

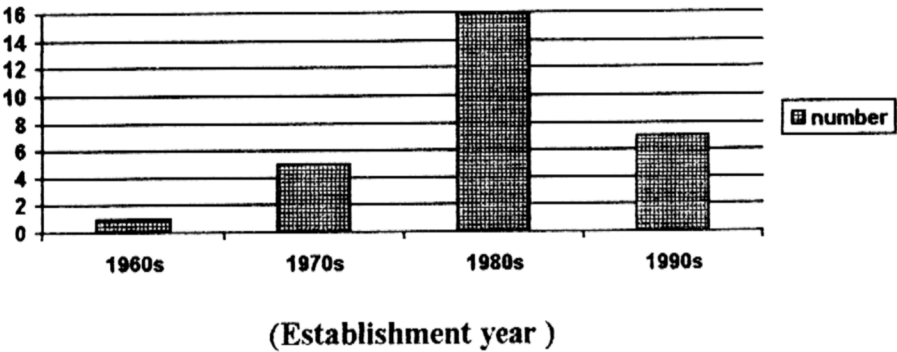
The first Japanese firm that invested in Kedah was Yuasa Battery. This firm produced car batteries for another Japanese company, Honda Motor. Then, the Japanese electronics/electrical firm Roxy built a factory that produced goods for domestic market. It is interesting to notice that these firms were oriented toward the domestic market. This fact shows that the JDI in Kedah was of the import-substitution type. The next to come to Malaysia were a textile firm Acrylic Textile and Kameyama Candle.

The first wave of the JDI came to Kedah in the beginning of 1980s. About ten firms built their factories in this period. This wave of the JDI consisted of the different types of industries, such as electronics/electrical, transport equipment, textile industry, etc. Meanwhile, for unknown reasons, some factories were closed and withdrawn from Kedah.

⁶ *Ibid.*

The second wave of the JDI came to Kedah in 1987. This wave is bigger and longer-lasting than the first one. The second wave of the JDI has brought to the state mainly electronics/electrical firms. The giant Japanese electronics company Matsushita came to Kedah during the second wave of the JDI. This firm is the biggest among the Japanese firms in Kedah in terms of employment and capital investment. A lot of SMIs have invested in Kedah as well.

CHART 4.1
THE NUMBER OF JAPANESE FIRMS
ESTABLISHED IN KEDAH IN 1960s, 1970s, 1980s AND 1990s



Source: KSDC

4.3.2 Location

In 1991, there were 29 Japanese manufacturing companies in Kedah. Kedah state has seven industrial estates -- Kulim, Bakar Arang, Tikam Batu, Mergong II, Mergong Barrage, Sungai Petani and Darulaman. Tikam Batu is the nearest industrial estate to Penang. It is situated in about 20 km from Penang state. The farthest estate from Penang is Darulaman, which is separated from Penang by the distance of 120 km. The distance from Alor Setar to Mergong II and Mergong Barrage is less than 10 km, which makes

these two estates the nearest ones to Alor Setar. The farthest estate from Alor Setar is Kulim, which is situated in the distance of 90 km from that city.

The biggest industrial estate in Kedah is Bakar Arang, which occupies about 170 hectares of land. The smallest industrial estate is Mergong Barrage which occupies about 30 hectares. Eleven Japanese companies, including the giant electronics/electrical firm Sharp Roxy and the famous textile firm Toyobo chose Bakar Arang industrial estate to locate their factories. Nine Japanese companies are located in Kulim, among them Asahi Best Base and Maika Wood Industries. There are five Japanese firms in Tikam Batu, among them Armstrong Auto Parts and NEC Home Electronics. There are 27 Japanese firms in these three industrial estates, which is 90 percent of all Japanese firms in Kedah. This means that the majority of the Japanese firms (75 percent) are located near (less than 35 km distance) from the urban area Penang, which is the center of Northern Malaysia.

4.3.3 Japanese Firms by Sectors

Among 29 Japanese firms in Kedah, twelve are electrical/electronics manufactures. There are two transport equipment and two textile manufacturing firms, including the famous Honda Motors and Toyobo Textile, which are located in Bakar Arang industrial estate. There are two Japanese ceramics and two rubber products firms, one wood and one chemical firm in Kedah. Other firms produce miscellaneous types of production. This means that the Japanese manufacturing firms in Kedah are heavily concentrated in electrical/electronics sector, more than 40 percent of the total number of the Japanese firms in that state are engaged in electronics/electrical industry.

