

**THE ROLE OF JAPANESE DIRECT INVESTMENT  
IN MALAYSIAN MANUFACTURING SECTOR**

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## **ABSTRACT**

Over the years, FDI has played an important role in speeding up industrialisation in Malaysia. The actual influence and importance of foreign investment are significantly larger than their equity share. In many instances, this is due to the fact that foreign investors hold key positions in the management, production and even marketing departments in the MNCs. Among the foreign investors, the Japanese are the largest and most important ones in terms of FDI contribution for a good number of years. Thus, this study aims to investigate the role played by JDI in the Malaysian manufacturing sector.

From our study, JDIs were concentrated in labour intensive and export oriented industries as well as those which specialised in the production of capital goods. This is mainly because Japan does not have sufficient raw materials and labour to feed its expanding manufacturing and heavy industries. The availability of reliable and relatively cheap labour supply in Malaysia together with investment incentives from the Malaysian government have made it possible for the Japanese to move their production off-shore. This move has enabled the Japanese to sustain their existing comparative advantage as a low cost producer of labour intensive products in the world.

This study reveals that the JDIs are primarily export based while domestic market oriented types of manufacturing activities are dominated primarily by local investors. In order to overcome this imbalance and to bridge the technological and entrepreneurial gaps between export based and the domestic market oriented industries, the government should increase the investment incentives to attract additional JDI into domestic market oriented industries, especially those which have a high capacity in utilizing local raw materials.

In technology transfer, JDIs were concentrated in areas that did not require complicated transfer of technology, except probably investments in steel processing plants or other chemical processing plants. Most of the JDIs

were limited to assembly of consumer durable goods, such as motor vehicles and household electrical items, where the import components are relatively high. This is clearly evident even in the case of JDI in steel mills, where Japan was more interested in supplying steel slabs rather than transferring the needed technology. This is mainly due to their perception that Malaysia is unable to absorb high level of technology transfers.

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## **ABBREVIATIONS**

<b>CIAST</b>	<b>Centre for Instructor and Advanced Skill Training</b>
<b>CNC</b>	<b>Computer numerically controlled</b>
<b>CTV</b>	<b>Colour television</b>
<b>DOS</b>	<b>Department of Statistics</b>
<b>EEC</b>	<b>European Economic Community</b>
<b>EPU</b>	<b>Economic Planning Unit</b>
<b>EXIM</b>	<b>Export Import Bank</b>
<b>FDI</b>	<b>Foreign Direct Investment</b>
<b>FTZ</b>	<b>Free Trade Zone</b>
<b>GSP</b>	<b>Generalized Systems of Preferences</b>
<b>IMF</b>	<b>International Monetary Federation</b>
<b>IMP</b>	<b>Industrial Master Plan</b>
<b>ISIC</b>	<b>International Standard Industrial Classification</b>
<b>JACTIM</b>	<b>Japanese Chamber of Trade and Industry Malaysia</b>
<b>JDI</b>	<b>Japanese Direct Investment</b>
<b>JETRO</b>	<b>Japanese External Trade Organization</b>
<b>JIT</b>	<b>Just in time</b>
<b>JMTI</b>	<b>Japan Malaysia Technology Institute</b>
<b>KHA</b>	<b>Know-how agreements</b>
<b>MHR</b>	<b>Ministry of Human Resource</b>
<b>MIDA</b>	<b>Malaysian Industrial Development Authority</b>
<b>MITI</b>	<b>Ministry of International Trade and Industry</b>
<b>MNC</b>	<b>Multinational corporations</b>
<b>MOF</b>	<b>Ministry of Finance</b>
<b>MTV</b>	<b>Matsushita Television</b>
<b>NEP</b>	<b>National Economic Policy</b>
<b>NIE</b>	<b>Newly Industrialised Economies</b>
<b>OJT</b>	<b>On the job training</b>
<b>PCB</b>	<b>Printed circuit board</b>
<b>PFI</b>	<b>Portfolio Foreign Investment</b>
<b>SEDC</b>	<b>State Economic Development Corporations</b>



<b>SMI</b>	<b>Small Medium Scale Industry</b>
<b>TAA</b>	<b>Technical Assistance Agreements</b>
<b>TQC</b>	<b>Total Quality Control</b>
<b>TTA</b>	<b>Technology Transfer Agreements</b>
<b>UN</b>	<b>United Nations</b>
<b>USDI</b>	<b>United States Direct Investment</b>