CHAPTER 3
GENERAL FEATURES OF JAPANESE DIRECT INVESTMENT IN MALAYSIA

3.1 JDI in ASEAN Region

This section reviews the development of JDI in East Asian economies and their transformation since 1960. FDI, especially JDI, has clearly been indispensable in Southeast Asian's growth, particularly Malaysia. Japan has provided a successful growth model, capital and manufacturing technology. Investments by Japanese multinationals and related technology transfers must also be counted as key stimulants to the recent 'takeoff' of some Southeast Asian economies.

The ASEAN countries constitute a vital element in the emerging Japanese dominated structure of production. Japan has emerged as the number one investor in the ASEAN countries since late eighties. Japan's share of total foreign investments in ASEAN countries ranges from nearly 50 percent in Thailand to about 5 percent in Indonesia (MOF, 1992). Other informal estimates credit the Japanese with even larger proportional shares.

After the appreciation of the yen triggered by the Plaza Accord of September 1985, Japanese companies stepped up investment in the ASEAN countries (as can be seen in Table 3.1), accelerating the industrialisation of those countries. The rise in investment by Japanese corporations in ASEAN countries can be traced to two main reasons. The first is the deterioration in the investment climate in the NIEs brought about by such factors as rising labour cost, currency fluctuations and a rise in labour-management disputes, which cause Japanese corporations to look into ASEAN countries for cheaper, more reliable labour. Furthermore, ASEAN countries appeared more attractive to Japanese companies when they began to seek foreign investment for their own export development. Thailand has been the favoured investment target in the past few years with continuous increase in the amount of JDI in the manufacturing sector, but growing problems of power shortages, transportation bottlenecks and other indicators of insufficient infrastructure have prompted a shift of focus towards Malaysia. Companies such as Toyota, Mitsubishi, Sony and Hitachi are organizing parts production and assembly operations on a regional basis. In the early 1990s, Malaysia became Sony's largest manufacturing base in Southeast Asia on a total investment of more than USD300 million.

Even though Japanese investment in manufacturing sector in ASEAN countries focused only on Malaysia, Thailand and Indonesia, but slowly since the early nineties it had also started to direct additional flow of investment to other upcoming industries in other countries, such as Philippines and Singapore. Singapore showed a much marked increase since late eighties. In 1987 JDI in Singapore's manufacturing sector only amounted around USD267.4 million, but in 1997 the value is almost USD750 million. The JDI in Singapore manufacturing sector had actually surpassed the amount invested in Malaysia. However, most of the Japanese investments in Singapore are more towards manufacturing products that require more capital intensified than the production process in Malaysia. So no wonder the value is higher as most of it is for the more expensive machinery and equipments. In Malaysia less investment in terms of machinery and tools as the prime reason of investing in Malaysia is due to the abundance of cheap labour. As for Philippines, the amount of JDI increased steadily over the years. The JDI in Philippines manufacturing sector amounted USD38.5 million in 1987 and steadily increased up to a highest level of USD322.5 million before reducing slightly towards USD295 million in 1997. The highest point in 1995 might have been resulted from the massive outflow of Japanese investment after the appreciation of Yen in 1994.

In conclusion, Japanese investment has undoubtedly been a major factor in Southeast Asia growth since the late 1980s. As wages and other prices rose, Japan together with the first-tier NIEs moved investments rapidly into their cheaper neighbours. After relatively weak growth in the early 1980s, Malaysia, Thailand and Indonesia experienced big increases in GDP and manufacturing growth from 1988. Most importantly, Japanese investment in manufacturing soared in each of the major economies from USD33 million in Malaysia in 1985 to USD539 million in 1997; from USD25 million in Thailand in 1985 to USD897.1 million in 1994; and from USD66 million in Indonesia in 1985 to USD988.2 million in 1994 (Jomo, 1997). This is clearly reflected in Table 3.1 below.

