MALAYSIA - JAPAN RELATIONS:
ECONOMIC AND POLITICAL IMPLICATIONS

Helen Ponniah

A sub-thesis submitted in partial fulfilment of the requirements for the degree of Master of Arts (International Relations) in the Department of International Relations, Research School of Pacific Studies, Australian National University, Canberra.

December 1987
Declaration

I certify that this sub-thesis is my own original work and that all sources used have been acknowledged.

(Helen Ponniah)
Acknowledgements

I would like to thank the following people:

Dr. Harold Crouch for patient supervision.

Dr. Paul Keal and Assoc. Prof. G. Naidu who offered support and criticism.

My Family and Friends who were supportive throughout the writing process.
CONTENTS

INTRODUCTION 1

CHAPTER ONE 7
Malaysia - Japan Economic Relations

CHAPTER TWO 67
Malaysia - Japan Relations: The Political Dimension

CHAPTER THREE 116
Malaysia - Japan Relations: Def�ence Policy Considerations

CONCLUSION 141

BIBLIOGRAPHY 149
INTRODUCTION

Japanese involvement in Malaysia dates back to the beginning of this century. From the beginning Japanese interests were predominantly economic in nature. Japan looked upon Malaya as a source of raw materials and also as a potential market for its finished products. Japan was initially drawn by the rubber industry which became lucrative in 1910 and the iron ore mines which were essential for its steel industries.\(^1\) In 1928 iron ore imports from Malaya accounted for 40 percent of Japan's total consumption.\(^2\) Japanese cotton goods and other manufactures were low priced and therefore popular in Malaysia. However Japanese efforts to make in-roads on the Malaysian economy were impeded by the British colonial administration. For example, the British enacted a Rubber Restriction Act in 1917 which limited rubber exports to Japan. The British also introduced a quota system on Japanese manufactured imports in the late 1930s.

In 1936 Japan's official policy was to develop economic resources in the South Seas (Nanyo) and this policy eventually led to the 'Greater East Co-prosperity Sphere' scheme whereby Japan pursued economic interests through militarism. During the Second World War Japan established itself as a formidable Pacific Power and within a short space of time occupied most of the Southeast Asian countries, Malaya included. The
Japanese occupied Malaya for three years and these years are remembered with bitterness because of the brutality of the Japanese occupation forces. At the end of the Second World War Japan emerged a defeated power with a shattered economy. Japan's priority in the postwar period was economic reconstruction. This process required that Japan maintain its trading ties with natural resource rich countries like Malaysia.

Towards the late 1950s Japan began cautiously to expand its economic relations with Malaysia, starting at first with investment. The Japanese were encouraged by the Malaysian attitude towards foreign investment and the flow of investment gradually increased. Currently Japan is a major source of foreign investment for Malaysia. Japan's economic development and its emergence as a dominant economic power in the region impressed Malaysia to the extent that in 1982 the government launched the 'Look East' policy with the explicit objective of emulating Japanese work practices and ethics. When introducing the policy in 1982, the Prime Minister said,

"I have been exhorting Malaysians to emulate the Japanese, particularly in work ethics and ethical values. We have come to realize that the basis of your rapid development is your sense of commitment and your continued willingness to work. Thus when we ask Malaysians to Look East, it is not so much your living standards .... what we are interested is your ethics"
There is a general expectation in Malaysia that the emulated must help the emulator achieve his goals. The Prime Minister himself believes that Japan at least has some responsibility to help. He stated:

"As a major world economic power, Japan, no doubt feels a certain sense of obligation to the rest of the world, especially to developing countries like Malaysia."

The Prime Minister also hoped that the Look East policy will result in closer economic cooperation between Malaysia and Japan. Closer economic ties will not only affect the economic relations between Malaysia and Japan but it will also effect the other components of bilateral ties between the two countries. Closer economic relations will result in closer political and military links between Malaysia and Japan because there exists a strong inter-relation between these three components of bilateral relations. The focus of this dissertation will be to analyse the economic, political and military aspects of the bilateral relations between Malaysia and Japan with a view to ascertaining whether closer ties with Japan will benefit Malaysia.

The economic relationship between Malaysia and Japan is said to be typical of the relationship between a developing and developed country. In such a relationship unequal economic strength is manifested by the stronger partner's preponderance in determining the pattern of bilateral trade and dictating the terms
of investment and technological transfer. To what extent this applies to the economic ties between Malaysia and Japan will determine if closer economic relations is likely to benefit Malaysia. This requires an analysis of the features of the various components of the bilateral economic relations between Malaysia and Japan namely trade, investment and technology transfer; and an evaluation of the impact of the bilateral economic relations in the context of Malaysia's economic objectives and aspirations. These aspects are discussed in chapter one.

