

THE HISTORICAL DEVELOPMENT OF JAPANESE INVESTMENT IN MALAYSIA 1981-1990

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Abstract: This article discusses the historical development of Japanese investment in Malaysia between the years 1981 and 1990. When Tun Dr. Mahathir Mohamad took over the administration, Japanese investment in the country has been growing rapidly as Japan emerged as the largest trading partner of Malaysia. The consequence of crisis with the British government witness by 1982 Japan's position in Malaysia has further strengthened through the implementation of the Look East Policy. Through this policy, the Japanese management system and work ethic has been widely publicized to continue the pro-Japanese orientation. Although researcher found too many previous studies on Japanese investment in Malaysia, this study will complement previous studies by the data collected from different sources from previous researchers. The different data will also provide new insight to the reader about the history of Japanese investments in this period. The main focus of the Japanese investments directed at the investment date, the parties involved, the amount of capital, total employees, location and sector expertise.

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

1. INTRODUCTION

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

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

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

countries after the Second World War, other assistance through organizations such as the Japanese Economic and Trade Organization (JETRO) and so on.

Between 1951 to 1979, North America, Central America and South America are the three most important places for Japanese investment, respectively represent 27 per cent, 26 per cent and 18 per cent of Japanese abroad investment. The bulk of Japanese investment in the Asian region is in ASEAN. Each ASEAN country has attracted major investments from Japan with Indonesia accounting for 64 per cent of it or 12 per cent of the total Japanese investment abroad.² Japanese investments in developed countries are concentrated in the mining sector, trade and banking and insurance. In developing countries, Japanese investments are concentrated in the manufacturing and mining.

The patterns of Japanese investment abroad can be explained easily. As Japan is a country with limited natural resources, an important motif in the country's overseas trade was to get raw materials and mineral supply. So mining is an important field for Japanese investment in countries that are rich in mineral resources, regardless of the level of GDP per capita income of these countries. Japan has a large investment in the sectors of trade and banking and insurance in North America and Europe because it is a developed financial market, while in developing countries, Japanese investment in the manufacturing sector was driven by cheap labour, access to raw materials and the desire to protect the local market.³

Since the Plaza Agreement⁴ in September 1985, the rising cost of production in East Asia and the withdrawal of priority for duty-free products under U.S. Generalized System of Preferences (GSP)⁵ resulted in an outflow of investment from East Asia in the second half of the 1980s, especially from Japan who suffer from shortage of blue collar workers.⁶ While Japanese investment aimed at the United States and the European Union in the late 1970s and early 1980s, with a small number channeled to Southeast Asia, major changes have occurred since 1986.⁷ The endaka phenomenon⁸ witness many

² Chew Soon Beng & Pushpa Thambipillai, Japan and Southeast Asia in Manfred Pohl (editor), Japan 1980/81: Politics and Economy, Issued under the auspices of the Institute of Asian Affairs and Institute of Southeast Asian Studies, Singapore, Maruzen Asia, 1981, p. 164.

³ Ibid., p. 165.

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

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

⁶ Tham Siew Yean, Liew Chei Siang & Marziah Mokhtar, Foreign Direct Investment and Spillovers in Malaysia in Chalongphob Sussangkarn, Yung Chul Park & Sung Jin Kang (editors), Foreign Direct Investments in Asia, London, Routledge, 2011, hlm. 54. For more information about Japanese blue collar workers, kindly see Robert E. Cole, Japanese Blue Collar: The Changing Tradition, Berkeley, University of California Press, 1971.

⁷ For more information, kindly see Roger Farrell, Japanese Foreign Direct Investment in the World Economy 1951-1997, Pacific Economic Paper No. 299, Canberra, Australian-Japan Research Centre, 2000. See also Anonymous, Japanese firms to move factories overseas in New Straits Times, 4 September 1986.

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

of Japan small companies put their operations closer to clients in the host countries. By 1990, foreign investment in Malaysia is increasingly dominated by investment from the Asia Pacific region, particularly Japan.⁹ Japanese investment in Malaysia in the early 1990s dominated by proliferation of Japan's Small and Medium Enterprises (SME),¹⁰ to meet the needs of Japanese larger companies here.

The historical development of Japanese investment in Malaysia during the era of the administration of Tun Dr Mahathir Mohamad had been touched by many previous researchers, among the important research are from Chee Peng Lim & Lee Poh Ping (1979 & 1983), J. Tann Kok Aun (1982), Mehmet Sami Denker (1990 & 1994), Makoto Anazawa (1994), Khadijah Md. Khalid & Lee Poh Ping (2003) and finally Fumitaka Furuoka (2007). Although researchers saw there already too much previous research on Japanese investment in Malaysia during the administration of Tun Dr Mahathir Mohamad, this research will be able to complement previous studies through the use of the data collected from different sources than previously researchers. The method used is based on the screening methods of the resources available at the National Archives of Malaysia and Selangor State Investment Centre (SSIC). The differently processed will also be able to give a new understanding to readers about the historical development of Japanese investment in the time period of the study.