Table 3.1: Japanese Direct Manufacturing Investment in ASEAN 1982-1998 (US$ million)

Year	Malaysia	Thailand	Indonesia	Singapore	Philippines
1982	58.7	79.5	144.1	n.a	n.a
1983	110.9	34.1	177.7	n.a	n.a
1984	113.6	78.9	90.6	n.a	n.a
1985	32.5	24.8	65.8	n.a	n.a
1986	64.3	86.9	26.2	63.2	23.0
1987	147.4	209.6	294.0	267.4	38.5
1988	345.7	625.6	297.3	452.8	83.3
1989	470.1	788.5	365.4	719.6	94.8
1990	581.7	713.9	535.3	538.2	119.3
1991	612.3	594.3	578.1	356.4	92.1
1992	495.3	396.5	940.7	418.0	80.5
1993	684.5	414.1	444.0	406.6	96.2
1994	563.0	557.0	813.0	615.9	266.7
1995	555.0	653.6	729.8	603.3	322.5
1996	596.0	686.6	859.4	622.6	289.3
1997	539.0	897.1	988.2	745.8	295.1
1998	390.3[1]	n.a	n.a	n.a	n.a

[1] *Jan-June 1998*

source: Japan, Ministry of Finance, "Annual Report of Finance Bureau"

Jomo (1997)

STAR (1998)

We can also conclude that investment in ASEAN economies and Asian NIEs was greatly influenced by the speed in which they implemented deregulation and established incentive mechanisms to encourage investment. FDI in Indonesia is declining lately following a 1996 boom in large scale investment projects that was fueled by the government's 1994-95 efforts to fully open it's markets-including the liberalisation of FDI in infrastructure projects in every industry. FDI by Japanese companies in the Philippines is also falling sharply, lately due to a weaker yen and saturated capacity in industrial parks outside the capital, which affected overall FDI in the country.

3.2 Foreign Direct Investment in Malaysia

FDI in Malaysia exhibits certain pattern, particularly in terms of market orientation and ownership structure. The bulk of FDI has gone increasingly into export-oriented manufacturing industries.

The character of FDI in Malaysia had undergone major changes over the years. In the 1960s, foreign capital was particularly predominant in agriculture, mining and trade. At present, it figures most predominantly in manufacturing, which had become the engine of growth for Malaysian economy. It is thus clear that foreign investment is playing an increasingly important role in the Malaysian economy. FDI in Malaysia is dominated by Pacific region whose share of equity in approved projects has increased from 64.5 per cent in 1982 to 82.8 per cent in 1987 to above 90 per cent in early 1990s. By contrast, the EEC share has fallen from 21.8 per cent to 8.1 per cent and less than 5 per cent over the corresponding period (Table 3.2).

Of course, not all Asia-Pacific countries are equal importance as a source of FDI for Malaysia. Japan, the Asian NIEs (newly industrialised economies) and the United States being the more important ones. These countries jointly accounted for 70.2 per cent of foreign investment in approved projects in 1987. It has been reported that more than 1700 international companies from pacific region had located their projects in Malaysia. These include Australia's Ansell International, New Zealand's Wix Corporation, Hong

Kong's Textile Alliance Group, Japan's Matshushita Group of Companies, Toray Industries and Marubeni Corporation, and the United States's Motorola, Hewlett Packard and Texas Instruments (Ariff, 1991).

In the nineties, the Asia Pacific countries had continued to hog the limelight when it comes to invest in Malaysia. In 1997, the investment from Asia Pacific countries amounted to almost 80 per cent. These are with just considering figures from United States, Australia, Japan, Singapore, South Korea and Taiwan. The most important source of foreign investment for Malaysia list is still headed by Japan. In 1989, Malaysia ranked second only to Thailand as Japan's favoured overseas investment venue in South East Asia. Japan has long been the leading source of FDI for Malaysia, although Taiwan displaced Japan as the most important investor in the country in the early nineties, with Taiwanese investment in approved projects contributing 36 per cent of the total compared with Japanese investment which contributed 23.9 per cent. Nonetheless, it is remarkable that Japan's contribution still remained significant, averaging 20 per cent of the investment in approved projects. Japanese investment in Malaysia reached it's peak in 1996 with RM 4,606.3 million invested in approved projects. But since then, the JDI started to slide downwards in tandem with the Asian financial crisis.