Chapter two will focus on the political relationship between Malaysia and Japan. Unlike its economic image, Japan projects a low political profile. Japan's political involvement in Southeast Asia was motivated by its enormous economic stake in the region. Therefore Japan's political concern is the peace and stability of this region. Malaysia, situated in Southeast Asia, has a similar interest. To what extent Japan's political activities in the region complement Malaysia efforts individually and through Asean to ensure political stability in the region is a yardstick to determine if closer political ties between these two countries should be encouraged. In order to assess the political ties between Malaysia and Japan, the perception and involvement of these two countries on some selected political issues, related to the stability
of the Southeast Asian region, will be analysed.

Malaysia is situated in Southeast Asia, a region of strategic importance to Japan because of its economic stake in the region and also because of the sea lanes of communication through the Straits of Malacca and South China Sea which is often described as Japan's 'lifeline'. In the past Japan was a major military power in the region currently Japan does not have a military role in the region. In addition, it has also pledged never to become a major military power in the region. Nevertheless Japan currently has the eighth largest military build-up in the world. Furthermore it also has a large capacity to further develop its military capacity should it desire so. In view of these facts, it is necessary to review Japan's defence posture in the region in order to determine how Malaysia and other Asean member states should handle this aspect of their bilateral relations with Japan to ensure the stability and security of this region. The strategic component of bilateral relations is discussed in chapter three.

The concluding chapter will attempt to establish if closer bilateral relationship between Malaysia and Japan is advantageous to Malaysia as a sovereign political entity.
Footnotes


3. Lee Poh Ping, "Malaysian perceptions of Japan before and during the 'Look East' period", Asia Pacific Community Summer 1985 No. 29, p. 97.


6. Dr. Mahathir Mohammad, op. cit. p. 112.
CHAPTER ONE

MALAYSIA - JAPAN ECONOMIC RELATIONS

1. Introduction

Economic relations between Malaysia and Japan began at the turn of the century. The establishment of economic ties between the two countries was to a large extent the result of the complimentary nature of the two economies. Malaysia, richly endowed with natural resources, was initially valued for its rubber and iron ores. Likewise Malaysia provided a potential market for the Japanese cotton industry. Strong economic ties, however, were hindered by the colonial status of Malaysia which fostered closer economic ties with United Kingdom in particular and the British Commonwealth in general.

On gaining independence in 1957, Malaysia embarked on an ambitious development programme. Japan, unsuccessful in its attempt to establish the 'Greater East Co-prosperity Sphere', was left defeated and devastated by the war. In the immediate post war period Japan concentrated all its efforts and resources towards rebuilding its economy and industries. The success of this formidable task, often described as the 'Japanese Miracle', enabled Japan to emerge as the dominant economic power in the region.
This chapter focuses on the economic relations between Malaysia and Japan. In order to place the discussion in its proper perspective it is necessary to identify the economic priorities of Malaysia and the major structural changes in the Malaysian economy. This will provide the framework for evaluating the various components of the economic relations between Malaysia and Japan.

2. The Malaysian Economy: An Overview

At the time of independence, Malaysia was basically a primary commodity producer and was largely dependent on two primary products namely rubber and tin. The government was conscious of the need to develop and expand the country's economic base in order to accelerate economic development and to attain economic stability. With these objectives in mind it embarked on a strategy of diversification. The diversification process took two forms. First, there was diversification within the primary commodities sector. In addition to rubber, other cash crops were cultivated. These included oil palm, pepper, cocoa and pineapples. The extensive exploitation of mineral fuel deposits resulted in the expansion of the mining sector. The diversification strategy did result in the expansion of Malaysia's economic base but failed to overcome the problem of instability and fluctuations in export earnings. This was among the reasons that led to the
second form of diversification namely industrialization.

The second form of diversification was by industrialization. In the initial stages Malaysia's industrialization policy was confined to import substitution. This involved developing the light manufacturing industries namely the consumer product manufacturing sector. This process was completed within a decade and in the 1970s Malaysia launched an export-led industrialization programme. The manufacturing sector and the resource based industries were identified as having potential for export expansion. Toward the end of the 1970s Malaysia embarked on heavy industrialization as part of its ongoing diversification strategy. It set up the Heavy Industries Corp (Hicom) to coordinate its projects which included a sponge iron and steel billet plant, cement plant, auto body stamping and the 'National Car' industry.