2. MAHATHIR AND OTHER ACTORS FACTOR

When we see the strong opposition of Tun Dr Mahathir Mohamad against the British¹¹ and neo-colonialism and his strife with Tunku Abdul Rahman¹² and Tunku's liberal policy, his brave ideas and criticism to the Malays as stated in the Malay Dilemma book, the changes in Malaysia's internal and foreign policy is expected when Tun Dr. Mahathir Mohamad took over the post of Prime Minister from Tun Hussein Onn in July 1981. Tun Dr. Mahathir Mohamad became the main catalyst in the bilateral relations between Malaysia and Japan after 1981. There is an inner nature of Tun Dr Mahathir Mohamad who was very impressed with the Japanese economic miracle and matters relating to Japan before he became Prime Minister.¹³

The close relationship between Malaysia and Japan was much influenced by the private role of Tun Dr. Mahathir Mohamad. He is responsible for projecting a more positive image of Japan in the 1980s and 1990s. Tun Dr Mahathir Mohamad's vision to make Malaysia an industrial economies and developed country and has influenced him to adopt the Japanese model, and later the finest Japan's image has gained popularity and support in Malaysia.¹⁴ The influence Tun Dr. Mahathir Mohamad's idiosyncratic in the orientation of pro-Japan showed he was a leader who is ambitious and has a strong vision to develop Malaysia. Under his leadership, the Government has follow the pro-business policies and in line with the interests of the Government elite and their Japanese business partners.

Japanese businessmen will act individually or as a group, to lobby the highest leadership of the Government of Malaysia for their interests, their firms and their country. In some situations, their interests are not necessarily the same with regard

⁹ Anonymous, Asian policy in *New Straits Times*, 17 October 1988.

¹⁰ See J. Tann Kok Aun, *I Go East: Learning From The Japanese Experience*, Kuala Lumpur, Milimex Corp. Publishers, 1982, p. 131. Small and Medium Enterprises make up 90 percent of the total manufacturing companies in Japan. See also Anonymous, Japan's small firms recover in *New Straits Times*, 23 April 1988.

¹¹ For more information about the impact of British occupation to the Tun Dr Mahathir Mohamad's view kindly see J. Bass, *Malaysia in 1982: A New Frontier?* in *Asian Survey* 23 (2), 1983, pp. 191-200. The author connects the anti-British feeling from Tun Dr Mahathir Mohamad with the implementation of Look East Policy.

¹² Khadijah Md. Khalid & Lee Poh Ping, *Whither The Look East Policy*, Bangi, Penerbit Universiti Kebangsaan Malaysia, 2003, pp. 92, 103, 104.

¹³ *Ibid.* pp. 95, 120, 121.

¹⁴ Anonymous, *Malaysia-Japan: Still going strong* in *New Straits Times*, 15 February 1985.

to the role of the group such as Japan External Trade Organization (JETRO), Malaysia-Japan Economic Association (MAJECA), Japan-Malaysia Economic Association (MAJECA) and Japanese Chamber of Trade and Industry Malaysia, (JACTIM), as well as individuals such as Suzuki and Ohmae. While Suzuki uses his personal relationship with Tun Dr. Mahathir Mohamad and official networks with MAJECA, JAMECA and JACTIM, Ohmae relationship with Malaysia began when he was appointed as Special Adviser to the Government during the early period of Look East Policy.¹⁵

The Japanese businessmen through MAJECA, JAMECA and JACTIM and their leader had managed to find a close ally that pro-Japanese and reliable in Tun Dr. Mahathir Mohamad, Malaysia's new leader that is known because of his attitude against the British. The close friendship between Tun Dr. Mahathir Mohamad and Suzuki has helped increase the importance of JACTIM until it emerged as a significant Japanese lobbyist in Malaysia. Hatch and Yamamura reflects the Japanese business and political elites have mastered the art of Japanese network to gain power in Asia.¹⁶ In the analysis made by Wong and Liao,¹⁷ they emphasised the need for Japan to nurture a new generation of ASEAN leaders that can become a lobbyist agent for the Government of Japan and business interests in their home. This has become even more important in view of the increased competition from foreign investors such as Taiwan, South Korea and the United States of America.¹⁸

The implementation of the Look East Policy in 1982 is the windfall for the benefit of Japan's economy. The policy has been facilitating the control in many areas of the Malaysian economy by Japanese companies. Japanese investment is essential to the Malaysian economy. It not only provides additional capital to help speed up Malaysia's industrial development, but it also helps provide job opportunities, training and technology transfer. Japanese investment also assists in promoting the relationship between the people of both countries. The Government of Japan highly appreciates the Look East Policy, taking it as the basis for a special relationship between Japan and Malaysia.¹⁹ Japanese Ambassador to Malaysia, Masaki Konishi said the two countries should be grateful to Tun Dr. Mahathir Mohamad for the good relations they enjoy.²⁰ The Ambassador described Tun Dr. Mahathir Mohamad as a friend of Japan who have made significant contributions to bilateral relations. The Japanese Government also expressed their hope that this bilateral relations will help to improve Japan's relations with ASEAN.²¹

3. JAPANESE INVESTMENT IN MALAYSIA (1981-1990)

Malaysia is considered an important Japan's trade even before the implementation of the Look East Policy. In 1980, Japan is the major Malaysia's trading partner. Malaysia are exporting more goods to Japan and importing more goods from Japan compared to other countries. 22.82 percent of Malaysia's total exports go to Japan, while 22.87 percent of total imports came from Japan. There are various projects undertaken in collaboration between Japan and Malaysia in 1970s to 1980s. Japan's larger companies such as Mitsui, Kawasaki, Nippon and Mitsubishi are willing to provide financial

¹⁵ Khadijah Md. Khalid & Lee Poh Ping, *Whither The Look East Policy*, Bangi, Penerbit Universiti Kebangsaan Malaysia, 2003, pp. 79, 82.

¹⁶ W. Hatch & Kozo Yamamura, *Asia in Japan's Embrace: Building a Regional Production Alliance*, New York, Cambridge University Press, 1996.

¹⁷ Anny Wong & Liao Kuang-sheng, *Japan's Cultural Diplomacy and Cultivation of ASEAN Elites*, Hong Kong, Hong Kong Institute of Asia-Pacific Studies, 1991.

¹⁸ *Ibid.*, p. 22.

¹⁹ Khadijah Md. Khalid & Lee Poh Ping, *Whither The Look East Policy*, Bangi, Penerbit Universiti Kebangsaan Malaysia, 2003, p. 121.