The fastest growing foreign investments in Malaysia are from Taiwan. Taiwanese investment has been growing rapidly since 1987. After ranking second only to Japan in 1988 and 1989, Taiwan became the number one investor in 1990 chalking up 36.0 per cent of approved investments. This amounted to almost RM 6,339 million. However, Taiwanese started to slide downwards since then, reaching as low as RM 894.2 million in 1993 before escalating back in 1994 with RM 2,874 million. The Taiwanese investments have gone mainly to electronic components, textile and wood based industry.

Korean investment in Malaysia has more than trebled during 1990s, but it's share remains relatively small around 4-5 per cent in the nineties. Since their first venture to Malaysia in 1981, Korean investors had implemented very few projects. Singapore, because of its geographical

Table 3.2: FOREIGN DIRECT INVESTMENT IN APPROVED PROJECTS BY COUNTRY 1982-1998 (RM million)

Country	1982	1985	1987	1990	1991	1992	1993	1994	1995	1996	1997	1998[1]
United States	22.9 (4.4)	111.9 (11.7)	122.6 (8.2)	567.3 (3.2)	1798.4 (10.5)	3298.7 (18.6)	1757.7 (28.0)	1253.2 (11.1)	1801.6 (19.7)	2666.3 (15.6)	2397.0 (20.9)	2515.2 (43.6)
Australia	62.1 (12.0)	25.7 (2.7)	59.4 (4.0)	54.3 (0.3)	410.5 (2.4)	2125.6 (12.0)	52.1 (0.8)	175.6 (1.5)	139.5 (1.5)	136.5 (0.8)	90.6 (0.7)	106.5 (1.8)
Japan	136.9 (26.4)	264.4 (27.6)	461.6 (30.8)	4212.6 (23.9)	3705.9 (21.7)	2684.3 (15.1)	1661.2 (26.4)	1765.2 (15.6)	2096.3 (23.0)	4606.3 (27.0)	2164.3 (18.9)	1370.9 (23.8)
South Korea	0.3 (0.1)	25.0 (2.6)	4.0 (0.3)	650.4 (3.7)	1818.7 (10.7)	99.4 (0.6)	111.1 (1.8)	408.8 (3.6)	604.4 (6.6)	644.3 (3.8)	677.6 (5.9)	56.9 (1.0)
Singapore	9.4 (1.8)	100.2 (10.5)	270.8 (18.0)	895.3 (5.1)	1114.3 (6.5)	442.4 (2.5)	521.9 (8.3)	1063.6 (9.4)	1008.7 (11.0)	4765.5 (27.9)	1281.3 (11.2)	385.5 (6.7)
Taiwan	1.6 (0.3)	31.9 (3.3)	237.0 (15.8)	6339.1 (36.0)	3607.2 (21.2)	1500.0 (8.5)	894.2 (14.2)	2874.0 (25.4)	1442.2 (15.8)	775.7 (4.5)	1344.9 (11.7)	583.0 (10.1)
United Kingdom	n.a (-)	26.9 (2.8)	34.1 (2.3)	867.2 (4.9)	546.2 (3.2)	1304.0 (7.4)	44.1 (0.7)	94.1 (0.8)	189.9 (2.0)	368.2 (2.2)	206.7 (1.8)	110.5 (1.9)
Others	n.a (-)	373.0 (38.9)	310.5 (20.7)	4042.8 (22.9)	4053.8 (23.8)	6317.6 (35.5)	1244.7 (19.8)	3704.5 (32.7)	1861.0 (20.4)	3093.8 (18.1)	3310.6 (28.9)	631.6 (11.0)
Total	519.0	959.0	1500.0	17629.0	17055.0	17772.0	6287.0	11339.0	9143.6	17056.6	11473.0	5760.1

[1] Figures for Jan-Jun only
[2] Figures in parenthesis reflect percentage

proximity and historical ties, has traditionally been a major investor in Malaysia. Industrial restructuring in the Republic in the wake of rising wages and strong Singapore Dollar have forced many industries to move into Malaysia. Singapore's investments are involved in producing goods ranging from rubber products to electronics. However, the Malaysian FDI statistics apparently overstate Singapore's share, since a significant proportion of foreign investments from Singapore is actually undertaken by multinational corporations operating in Singapore. FDI from Singapore in approved projects increased steadily since 1982, reaching its peak in 1995 with investments worth RM 1,442.2 million.