The electronics/electrical industry can generally be divided into three sub-sectors: 1) industrial electronics (large computers, robots and telecommunication equipment); 2) consumer electronics (radio-, TV-sets, personal computers, VCRs); 3) components (passive device and

semiconductors). There is only one industrial electronics firm in Kedah - NEC - which produces telecommunication equipment. There are four consumer electronics firms in Kedah, viz. NEC, Sharp-Roxy, Onkyo and Sansin. The other companies manufacture parts and components. This means that about 60 percent of all electronics/electrical Japanese companies in Kedah produce parts and components.

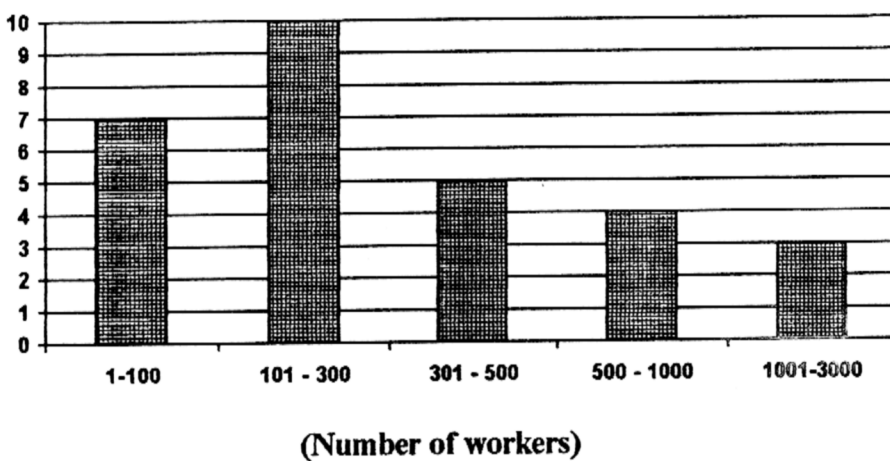
4.3.4 Employment

Sharp-Roxy in Bakar Arang is the biggest employer among the Japanese firms in Kedah. This firm provides jobs for more than 2,000 workers. The second biggest employer is Matsushita Motor in Sungai Petani industrial estate, which employs about 1,000 workers. This company is followed by Sansin Electronics in Bakar Arang (more than 1,000 workers). All of the three biggest employers are electronics/electrical companies. There are only four Japanese companies in Kedah that employ between 500 to 1,000 workers, namely, Asahi Best Base, Armstrong Auto Parts, Amagi Musen and Acrylic Textile. Two of them are electronics/electrical companies, one is the transport equipment producer and the other is a textile firm.

The companies that employ between 300 to 500 workers are Jyoto Works, Kameyama Candle, Maica Wood, Miyako Toki and Yokowo Electronics. Ten of the Japanese firms in Kedah employ between 100 to 300 workers. This is the average level of employment by the Japanese firms (35 percent of the share). Seven Japanese firms provide jobs for less than 100 workers. It is interesting to notice that there are no electronics/electrical firms among them. The average employment by 29 Japanese firms in Kedah is about 300 workers per factory. The total job creation by the Japanese manufacturing firms in Kedah is about 9,000 jobs. Twelve Japanese electronics/electrical firms totally employ more than 7,500 workers, which is 80 percent of the total employment by the Japanese firms. The average employment by the Japanese

electronics/electrical firms is about 550 workers per factory. It is more than 1.8 times higher than the average employment by all the manufacturing Japanese firms in Kedah. In short, the Japanese electronics/electrical firms in Kedah have a relatively higher level of employment and contribute much to the job creation.

CHART 4.2
EMPLOYMENT BY JAPANESE FIRMS IN KEDAH IN 1993



Source: JETRO and KSDC

4.3.5 Japanese Expatriates

The Malaysian Government allows the new coming foreign firms (applications received between October 1, 1986, to December 31, 1990) to get automatically five expatriate posts, provided that the foreign paid-up capital is US\$ 2 million and above. There are two Japanese firms that have sent more than ten Japanese expatriates to their subsidiaries in Malaysia, namely, Sharp-Roxy and Matsushita Motor. The other firms sent five or less than five Japanese expatriates each. Thus, six Japanese firms employ five Japanese expatriates each. Four Japanese firms have each three Japanese expatriates, and seven firms employ only two expatriates each. There are six Japanese

firms in Kedah that employ only one Japanese expatriate each. One firms with the Japanese majority equity participation employs only Malaysian staff with no Japanese expatriates. The average number of the Japanese expatriates per firm is 2.5 person. This means that the average number of workers per Japanese expatriate in the Japanese manufacturing firms in Kedah is 130.