²⁰ Sivamurugan Pandian, *Legasi Mahathir*, Kuala Lumpur, Utusan Publications & Distributors Sdn Bhd, 2005, p. 109.

²¹ *New Straits Times*, 5 November 2003.

assistance to these projects. Table 1 shows the level of Japanese investment in Malaysia by June 1981, one month before Tun Dr. Mahathir Mohamad became the fourth Prime Minister of Malaysia:

TABLE 1
Japanese Investment in Malaysia by June 1981²²

State	Total Companies
Kuala Lumpur	12
Selangor	90
Pulau Pinang	47
Perak	29
Johor	39
Melaka	8
Negeri Sembilan	5
Kedah	17
Pahang	1
Kelantan	3
Terengganu	6
Perlis	3
Sabah	5
Sarawak	6
Total	271

Sector	Total Companies
Food material	8
Textile	29
Wood and pulp	30
Chemical material	19
Iron and steel, nonferrous metal	30
Machinery	8
Electrical and electronic product	69
Transport equipment	10
Agricultural, forestry	9
Fisheries	8
Mining	11
Construction	11
Trading	1
Banking, insurance	0
Hotel management	2
Medical	2
Others	24
Acquisition of properties abroad through direct business	0
ranch Office	0
TOTAL	271

²² Source: The analysis carried out by researcher through primary data obtained in file 2/401/33, Malaysia - Japan Economic Association (MAJECA), 25 March 1985.

Table 1 shows there were 271 Japanese companies, with Selangor, Pulau Pinang and Johor became the main focus while the northern region especially Perlis, the East Coast and East Malaysia were lack of Japanese investment. The West Coast becomes the focus of Japanese investment because it has a better facilities infrastructure and a larger consumer market. In addition, Japanese subsidiaries which are part of a business network also concentrated on the West Coast. Sectors that become the choise of Japanese investors at this time are the electrical and electronics, iron and steel, wood and pulp as well as textiles. This shows that Japanese investment is directed to the source of cheap labour as well as the procurement of raw materials from Malaysia. By June 1982, there is a Japanese joint venture projects in the timber sector as shown in table 2:

TABLE 2
Japanese Joint Venture Project in the Timber Sector by June 1982²³

State	Total companies
Kuala Lumpur	1
Selangor	8
Pulau Pinang	1
Perak	2
Johor	7
Melaka	3
Negeri Sembilan	1
Kedah	2
Pahang	0
Kelantan	1
Terengganu	4
Perlis	0
Sabah	5
Sarawak	1
Total	36

Table 2 shows in 1982, there were 36 Japanese companies involved in the joint venture of timber sector in Malaysia. In 1982, Selangoe became the most sought state for investment by Japanese timber companies and most of their investments are also directed to the West Coast area with little investment directed to Terengganu and Sabah. In terms of Japanese investment chronology in Malaysia at this time, in 1983, KYB-UMW Malaysia Sdn. Bhd. was established at Telok Panglima Garang, Selangor. It offers a total of 800 jobs with paid up capital of 8.8 million. It is a joint venture between Japan with locals, with Japan holding the interest of 40.6 percent and Bumiputera²⁴ by 59.4 percent. The company is involved in the transport equipment industry through the production of shock absorbers and power steering pump. Its product was 85 percent for the domestic market and 15 percent for the export market. In January 1986, Organo (Asia) Sdn. Bhd. was established in the HICOM Industrial Area, Shah Alam. It offers a total of 169 jobs with paid up capital of 1 million and the total investment amounted to 30.6 million. It is a joint venture between Japan with locals, with Japan holding the interest of 70 percent and Bumiputra by 30 percent. The company is involved in the chemical products industry through the production of industrial water treatment system. 70 percent of its products were for domestic market and 30 percent for the export market.²⁵

²³ Source: The analysis carried out by researcher through primary data obtained in file fail 2/401/33, Malaysia - Japan Economic Association (MAJECA), 25 March 1985.

²⁴ Bumiputera is a Malaysian term to describe the Malay race and other indigenous peoples of in Malaysia.

²⁵ Data obtained from Selangor State Investment Centre (SSIC).

On 21 June 1984, Ricwil (M) Sdn. Bhd. was established in Shah Alam, Selangor. It offers a total of 35 jobs with paid up capital of RM 1 million and the total investment amounted to RM 1 million. It is a joint venture between Japan with locals, with Japan holding 48.8 percent stake. The company was involved in the iron product and fabrication steel industry through the production of energy recovery wheels and air diffusers. Its product was 80 percent for the domestic market and 20 percent for the export market. On 14 August 1984, M-CKD Precision Sdn. Bhd. was established in the MIEL Phase 8 area, Shah Alam. It offers a total of 74 jobs. It is a joint venture between Japan with locals, with Japan holding the interest of 70 percent and Bumiputera by 30 percent. The company is involved in the machinery and equipment industry through the production of cylinder air (pneumatic). Its product was 95 percent for the domestic market and 5 percent for the export market.²⁶

In 1985, Sharp-Roxy Sales and Services Company (M) Sdn. Bhd. was established in Shah Alam, Selangor. It offers 300 jobs with paid up capital of 8 million. It is a joint venture between Japan with locals, with Japan holding a stake of 51 percent and non-Bumiputera by 49 percent. The company is involved in electrical and electronic equipment industry through sales and service of Sharp-branded electrical goods. Its product was 85 percent for the domestic market and 15 percent for the export market. On the other hand, Amrich Foam Manufacturing (M) Sdn. Bhd. was established in the Sungai Rasa Industrial Area, Selangor. It offers a total of 120 jobs with paid up capital of RM1.1 million. It is a joint venture between Japan with locals, with Japan holding the interest of 48 percent and non-Bumiputera by 52 percent. The company is involved in plastic products industry through the production of polisterine packaging materials Its product was 90 percent for the domestic market and 10 percent for the export market.²⁷