The United States is also an important investor, although its share of newly approved projects shrunk from 11.7 per cent in 1985 to 3.2 per cent in 1990, before gaining pace to increase to 28.0 per cent in 1993 and 20.9 per cent in 1997. With the depreciation of Ringgit Malaysia against US Dollar in 1997 had resulted in United States taking over Japan as the major investor in Malaysia in approved projects calculated in Malaysian currency. The relative importance of EEC as a source of FDI inflows into Malaysia has been diminishing. Among the Eec countries, the United kingdom, Germany and the Netherlands are the most important investors in Malaysia, jointly accounting for over 95 per cent of the EEC stake in terms of both paid-up capital and fixed assets.

3.3 Japanese Direct Investment in Historical Perspective

This section will study the general investment trends, patterns and motives of Japanese companies investing in Malaysia since 1957. It can be categorized to 4 periods namely 1957-69, 1970-80, 1981-86 and 1986-95. This periodization would enable us to analyse the kinds of industries that Japanese MNCs invested in as Malaysian policy priorities changed over time.

1957-1969

From the late 1950s into 1960s, Malaysia's import substituting industrialization strategy saw Japanese companies primarily interested in expanding and protecting their market shares. By the end of 1969, there were 54 Japanese companies in Malaysia. Total Japanese investment in Malaysia amounted to RM32.2 million. Japan was listed fifth in 1969 among foreign countries investing in Malaysia. 33 out of the 54 Japanese companies established during 1957-69, were in the manufacturing sector. The Japanese investments were concentrated in steel and other metals, petroleum, chemistry and wood products. This would suggest that they were mainly interested in processing natural resources to supply inputs for Japanese industry at home. The large Japanese investments in Daishowa Pulp Company and Felda Oil Products Sdn. Bhd. are examples of such exploitation of natural resources by Japanese investment (Mehmet, 1993). In addition, they established subsidiaries supplying the domestic markets protected by tariffs. This was true of the electrical/electronics industry, with the establishment of subsidiaries for Matsushita, Sanyo and Sharp (Anazawa, 1994). JDI was generally discouraged until the end of the 1960s.

1970-1980

In the 1970s, Japan has major effects on most of the economies in Asia with relatively modest levels of investment. The collapse of the Brettonwoods fixed exchange rate system triggered Japan's enlarged foreign direct investment. In Malaysia, the Japanese investment was welcomed during this period. With the changing industrialization strategy at the end of the 1960s, export oriented companies began to invest from the early 1970s to establish export platforms to take advantage of relatively cheap labour. In addition, Malaysia also adopted a policy to woo Japanese investors to Malaysia. The introduction of Free Trade Zones (FTZs) coupled with special incentives for the electronics industry that was later extended to other labour-intensive industries, created favourable conditions for export-oriented companies. Also, owing to the rising wage levels in Japan, some labour-intensive industries there began to lose their competitive advantage and relocated their factories. According to Sakamoto[1], "your political stability, infrastructure and human resource are better than in other countries...... many Japanese industrialists are keen to invest in your country. This is because wages have gone up tremendously in many countries." He also pointed out that ' cheap labour is an available resource that could be used in labour-intensive industries, which in turn might be used to support other more advanced industries' (Mehmet, 1993)

Malaysia's new policy of encouraging Japanese investment saw the establishment of 200 Japanese firms, as of 1975, with total investment of RM 625 million. However between 1973 and 1974, there was a sharp drop in Japanese investment. They invest RM315 million in 1973, dropping to RM120 million in 1974. The oil shock and undervalued yen, along with capital controls were among the reasons given for temporary dwindling of overseas investments by Japanese firms.