Electronics/electrical firms employ a total of 65 Japanese expatriates, and the average number of the Japanese workers per firm in this industry exceeds 5 persons. This is almost the double amount of the average number of the Japanese expatriates in all industries. The number of Malaysian workers per a Japanese expatriate in electronics/electrical industry is about 120. It shows that electronics/electrical firms employ more workers, including the Japanese expatriates, than the firms engaged in other industries, but the percentage of the Japanese staff in total employment is smaller in non-electronics/electrical firms.

4.3.6 Ownership Structure

The Japanese affiliated firms in Kedah will be divided into two types according to their ownership structure: 1) wholly Japanese-owned companies; 2) joint-ventures. Joint-ventures are in their turn divided into the three following categories: 1) joint-venture with the Japanese majority participation; 2) joint venture with the Malaysian majority participation; 3) joint venture with equal participation.

There are thirteen wholly Japanese-owned companies in Kedah, which is about 45 percent of the total number of the Japanese companies in that state. Sixteen companies are joint-ventures. Among them there are seven companies with the Japanese majority and eight companies with the Malaysian majority participation. One firm is a joint-venture with equal participation.

TABLE 4.1
THE OWNERSHIP STRUCTURE
OF 29 JAPANESE FIRMS IN KEDAH IN 1993

Japanese ownership	Electronics/ electrical	Non-electronics/ electrical
1%-49%	3	5
50%	0	1
51%-99%	4	3
100%	5	8

Source: JETRO and KSDC

Among the electronics/electrical companies, there are five wholly Japanese owned companies, four joint-ventures with a Japanese majority and three joint-ventures with a Malaysian majority participation. Among the non-electronics/electrical firms, there are 8 wholly Japanese owned firms, 9 firms are joint-ventures. There are 3 joint-ventures with a Japanese majority and 5 with a Malaysian majority participation. Only one firm is a joint-venture with Japanese and Malaysian equal participation. Among the non-electronics/electrical firms a share of the wholly Japanese owned companies is higher.

4.3.7 Capital Investment

It was not possible to get the information on the each of the foreign firms' investment from the government agencies. So, for the analysis we used the MIDA report on investment in the manufacturing sector in Malaysia. According to the report, in 1990, the total amount of FDI in Malaysia was RM

28,168 million. FDI in Kedah in the same period of time amounted to RM 3,922 million, which was 14 percent of the share.

TABLE 4.2
JAPANESE DIRECT INVESTMENT IN MALAYSIA
BY STATES IN 1990 AND 1994 (RM MILLION)

States	1990	1994
Kuala Lumpur	16	0
Selangor	1852	834
Penang	570	18
Perak	238	76
Johore	507	168
Malacca	219	45
N.Sembilan	153	67
Kedah	204	39
Pahang	0	16
Kelantan	0	2
Terengganu	363	277
Perlis	4	7
Sabah	7	8
Sarawak	74	7
Total	4212	1564

Source: MIDA

According to MIDA report, in 1994, the total amount of FDI in Malaysia was RM 13,271 million. FDI in Kedah in the same year amounted to RM 1,051 million, or 8 percent of the share of the total foreign investment.

In 1990, the JDI in Malaysia accounted for RM 4,212 million, the JDI in Kedah amounted to RM 204 million, or 5 percent of the share. In 1990, the

total amount of FDI in Kedah was RM 3,922 million. The share of the JDI in the total amount of FDI is about 5 percent.

In 1994, JDI in Malaysia accounted for RM 1,564 million, the JDI in Kedah amounted to RM 39 million, or 2.5 percent of the share. In 1994, the total amount of FDI received by Kedah was RM 1,061 million. The share of the JDI in the total amount of FDI in Kedah was 3.6 percent. This means that the amount of the JDI in Kedah is small compared with the total amount of JDI in Malaysia or in the total amount of FDI in Kedah.

TABLE 4.3
JAPANESE DIRECT INVESTMENT IN KEDAH
BY INDUSTRIES IN 1990 AND 1991 (RM MILLION)

Industries	1990	1991
Wood /wood products	0	0
Textile /textile products	0	0
Chemical /chemical products	6	0
Metal /Non-metal product	12	14
Electronics/Electrical	184	20
Transport equipment /machinery	0	0

Source: MIDA

In 1990, the JDI in electronics/electrical industry was the biggest among the investment to the manufacturing sector. It amounted to RM 184 million. The second biggest Japanese investment was in metal/non-metallic industry. It amounted to RM 12.8 million. The third biggest Japanese investment was in chemical industry and amounted to RM 6 million.

In 1991, the JDI in electronics/electrical industry was also the biggest among the investment to the manufacturing sector, it amounted to RM 20

million. The second biggest investors were the firms of metal/non-metallic industries. Their investment was RM 14 million. This means that the JDI in Kedah was concentrated in the electronics/electrical industry and metal/non-metallic industry.