Toyota Boshoku UMW Sdn. Bhd. was established in Shah Alam in 1985. It offers a total of 338 jobs with paid up capital of RM 11 million and total investment amounted to RM 25 million. It is a joint venture between Japan with locals, with Japan holding a stake of 35 percent and Bumiputera by 65 percent. The company is involved in the transport equipment industry through the production of car components. Its product was 90 percent for the domestic market and 10 percent for the export market. In 1986, Secom (M) Sdn. Bhd. was established in Shah Alam, Selangor. It offers a total of 600 jobs with paid-up capital of RM 10 million. It is a joint venture between Japan with locals, with Japan holding a stake of 30 percent, Bumiputera by 26.3 percent and non-Bumiputera by 43.7 percent. The company was involved in the defence and security products industry through the provision of security products and services. Its product was 100 percent for the domestic market.²⁸

In the period 1980-1986, Japanese new firms were established in the manufacturing sector, machinery transportation, steel and other metal products, petrochemical and product marketing. New firms has also been established in the construction sector, foreign trade, banking and insurance, services and transportation,²⁹ non-manufacturing industries, agriculture and forestry. Trading, financial services and insurance has contributed a lot of revenue to the new investment. The distribution of product and labour type among ASEAN countries is a new development in Japanese investment, particularly in the electrical and electronics sector.

The cooperation between Malaysian manufacturers and Japanese marketing firms are also encouraged for penetration into Japanese market. The role played by companies such as Central Market Japan is important to enhance Malaysia's exports in terms of value added products to the Japanese market, for example the local timber products. Central Market Japan was established in November 1987, a joint venture between the Central Market and the Japanese interests. Its Chairman,

²⁶ Ibid.

²⁷ Ibid.

²⁸ Ibid.

²⁹ See Foo Lai-Reen Joanne, Pelaburan Langsung Teknologi Tinggi Jepun di Malaysia, Master of Pilosophy Thesis, Faculty of Science and Technology, Universiti Kebangsaan Malaysia, 2003, pp. 16-17. In 1998, Japanese investments into the transport sector is decreasing.

Tengku Abdullah Tuanku Abdul Rahman holds the interest of 50 percent, Japanese furniture importers Nova Oshima holds the interests of 45 percent and the rest held by the Japanese architect, K. Yamashita. The paid up capital amounted to 10 million yen.³⁰

There is also Wako Electronics (M) Sdn Bhd's factory in Shah Alam, Selangor which was opened in September 1988.³¹ In addition, there is also a Japanese video tape manufacturer are making an investment of RM 20 million on factory in Malacca. Its goods are to be exported to the United States and Europe. There is also a new industry with full Japanese equity ownership. One of them is the expansion of Hitachi in Pulau Pinang, with investment amounting to RM 50 million to producing integrated circuits and one megabits of RAM dynamic circuit. The production of the RAM circuit is the first by a foreign company in the ASEAN region. There is also an investment plans from two Japanese iron companies into the Malaysia's electronic sector. Both are planning investments of RM 20 million to produce spare parts for integrated circuit products. The second factory will also be placed in Shah Alam.³²

Fujitsu Microelectronics (M) Sdn. Bhd. in turn was erected in Shah Alam. This factory is the second factory of Fujitsu Group in Malaysia. It was erected in March 1988 with a paid-up capital of RM 67.2 million.³³ It manufactures semiconductor devices, general-purpose logics and linear integrated circuits. The plant is also planned to be the third factory outside of Japan that produces wafers.³⁴ Temporarily, this plant will import the wafers from Japan to produce micro-electronics components. In March 1989, these factories employing a total of 110 employees, and will begin full operation by December. At that time, the factory is expected to employ about 500 workers, with the issuance of a maximum of 10 million units a month. Products that are produced will be exported to Japan, United States, Hong Kong and Singapore.³⁵

Japanese investment mission to Malaysia in November 1988 has identified sectors of textile, agriculture, machinery, electrical and electronic components and automotive parts as potential sectors for investment in Malaysia. The Second Nippon Investment Delegation, which consists of 30 executives from 23 companies of Japanese SMEs and Shoko Chukin Bank has been in Malaysia for the second year to look at investment opportunities.³⁶ The delegation is headed by the Managing Director of the Bank of Tokyo, Yamamoto Iwane. Shoko Chukin Bank as quasi-government bank in turn helps the Japanese entrepreneurs to move their investments to other countries. Another Japanese investment mission is in Kuala Lumpur in December 1988 to discuss investment opportunities in Malaysia. The delegation is also made up of Japanese

³⁰ Anonymous, Envoy's call for more joint ventures in New Straits Times, 24 October 1988. See also Anonymous, Firms told: Form joint ventures to enter Japanese market in The Star, 24 October 1988.

³¹ Siaran Akhbar, Ucapan Y.A.B Perdana Menteri Dato Seri Dr. Mahathir bin Mohamad di Pembukaan Kilang Wako Electronics Malaysia Sdn Bhd, di Shah Alam, Selangor Pada Hari Isnin, 12hb September 1988 Pukul 10,00 Pagi, Jabatan Penerangan Malaysia, t.th.

³² Cheng Lee Suang, 11 Japanese firms to operations here next year in New Straits Times, 18 August 1988.

³³ Anonymous, Loyal workforce a major factor, says Fujitsu boss in The Star, 25 March 1989, p. 4.