The post 1975 diversification of Japanese investments overseas provided new opportunity for Malaysian business. Investments in textiles industry ballooned, with the establishment of the Pen (Toray) group and Kanebo in the Prai FTZ in Penang, as well as Toyobo in Perak and Kedah. However, the wood industry was still the largest in terms of projects and second largest in terms of the amount of investment after the textiles industry. The electrical/electronics industry showed steady growth in terms of both number of projects and amount of investments (Anazawa, 1994). In consideration of the Japanese firms outside manufacturing, 30% were in construction. The growth in construction had much to do with the importance given, in the Third Malaysian Plan, to projects such as highways, airports, ports, new townships, etc., i.e. infrastructural developments, partly to create an atrractive climate to FDI.

[1] Isamu Sakamoto, the leader of a Japanese industrial delegation to Malaysia and vice chairman of the Osaka Foundation of Science and Technology

1981-1986

The Malaysian government's attitude towards Japanese investments became even more indulgent with the 'Look East Policy' initiated under Dr. Mahathir Mohamad from mid 1981. During this phase, 37 new firms were established in manufacturing sector. A significant decrease of manufacturing firms was observed in this period compared with earlier periods, with the number of new non-manufacturing firms going up by 111 firms, or 75 percent of all firms established. 46 new firms were established in construction. Trading, services, finance and insurance accounted for much of these new investments.

The basic reason for this was the decrease in investment enthusiasm especially in manufacturing, related to subdued economic conditions in Malaysia and internationally. The rapid growth of profits from the construction and real property sectors in Malaysia also contributed to the relatively lower attractiveness of other sectors. But it was also the period when the national car project kicked off. With the national car project (joint venture with HICOM, Mitsubishi Motors Corporation, and Mitsubishi Corporation) in 1983, investment in the transport equipment industry soared. JDI in the iron/metal industry jumped with the participation of Nippon Steel in the Perwaja Steel Mill in Trengganu in 1984. Hence while other manufacturing investments declined in Malaysia, JDI concentrated in some specific heavy industries involving joint ventures between Malaysian public corporations and Japanese large MNCs (Jomo, 1993).

Post 1986

In September 1985, the Group of Five industrial nations agreed to refrain from propping up the US dollar against the Japanese yen. The Japanese yen exploded over a three year period. Between September 1985 and September 1987, the yen surged from about 240 yen to the US dollar to 140 yen to the dollar, a 70 % increase. The Yen appreciation or *Endaka* from late 1985 caused tremendous growth and drastic changes in JDI. The new

JDI concentrated in the electrical/electronics industry, contributing to rapid growth of JDI in Malaysia's manufacturing sector until the early 1990s. From 1986 to 1991, USD 2224.1 million was invested in 501 projects, accounting for 73.8% of total JDI in Malaysia and 50.2% of total number of JDI projects in the manufacturing sector. These new JDI increased both the number of projects and amount of investment as many Japanese SMCs emerged as new investors together with bigger Japanese MNCs.

This exchange rate problem has been persistent up to early 1990s, since Japan continued to maintain huge current account surplus which was its root cause. In 1993, a new round of yen appreciation was triggered by US President, Bill Clinton's pledge to get tough against Japan. From November 1992 to May 1995, the yen went from 124 to the dollar to a high of 79 yen to the dollar, a 57% increase, before strengthening to 98 yen in September 1995 (Edith, 1996). Clearly, JDI after the *endaka* has been led by the electrical/electronics industry; MNCs in the industry established new export platforms or enlarged existing export bases. This not only stimulated other MNCs, but also SMCs, mostly subcontractors, to invest in Malaysia, creating a 'bandwagon effect' (Anazawa, 1994).

Over ten years, the yen has risen nearly two and half times in value. Japanese investors flocked to take advantage of foreign investment reforms in their neighbourhoods that emerged at their time of greatest need. Malaysia among others offered Japanese investors a host of special inducements to create export industries. The Promotion of Investments Act and deregulation of foreign equity ownership guidelines, coupled with the strong Yen, encouraged the Japanese firms to invest in Malaysia.