The process of industrialization requires large volume of investment which cannot be generated domestically. To overcome this shortage, the government has been vigorously promoting foreign investment. The government has offered various forms of incentives. In 1968 it introduced the Investment Incentive Act. The incentives provided by the Act were designed to induce a greater and more rapid flow of investment into the manufacturing industries, certain commercial enterprises and into the expansion of exports of manufactured products. In 1974 the Investment Incentive
Act was amended and a more liberal set of incentives were offered. In addition to enhancing the development of the industrial sector, the incentives were also aimed at other objectives. For example, the Locational Incentive was intended to enhance the development of less developed states in order to attain more balanced regional development. The Export Allowance Scheme was intended to expand Malaysia's export capacity which is expected to contribute towards attaining a more favourable balance of payment.

In addition to incentives for foreign investment, the government has also placed emphasis on Manpower development to attain its industrialization objective. Instead of encouraging expansion of academic education, especially at the tertiary level, greater emphasis is now accorded on training labour with skills required by the industrial sector. Cooperation between training institutions and the private sector is encouraged because it is a more relevant and cost effective means to train unskilled labour. The 'Look East' policy which primarily involves the emulation of suitable work practices and ethics is intended to hasten the process of human resource development. The government has also placed great significance on Research and Development (R & D). It has identified this as an important area that needs to be developed because of the importance of R & D to productivity and the development of a strong industrial base. The
emphasis accorded to R & D is expected to enhance the technological capacity of the country.  

Protection of the country's Balance of Payment continues to remain a major objective of the Malaysian government. A deficit and especially a persistent deficit in the country's Balance of Payments is clearly detrimental to Malaysia's long term growth prospects. A foreign exchange gap could result in a trade restricted growth which implies that the targetted growth rate will not be achieved. Consequently it is only reasonable to expect Malaysia to strive to achieve a favourable Balance of Payments. The steps the government is pursuing to attain a more favourable Balance of Payment include import substitution, export-led industrialization and vigorous export promotion activities. Likewise the government is also committed to reversing the growing deficits in the invisible or 'services' account.

National unity is another important objective of the government. Malaysia's strategy for this objective is set out in the two-pronged New Economic Policy which was launched in the wake of the 1969 racial riots. The two objectives are eradication of poverty irrespective of race and restructuring of society to eliminate the identification of race with economic function and geographical location.

The strategy for poverty redressal includes efforts to raise the involvement of the 'rural poor'
in the mainstream of economic life via new land development schemes, new agricultural projects and the absorption of the rural labour force into higher income jobs in the industrial and service sectors. There are also efforts to improve the quality of life through the provision of adequate public services. The strategy for restructuring of society involves efforts to reduce income imbalances among ethnic groups and regions via restructuring of employment patterns and ownership of share capital in the corporate sector and the creation of a Bumiputra Commercial and Industrial community.

Over the three decades since independence there have been some very important changes in the structure of the Malaysian economy. By far the most important change in the Malaysian economy is the relative decline of the agricultural sector and the growing importance of the manufacturing sector. The share of agriculture in GDP was 29.1 per cent in 1972 but declined to 21.3 per cent in 1986 (Table 1.1). In 1986 the manufacturing sector contributed 20 per cent of GDP. In contrast in 1972 the manufacturing sector was only responsible for 16.1 per cent of GDP. Similarly the mining sector accounted for 6.2 per cent in 1972 and 11.1 per cent in 1986. The increase in the contribution of the mining sector is the result of the extensive exploitation of mineral fuel and Liquified Natural Gas (LNG).
### TABLE 1.1
GROSS DOMESTIC PRODUCT BY INDUSTRIAL ORIGIN

<table>
<thead>
<tr>
<th></th>
<th>Per cent of GDP</th>
<th>1972</th>
<th>1986</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agriculture, livestock, forestry &amp; fishing</td>
<td>27.7</td>
<td>21.3</td>
<td></td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>4.6</td>
<td>11.1</td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>16.1</td>
<td>20.0</td>
<td></td>
</tr>
<tr>
<td>Services(^1)</td>
<td>28.4</td>
<td>28.6</td>
<td></td>
</tr>
<tr>
<td>Others(^2)</td>
<td>21.9</td>
<td>19.0</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td></td>
</tr>
</tbody>
</table>

1 - includes gas, electricity and water; transport, storage and communications; wholesale and retail trade, hotels and restaurants; Finance, insurance, real estate and business services.

2 - includes construction, Government services and other services.