³⁴ See Anonymous, Shah Alam plant to make wafers in The Star, 25 March 1989, p. 4. Two other mills that produce wafers are located in the United States and Britain. The sufficiency of water and electricity are important before the factory in Shah Alam can start the production of wafers.

³⁵ Ibid., p. 4.

³⁶ See Cheng Lee Suang, 11 Japanese firms to operations here next year in New Straits Times, 18 August 1988. This delegation is similar to the Nippon Investment Delegation in 1987 that was organized by the Bank of Tokyo, in collaboration with several other parties.

Es executives. Small Business Finance (SBFC) also promotes the involvement of Japanese SMEs entrepreneurs to invest by reducing the rate of interest charged on loans taken by them. Loan term has also been extended.³⁷

This period also saw PERNAS Trading Sdn. Bhd. run joint venture with Daikin Kogyo to produce and sell air conditioner. PERNAS Daikin Company was established with 70 percent of shareholdings by PERNAS Trading, while Daikin Kogyo and ACM Sdn Bhd each hold 15 percent. ACM as a local company is the sole agent for Daikin air conditioner in the local market. Based in Kuala Lumpur, PERNAS Daikin is the only company to be established in Malaysia to produce and sell a fraction of room air conditioner that use Daikin dame.³⁸ In contrast to other air conditioner company, PERNAS Daikin not only importing but also produce the splits system of room air conditioner, using local parts and components when needed. In addition to the residence, the splits system of PERNAS Daikin room air conditioner can also be used in commercial office, condominium, apartment and restaurant.

In 1988, Sunchirin Industries (Malaysia) Berhad was incorporated in Shah Alam, Selangor. It offers a total of 352 jobs with paid up capital of RM 40.9 million and total investment amounted to RM 79 million. It is a joint venture between Japan with locals, with Japan holding the interest by 54.38 percent, Bumiputera by 10.38 percent and non-Bumiputera by 30.88 percent. The company is involved in the transport equipment industry through the production of air conditioner components for motor vehicles. Japanese companies that move their operations to Malaysia due to the high value of yen has also been investing in synthetic resins, plastic mold and also in the processing of raw materials.

In 1988, Fuji Oil and C. Itoh established the palm oil refineries with 100 percent ownership, for export to Japan and Singapore. While Towa Glove will contribute 50 percent to the joint venture to produce a glove factory from natural rubber, all for export to Japan. Yokohama Rubber Co. Ltd. establishes a joint venture with Malaysian Rubber Development Corporation (MARDEC) to produce agricultural fertilizer. The new company, Mardec Yokohama Fertiliser Corporation Bhd. (MYFEC) is the second Yokohama Rubber's project collaboration in Southeast Asia. It also has a license to produce tires in Indonesia. MYFEC established with paid up capital of RM 6 million. Mardec holds the interest by 30 percent of this fertilizer, while the remainder held by Yokohama Rubber. The new company's first plant is expected to start operation in November 1989 at the Mardec rubber convergence factory in Durian Tunggal, Melaka.³⁹ After a year, two other factories valued at RM 12 million will be opened in Tapah, Perak and Jeniang, Kedah. The company intends to sell 50 percent of its fertilizer to the local agricultural industry. The other 50 percent will be sold to the Japanese market, while the ASEAN market is being developed.⁴⁰

A joint venture local-Japanese firm was able to convert rice husk to charcoal for fuel and other products. With this success, it is expected the growing pollution caused by huge amounts of risk husk storage in all Lembaga Padi dan Beras Nasional (LPN) complex and hundreds of private rice mills nationwide will be able to be reduced effectively. This firm, Husk Board (M) Sdn. Bhd. is responsible for marketing the rice husk products in domestic and international markets. This firm is a joint venture between Ikeda Bussan Co. Ltd. and Nichiei Kogyo of Japan and a local firm, Tah Holding. According to President of Nichiei Kogyo, Yuichi Hosada, this idea was brought up during a meeting between Tun Dr. Mahathir Mohamad and Ikeda Bussan from Ikeda Bussan Co. Ltd. in Kuala Lumpur five years previously. The firm also produces blocompst fertilizers, insulation for steel industry and brick for construction. Its parent company, Ikeda Bussan also operates a factory in Penang, which manufactured internal components for Proton cars.⁴¹

³⁷ Anonymous, Japanese firms identify sectors for investment in *The Star*, 1 December 1988. See also Cheng Lee Suang, 11 Japanese firms to operations here next year in *New Straits Times*, 18 August 1988.

³⁸ Kumpulan PERNAS, PERNAS in the Air-Conditioning Business in *Suara PERNAS* 9 (3), 1983, p. 3.

³⁹ Anonymous, Teaming up with Japanese to make fertilizer in *New Straits Times*, 11 February 1989.

⁴⁰ Yap Leng Kuen, More investments likely from Yokohama Rubber in *The Star*, 14 February 1989.

⁴¹ Rashid Yusof, Joint venture success with Husk in *New Straits Times*, 10 February 1989.

On 1 September 1988, FD Industri (M) Sdn. Bhd. was established in Petaling Jaya, Selangor. The company is involved in the electronic and electrical industry through the production of all types of electrical wires, pin terminals, printed circuit boards and flexible printed circuit for audio equipment, electrical and electronics, TV, VCR, DVD, HDD and others.⁴² In 1989, there are also 3 other Japanese SMEs will invest a total of RM 14.4 million to set up their plants in Malaysia. The first is Moritetsu Electronics Sdn. Bhd. with a paid-up capital of RM 6 million will set up a factory to produce precision voice coil used in integrated circuits for electronic goods. The factory will be located in Section 13, Petaling Jaya. The company is wholly owned by Okayama Moritetsu Ltd. Second is Nakajima Dokoshi Ltd. through its subsidiary, Nakajima Doko Sdn. Bhd. with its factory located in Shah Alam Industrial Area. Nakajima will invest a total of RM 4 million on facilities to produce a soldering iron. Third is OKM Sdn. Bhd. will invest a total of RM 4.4 million to produce butterfly valve for air conditioner in its factory in Shah Alam Industrial Area. All goods from these companies are for the export market. All investments are made under JETRO Overseas Investment Co-operation Scheme (JOIN).⁴³