3.4 Motivation for Japanese Firms

Japanese companies in electronics and electricals, textiles and other manufacturing activities have different motives for investing in Malaysia. The fear that tariff protection could exclude them from the local market was given as the main reason by companies in the Malaysian consumer oriented

Japanese electronic and electrical industry. The proven success of their other overseas operation was cited as the main reason why textiles companies invested in Malaysia. Other than the specific motives stated above, the political and economic stability of the country was apparently also considered very attractive (Chee & Lee, 1979).

In the late 1970s and early 1980s Japanese companies in Malaysia were motivated by 'resource security', 'labour utilization' and 'market security'. In the manufacturing sector the companies were motivated by 'labour utilization', whereas the companies in research and development were motivated by 'resource security'. In the 1970-80 period also, the Japanese government was responsible for much of Japanese investments in countries like Malaysia. According to the Tanaka Plan, rejected industries of the manufacturing industry were encouraged to invest abroad. They were basically labour, pollution-intensive industries and industries with low skills like textiles. While they were encouraged to go overseas, Japan encouraged the growth of high technology industries at home.

J. Saravanamuthu (1983), claims that Japanese as well as other foreign companies invested in Malaysia primarily for cheap labour. According to him, foreign capital interests have been to take immediate advantage of Malaysia's export orientation policy, simply by exporting Malaysia's so-called 'comparative advantage' (cheap labour) in producing labour-intensive industrial items such as electronic products. This off shore production would import 100% of inputs from parent company and export back 100% of the output assembled or manufactured in Malaysia back to parent company for re-export. Due to this the domestic value added are minimal.

However, Malaysia's political stability seems to have been the most important factor for Japanese companies to invest, followed by other factors such as investment promotion measures by the government and cheap labour. Political stability is considered absolutely crucial for protecting foreign companies' assets, providing guarantees against confiscation and nationalization, as well as labour and other unrest.

3.5 Geographical Distribution

The government used to encourage companies to locate in less developed areas by providing fiscal incentives under the Investment Incentives Act (1968), as this was thought to help correct income differentials among states. However the Japanese companies have found it more advantageous to locate in the more developed states where commercial and physical infrastructure is better. Most of their customers and local suppliers can also be found in these areas, as well as other foreign and large Malaysian companies. As shown in the Table 3.4, Japanese related companies tend to be located primarily in Selangor, Penang and Johor. It is shown from the table that since early 1990s, most of the companies are located in these 3 states, with 179 in Selangor, 80 in Penang and 74 in Johor in 1992.

A new phenomenon has been observed with recent JDI (in early 1990s), which may be considered to be a 'spillover effect' caused by geographical concentration. As shown by the Table 3.4, Japanese firms tend not to be concentrated in developed regions and where well developed infrastructure already existed. The rapid growth of manufacturing investments have made it harder to find well located factory sites, especially in big cities and their vicinity, with Japanese investors competing with an increasing number of other foreign companies e.g. from Taiwan and Singapore, as well as local companies. Most of the better located industrial estates and FTZs are fully occupied and newcomers have to go elsewhere (Riduzuan Mohd Akil, 1991). For instance in the Klang Valley, the early developed industrial estates in Petaling Jaya and Shah Alam has been fully occupied for some years. Companies intending to locate near the capital city of Kuala Lumpur have to set up their factories in less conveniently located industrial estates, Batu Caves, Bangi and Kelang, though such areas offer more relatively cheap labour. The situation is similar in Penang, where the Bayan Lepas and Prai industrial estates and FTZs are almost fully occupied, and new Japanese companies are to be found in neighbouring Kedah. In Johor, Johor Bahru and its vicinity and the Pasir Gudang area cannot provide enough industrial sites and/or labour, with Batu Pahat and Batu Berendam, Melaka among others emerging as alternatives.