There are also 4 Japanese SME companies planning to invest in Malaysia under the JOIN. The first is Hakushin Industries Ltd. that will produce rubber components in its factory to be built in Shah Alam. The second is Sanon Industrial Inc. that will produce paper to speakers in Malacca. Third is Ryoka Sagyo Inc. that will produce house television components in Bangi. Fourth is Fujimaru Industries Co. Ltd. that will produce pot and aluminium frying pan in Butterworth. These companies will supply Japanese manufacturers that produce house goods in Malaysia.⁴⁴

In August 1989, Sharp-Roxy Electronics Corporation (M) Sdn. Bhd.'s factory which is located in Sri Gading will issue a television set that is the first in Malaysia. This was also the first time for a Sharp factory outside of Japan issued a television set designed by local residents. The involvement of locals in this project is a result of Sharp investment in research and development in Sri Gading. Sharp has invested a total of RM 10 million in this research and development center.⁴⁵ In 1989, Japan International Cooperation Agency (JICA) in collaboration with the Government of Malaysia has carried out a study for promoting joint ventures and technological assistance from Japanese firms. JICA fund this study for 3 years starting in February 1989 to formulating industrial development, export replacement strategy in line with the objectives of the Industrial Master Plan (IMP) and determine investment opportunities. As a result, JICA managed to bring in Iwato Company that plans to open a ceramic factory worth RM 10 million. This firm, Asian Ceramic Sdn. Bhd. will be erected in Beranang Industrial Area, Selangor to produce new ceramic and cup.

JICA also attracted the participation of Sasada Company, a processing clay factory to invest in Malaysia. The project will be finalised in April 1989 to be financed by long-term loans with JICA low interest rates. This processing clay project is export oriented and will use the local resources. The Government viewed the mold and dies industry lack of skilled labour but there is demand for these products. Therefore, the inclusion of Japanese investors in the sector is strongly encouraged.⁴⁶ Hental Rika (M) Sdn. Bhd., a joint venture company that involved a participation of four countries has developed oleochemicals industry in Malaysia. The company will invest a total of RM 150 million in processing mill to produce fatty alcohols by using palm kerner oil. This factory is the first of its kind in Malaysia. The accreditations of the

⁴² Data obtained from Selangor State Investment Centre (SSIC).

⁴³ David C. L. Yong, Three Japanese firms to invest \$14 mil in Malaysia in The Star, 4 March 1989. JOIN was launched in 1986 to support the industrialization efforts of ASEAN countries and China. It also contributes to their economic development by arranging investment and technology transfer from Japan.

⁴⁴ Ibid.

⁴⁵ Anonymous, First local TV out in August in The Star, 23 March 1989.

⁴⁶ Chee Lee Shuang, \$ 10 m ceramic factory to be set up: \$8.4 million Jica study bears fruit in New Straits Times, 23 March 1989.

actory in March 1991 will promote Malaysia as the main supplier of oleochemicals in the world market.⁴⁷ This factory is located in Telok Panglima Garang Industrial Area in Banting, Selangor. Hental Rika's partners are Henkal Oleochemicals (M) Sdn. Bhd. (HOM),⁴⁸ New Japan Chemical Co. Ltd. (NJCC) from Japan⁴⁹ and Lucky Ltd. from South Korea.⁵⁰ HOM holds a 55 percent stake, NJCC by 25 percent and Lucky Ltd. by 20 percent. Oleochemicals industry has been identified as one of the major industrial economies under the IMP. This factory product will be exported to other countries such as Japan, South Korea, United States and Europe and some other Asian countries.⁵¹

Hattori Seiko Co. Ltd. in turn is planning the construction of a new factory in Johor to produce watch components. This factory is located in an industrial area and is expected to start operating at the end of 1989. However the investment amount is uncertain because the factory project will be built by a subsidiary of Singapore. However, Seiko has no plans to establish a factory for watch end installation in Malaysia because this can be done in Japan and Hong Kong. The root of Hattori Seiko in Malaysia starts 10 years ago. At present, it produces not only watch components but also television and radio set components. In the past, the production process is labour oriented but later using the automation system.⁵²

In 1989, a Japanese company will also set up an electronic factory in Perak. The company will invest a total of RM 10 million to produce tape head and video mechanism. With the construction of North-South Expressway, improvement to the Ipoh Airport, the establishment of inland port and free trade area are expected to pull in more Japanese investor to Perak during this period.⁵³ A group of Japanese organizations have offered investments up to RM 500 million as equity capital in the Projek Lebuhraya Utara-Selatan Bhd. (PLUS) to build a North-South highway in a 50-50 joint venture. IFC Pacific Rim Ltd, agent to this group which consists of Japanese private firms has offered this opportunity to PLUS in early December 1989. In addition, Japan also offers a loan of RM 3 billion to PLUS.⁵⁴

The rapid increase in yen value and the demand for soft ferrite in electronic main components has driven Nippon Steel Corporation and Nisso Iwai Corporation to establish a soft ferrite joint venture in Malaysia in 1989. This new joint venture established Nippon Steel Soft Ferrite Technology (M) Sdn. Bhd. that capitalised to RM 20 million. Nippon Steel holds the interest of 70 percent and Nisso Iwai by 30 percent. The factory will be built in Hicom Industrial Area, Shah Alam in mid-1989. The factory will start operation in September with a production capacity of 2,000 tons various kinds of soft ferrite core, with 80 percent of its products will be exported. It is expected to take about 200 workers.

This collaboration will not only provide soft ferrite to electronic firms, but also helps to establish an integrated production system for their clients. The joint venture is the first for Nisso Iwai with Nippon Steel in Malaysia and the soft ferrite factory is also the first of its kind in Malaysia. Nisso Iwai would contribute its business network and experience in the field of electrical appliances. For Nippon Steel, it is their second joint venture in Malaysia. It has also formed a joint venture with HICOM through the Perwaja Steel mill in Terengganu.⁵⁵ There is also a Japanese firm that involved in a

⁴⁷ Anonymous, A tripartite venture in oleochemicals in The Star, 18 March 1989.

⁴⁸ HOM is a 50-50 joint venture project between Jomalina Sdn. Bhd. (a full ownership subsidiary of Harrison's Malaysian Plantations Bhd. (HMPB) with Henkel KGaA from Germany, an oleochemicals leader company in the international market.

⁴⁹ NJCC is one of oleochemicals largest manufacturer in Japan.

⁵⁰ Lucky Ltd. is the largest chemical company in South Korea.

⁵¹ Rosli Zakaria, Four-nation company to build \$150m plant in New Straits Times, 18 March 1989.

⁵² Charles Raj, Seiko to build plant in Johore in New Straits Times, 8 February 1989.

⁵³ Anonymous, US-Japanese firms plan \$105m input in New Straits Times, 24 January 1989.

⁵⁴ Charles Raj, Japanese groups offer to PLUS: \$500m investment in highway project in New Straits Times, 20 December 1988.

⁵⁵ David C.L. Yong, Japanese firms team up to make soft ferrite in Malaysia in The Star, 9 December 1988.

joint venture valued at RM 30 million with Aokam Tin Bhd and a South Korean firm to manufacture high-tech products. This product is based on rubber and electronic industry. It is for the domestic market and abroad. Aokam Tin Bhd will hold major interests in a subsidiary that will be formed for this collaboration. The new factory is expected to be placed in Klang Valley.⁵⁶

Sony Corporation made an extra investment of RM 61 million to expand its colour television production factory in Bangi, Selangor. The fund will be used to establish a second phase of the factory manufacturing facility that will enable the production of 800,000 colour television units in a year by the year 1991. The colour television production in Malaysia is made by its subsidiary, Sony TV Video (M) Sdn. Bhd. Sony Corporation also invested a total of RM 50 million at its factory in Bandar Baru Bangi Industrial Area which commenced operations in April 1988. The Managing Director of Sony TV Video, T. Hayashi said the company will increase its investments if the sale of colour television increased. It is also considering to manufacture other electrical products. 90 percent of the colour television production in this factory are exported to 40 countries in Asia, Middle East, Central America and South America. Since most of those countries have yet to develop colour television market, total exports expected to increase.⁵⁷

A joint venture company of Japan and United States will invest between RM 15 million and RM 25 million for setting up a factory in Johor to produce house glass product. The firm, Iwaki Corning (M) Sdn. Bhd. had acquired a land in Pasir Gudang for setting up its factory. Iwaki Corning is a joint venture between the leading manufacturers of specifically glass, Iwaki Glass Co. Ltd. and Corning Glass Works from United States. Factory production is expected to commence in September 1989. This project will provide 100 job opportunities. This factory produces a range of users home glass under the brand "Correle" and "Corningware". This collaboration is export oriented, with sales expected to reach RM 52 million by 1993. This was Iwasaki Glass's first project outside of Japan.⁵⁸

In June 1989, Hitachi Electronic Products (M) Sdn Bhd was established in Bandar Baru Bangi, Selangor. It offers a total of 998 jobs with a total investment of RM 37.4 million. Japan holds full interest on this company. The company is involved in the electrical and electronic industry through the production of DVD-ROM drive for computers, LCD/Plasma TV receiver and liquid/water cooling system. Year 1989 also saw more investment from other Japanese companies. Bright Steel Service Centre Sdn. Bhd. was established in Shah Alam, Selangor. Its paid up capital was RM 20 million. It is a joint venture between Japan with locals, with Japan holding the interests of 19.93 percent, Bumiputera by 28.87 percent and non-Bumiputera by 54.52 percent. The company was involved in the iron product and steel fabrication industry through the production of steel types. Its product are one hundred percent for the domestic market.

JFE Shoji Steel Malaysia Sdn. Bhd. was established in HICOM Industrial Zone. It offers a total of 216 jobs, with a paid up capital amounted to RM 11 million and total investment amounted to RM 11 million. It is a joint venture between Japan with locals, with Japan holding a stake of 60 percent and Bumiputera by 40 percent. The company was involved in the iron product and steel fabrication industry through the production of steel types. Its product was 90 percent for the domestic market and 10 percent for the export market.⁵⁹

Hitachi Air Conditioning Product (M) Sdn. Bhd. was established in Bangi Industrial Area. It offers a total of 976 jobs. The company is involved in the electrical and electronic industry through the production of room air conditioner and air conditioner components for motor vehicles. On 19 October 1989, Sumitomo Electric Sintered Components (M) Sdn. Bhd. was established in Shah Alam, Selangor. The company was involved in the iron product and steel fabrication through the production of steel types. Sanko Sangyo (M) Sdn. Bhd. was established in HICOM. Industrial Area. It offers a total of 159 jobs with paid up capital amounted to RM10 million. It is a joint venture between Japan with locals, with Japan holding a 70 percent stake and Bumiputera by 10 percent. The company was involved in the paper industry, printing and

⁵⁶ Anonymous, Aokam finalizing venture with Japanese, South Koreans in The Star, 29 November 1988.