In the past, centripetal forces worked and well supplied industrial estates and FTZs developed by state economic development corporations (SEDCs) enabled Japanese companies to locate in better factory sites in big cities and their vicinity. Rapid industrial development and FDI have caused centrifugal forces or spillover effects. More and more Japanese companies have begun to locate further from big cities and even in the less developed areas or states on the East Coast of Peninsular Malaysia and in Sabah and Sarawak to ensure availability of cheap labour (Anazawa, 1994). Even though they had to do this because of spatial constraints, but by doing so, they served to reduce regional differences and locational poverty. Thus, there were some contributions by Japanese companies to Malaysia's own socio-economic goals.

Table 3.3: Japanese Related Manufacturing Companies in Malaysia (1992-1996)

	1992	1993	1994	1995	1996
Selangor	179	219	231	245	299
Johor	74	83	88	97	127
Penang	80	93	102	102	101
N.Sembilan	18	21	24	29	44
Kedah	23	27	27	28	33
Perak	18	28	28	28	35
K.Lumpur	21	22	22	21	27
Melaka	17	21	22	23	26
Sab/Sar[1]	12	13	15	16	18
East Coast[2]	4	5	6	6	12
Total	447	533	566	596	722

[1]*Refers to Sabah and Sarawak*
[2]*East coast comprises Pahang, Kelantan and Trengganu.*
Source: JETRO Kuala Lumpur

3.6 Sectoral Distribution of JDI in Malaysia

Foreign investments have gone into a wide spectrum of manufacturing activities ranging from simple food manufacturing to production of sophisticated scientific and precision instrumenys. Nonetheless, electronics, chemicals, textile and wood products have jointly accounted for as much as 65.5 per cent of approved FDI in 1990. Sectoral allocation of FDI in Malaysia, however varies considerably between investing countries. Nearly 59 per cent of Japanese investment in Malaysia is accounted for by three industries, namely textiles, electronics and basic metal products.

Table 3.4 provides an overall breakdown of Japanese business units in Malaysia classified according to type of economic activity. From 1992-1996, manufacturing investment has been accounted for the largest sectoral share in terms of numbers of projects (averaging 54.7 per cent) and value of investment. Trade/commerce and construction/engineering, follows closely with almost 10 per cent share respectively, in terms of number of establishments.

With the manufacturing sector itself, JDI seems to be more concentrated in electronic & electrical products, where since 1992 till 1995 they contributed almost 40 per cent of JDI related companies that are actually maufacturers. In 1996, almost 45 per cent of JDI related companies in Malaysia were actually operating as manufacturer. In addition to E&E, the other sectors that interested the JDI were Petroleum & Chemical Products and Steel & Non-ferrous Metal Products. These two categories always contributed to about 10-12 per cent of JDI related companies in Malaysia.

As for the non-manufacturer category, the highest number of JDI related companies were in the construction and engineering sector, followed closely by the foreign trade and commerce sector. This clearly shows that the JDI were mainly concentrated in areas that Malaysia lack expertise and experience.

The expansion of JDI within the manufacturing sector during this period off-set the deterioration of JDI contribution in other sectors such as agriculture production, marine products and extraction of natural resources, which was dominant in the 1960s. This is evident that in 1980, there were at least 7 Japanese mining companies, and some agricultural production. But by 1990s there were only either one or no Japanese establishments in Malaysia involved in these sectors. There were many reasons for the rise of JDI in the manufacturing sector of the Malaysian economy.

Firstly, the Japanese were motivated to take advantage of the Malaysian industrialisation policy that was explicitly drawn up to attract foreign investors. To further strengthen their position in the Malaysian economy, the Japanese investors started to inject more capital into the Malaysian economy, through the industrial sector. This actually had been going on as early as 1960 and by the late 1980s the Japanese had successfully established themselves as the major source of capital in Malaysia.