⁵⁷ Anon, Sony to invest \$61m in new production plant in New Straits Times, 15 November 1988.

⁵⁸ Ravi Nambiar, Japan-US joint venture to produce houseware in New Straits Times, 12 October 1988.

⁵⁹ Data obtained from Selangor State Investment Centre (SSIC).

publishing through the production of label printing product. Its product was 2 percent to the domestic market and 98 percent for export market.⁶⁰

Sankyu Malaysia Sdn. Bhd. was established in Petaling Jaya, Selangor. It offers a total of 485 jobs, with paid up capital was amounting to RM 8 million. It is a joint venture between Japan with locals, with Japan holds interest by 40 percent and Bumiputera by 60 percent. The company is involved in warehousing and logistics industry through logistics and engineering service and the production of air conditioner components for the motor vehicle. Its operation are 100 percent for the domestic market only. Year 1990 saw more Japanese companies opened in Peninsular Malaysia. On 25 May 1990, JTEKT Automotive (M) Sdn. Bhd. opened in Shah Alam. It offers a total of 364 jobs. Paid up capital was amounting to RM 36 million and the total investment amounted to RM 118.5 million. It is a joint venture between Japan with locals, with Japan holding a 90 percent stake. The company is involved in the transport equipment industry through the production of parts and components for passenger vehicles and commercial vehicles. Its product was 8 percent for the domestic market and 92 percent for the export market.⁶¹

In March 1990, Nichihon (M) Sdn. Bhd. was established in Bangi Industrial Area. It offers a total of 388 jobs. The company is involved in the electrical and electronic industry through the production of aluminium electrolytic capacitor, chip types and others. In October 1990, PHN Industries Sdn. Bhd. was established in HICOM Industrial Zone. It offers a total of 50 jobs, with paid up capital was amounting to RM 15 million and the total investment amounted to RM 10.3 million. It is a joint venture between Japan with locals, with Japan holding the interest of 2.5 percent and Bumiputera by 97.5 percent. The company is involved in the iron manufacturing and steel fabrication. Nakagawa Rubber Industries Sdn. Bhd. was established in Shah Alam, Selangor. Total investment stood at RM 2.6 million. The company is involved in rubber products industry through the production of carpet mats and rubber mats.⁶² Since 1981, Japanese investment in Malaysia has increased from year to year until 1990. This situation can be seen in Table 3, which shows the number of approved projects with the participation of Japan's interests:

TABLE 3
Approved Project with the participation of Japan's Interest 1981-1990⁶³

Year	Number of Project	Potential job	Equity	The Amount of Propose Capital (RM)
1981	45	5,386	69,131,940	154,309,750
1982	35	5,543	139,874,250	552,344,250
1983	43	4,995	37,754,000	89,153,290
1984	71	8,160	67,320,515	119,009,523
1985	46	6,079	81,747,900	264,396,900
1986	45	5,837	58,064,719	116,303,079
1987	54	11,653	230,847,515	715,138,998
1988	82	17,186	561,104,646	1,221,957,690
1989	127	31,349	1,006,342,716	2,690,366,505
1990	134	40,361	1,777,693,766	4,212,582,408
Total	682	136,549	4,125,500,813	10,215,940,393

⁶⁰ Ibid.

⁶¹ Ibid.

⁶² Ibid.

⁶³ Source: Analysis conducted by researcher through primary data obtained from *Berita Harian*, 19 February 1993.

From Table 3, the Japanese investment in 1981 showed the capital sum of RM 154 million, representing 45 projects. The most significant change occurred between 1986 and 1987 which rose from RM 116.3 million to RM 715.2 million. This situation occurs because the Malaysian Government has liberalised foreign investment rules in 1986 as a result of the slowdown in the economy. It led to the fall of income and gross national product growth negative. The fall of income makes Malaysia increasingly depend on foreign investment to recover its economy.⁶⁴ Therefore, the Government has allowed foreign investors to have 100 percent ownership with certain conditions. Between 1981-1990, Japan still remains the most important investor in Malaysia with total investments amounting to RM 10.2 billion representing 682 projects and provides a total of 136,549 job opportunities to the locals. Japanese investment during this period was in the manufacturing sector, transportation machinery, steel and other metal products, petrochemical and product marketing, construction, foreign trade, banking and insurance, services, transportation, non-manufacturing industries, agriculture and forestry.

Japanese investment in Malaysia should be seen in the context of the global or regional strategy of Japanese firms, especially logistics strategy or network between the firms in ASEAN region. They have restructured or build networks between firms that based on comparative advantage change of ASEAN member countries. Four basic resources for Japanese firms funding activities and its expansion at this moment are unappropriated profit, fund rounds, Japanese banks or foreign banks, and financial resources of the parent company. After the rising value of the yen and the relaxation of foreign equity ownership guidelines under the Promotion of Investment Act 1986, more Japanese firms choose to establish their wholly ownership subsidiary. A new network of Japanese firms is made up of network in firms, network between firms, and network between Japanese and local firms.

4. CONCLUSION

During the administration of Tun Dr. Mahathir Mohamad, there is a greater intervention from the Government to promote heavy industries. The yen appreciation has increasing the amount of Japanese investment to Malaysia, thereby contributing to the transition of bilateral trading relationship that is more balanced. The Japanese company began to export manufactured goods produced in Malaysia for the Japanese market. Before the 1980s, trading relationship between Japan and Malaysia is not balanced, with Malaysia import raw materials and importing finished goods from Japan. Close relationship between Japan and Malaysia during the decades of the 1980s and 1990s much influenced by the private role of Tun Dr. Mahathir Mohamad. Through the implementation of the Look East Policy, the position of Japanese investment in Malaysia has been reinforced.

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⁶⁴ Berita Harian, 19 February 1993.

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