Secondly, speedy economic growth in Japan created a high demand for new recruits into Japanese workforce. This had led to an undersupply of labour in Japan, which resulted in an increase in wages. This is worsened further by the appreciation of Yen. In other words, production in Japan has become expensive. To overcome the problem of this increase in cost, Japanese investors relocated their firms to Malaysia which were and still promoting industrialisation. In addition, the availability of a reliable and relatively cheap labour force had been a factor influencing Japanese investors. But this may not be true in recent times. However, the slightly more expensive skilled or semi-skilled workforce in Malaysia had also shown potential in adapting to the Japanese work system (compared to workforce from other countries).

Thirdly, the Japanese investors were not keen in production of primary commodities because of the decreasing importance of primary products in the world markets. Improvements in science and technology, had also resulted in many new synthetic products taking the place of primary commodities. For

Table 3.4 **Distribution of Japanese Business Units in Malaysia 1992-1996**

Type of Activity	1992	1993	1994	1995	1996
Manufacturer	447	533	566	596	722
Food and Beverages	11	12	12	13	14
Textile & Textiles Products	18	17	16	15	19
Wood & Pulp	22	24	28	30	38
Petroleum & Chemical Products	47	59	72	74	70
Steel & Non-ferrous Metal Prods	54	559	59	64	71
Machinery	3	2	2	2	5
Electronic & Electrical Products	181	222	230	244	323
Transportation Machinery	34	37	40	43	51
Other Manufacturing	77	101	107	111	131
Non-Manufacturer	399	427	448	474	624
Manufacturer' Rep. Office Sales & Service Companies	66	72	76	83	119
Agriculture & Forestry	4	4	4	4	4
Fishery & marine Products	1	-	-	-	2
Mining	-	1	1	1	1
Construction & Engineering	86	97	100	103	119
Foreign Trade & Commerce	93	93	98	98	139
Banking & Insurance	44	45	46	47	58
Services	44	54	61	71	11
Transportation & Warehousing	34	32	33	38	45
Real Estate	3	3	2	2	3
Other Non-Manufacturing	24	26	27	27	24
Total	846	960	1014	1070	1346

Figures in bracket represent percentage.

Source: JETRO Kuala Lumpur

example demand for tin products began to decline, and plastics and other chemical products began to gain importance. The market for manufactured goods was booming. In addition, the market for manufactured products also was thought to be more secure, stable and predictable.

3.7 Equity Structure

In terms of equity or ownership structure, Japanese investors tend to show a greater preference for joint ventures. Joint venture agreements are normally established between Japanese and the local or state government or other local or foreign interest. More than half of Japanese corporations in Malaysia exercised control by acquiring at least 50 percent equity ownership. Only a handful of companies maintained a full hundred percent ownership. The remainders basically held less than 49 percent of the total equity. With an equity share of less than 49 percent, most of the firms are not granted the privilege of exercising full control in terms of production and management, unless they are the company's largest shareholder.

The tendency for the Japanese investors to establish joint ventures with others is relatively high within the Malaysian manufacturing sector, because the existence of Japanese partners served mainly as provider of technical and managerial resources. Understandably, it does not seem necessary for the Japanese to hold large share of the equity.

In addition, the regulations in Malaysia hold some form of constraint over the formation of wholly foreign controlled companies, particularly during the early stages of industrialisation in the 1970's. However, in recent years, the government has taken steps to liberalise its foreign investment policies to encourage greater inflow of foreign investment. Apart from the above reasons, formation of a joint venture especially with local entrepreneurs would assist the Japanese in matters related to market information, securing of projects, and other bureaucratic procedures involved in daily operation of the plant.

It is also common in some in some cases that the equity of the Japanese investors in these joint ventures was merely as minor shareholders with the local resuming the majority ownership. However, it is intriguing to note that for the local entrepreneurs, although they held majority equity ownership, they do not usually control the operations of the firms. Their shares were often scattered widely, thus making it difficult to unite to exert much significant power. Under such circumstances, Japanese being the largest individual shareholders, would indirectly retain control of the company.

The lack of interest and commitment among local entrepreneurs has further widened the opportunity for the Japanese to control the companies. Furthermore, the Japanese have always been the sole provider of technical and managerial resources by arguing that their technological leadership and reputation for quality and efficiency cannot be maintained unless they have full control of the operation of the plant.