Source: Economic Report, Ministry of Finance Malaysia (Various issues).
3. **Trade Relations**

Trade relations can be analysed by considering Visible trade and Invisible trade separately. Visible trade is concerned with trade in goods between countries. The primary focus is on the flow of merchandise exports and imports. Invisible trade, on the other hand, is concerned with trade in services between countries. The common 'services' traded include shipping, air transportation, insurance and managerial and technological expertise. Invisible trade also includes inflow and outflow of capital. Malaysia, in common with other developing countries, has a very large proportion of its international trade in the form of Visible trade.

3.1 **Visible Trade**

Malaysia has an open economy and is heavily dependent on visible trade. This is evident from the importance of exports and imports in the country's national income (GNP). Over the last two and a half decades, exports and imports averaged about 40 - 50 per cent of the country's national income (Table 1.2). Clearly despite the priority accorded to import substitution Malaysia's dependence on international trade remains very high and, as in the past, the growth of the Malaysian economy will depend substantially on the growth of the country's external trade sector.
### TABLE 1.2

**THE IMPORTANCE OF TRADE TO THE MALAYSIA ECONOMY**

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports (E)</th>
<th>Imports (M)</th>
<th>Trade Balance (E-M)</th>
<th>GNP (Y)</th>
<th>E/Y</th>
<th>M/Y</th>
</tr>
</thead>
<tbody>
<tr>
<td>1960</td>
<td>3,632.6</td>
<td>2,786.4</td>
<td>846.2</td>
<td>6,649</td>
<td>0.55</td>
<td>0.42</td>
</tr>
<tr>
<td>1965</td>
<td>3,782.5</td>
<td>3,356.1</td>
<td>426.4</td>
<td>8,776</td>
<td>0.43</td>
<td>0.38</td>
</tr>
<tr>
<td>1970</td>
<td>5,162.4</td>
<td>4,232.3</td>
<td>839.1</td>
<td>11,734</td>
<td>0.44</td>
<td>0.36</td>
</tr>
<tr>
<td>1975</td>
<td>9,231.1</td>
<td>8,530.4</td>
<td>700.5</td>
<td>21,605</td>
<td>0.43</td>
<td>0.40</td>
</tr>
<tr>
<td>1980</td>
<td>28,171.6</td>
<td>23,451.0</td>
<td>4,720.6</td>
<td>51,718</td>
<td>0.38</td>
<td>0.45</td>
</tr>
<tr>
<td>1985</td>
<td>38,327.3</td>
<td>30,557.6</td>
<td>7,769.7</td>
<td>71,808</td>
<td>0.53</td>
<td>0.43</td>
</tr>
</tbody>
</table>

---

a - Exports in Fob prices  
b - Imports in Cif prices  
c - GNP valued at market price

Source: Bank Negara Malaysia  
Quarterly Economic Bulletin - Various issues.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Imports from</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>USA</td>
<td>0.6</td>
<td>9.9</td>
<td>15.0</td>
<td>16.4</td>
<td>15.2</td>
</tr>
<tr>
<td>EEC</td>
<td>24.9</td>
<td>21.0</td>
<td>15.4</td>
<td>13.5</td>
<td>14.2</td>
</tr>
<tr>
<td>Japan</td>
<td>17.5</td>
<td>22.3</td>
<td>22.9</td>
<td>26.2</td>
<td>30.5</td>
</tr>
<tr>
<td>Singapore</td>
<td>7.5</td>
<td>8.3</td>
<td>11.7</td>
<td>13.1</td>
<td>15.7</td>
</tr>
<tr>
<td>Rest of Asean</td>
<td>8.5</td>
<td>6.3</td>
<td>4.9</td>
<td>6.4</td>
<td>6.5</td>
</tr>
<tr>
<td>Rest of World</td>
<td>40.0</td>
<td>31.9</td>
<td>30.2</td>
<td>24.4</td>
<td>17.7</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Exports to</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>USA</td>
<td>13.0</td>
<td>14.0</td>
<td>16.3</td>
<td>13.5</td>
<td>12.9</td>
</tr>
<tr>
<td>EEC</td>
<td>20.0</td>
<td>21.2</td>
<td>16.7</td>
<td>12.6</td>
<td>14.0</td>
</tr>
<tr>
<td>Japan</td>
<td>18.3</td>
<td>19.6</td>
<td>22.8</td>
<td>22.3</td>
<td>18.4</td>
</tr>
<tr>
<td>Singapore</td>
<td>21.6</td>
<td>21.6</td>
<td>19.1</td>
<td>20.5</td>
<td>19.3</td>
</tr>
<tr>
<td>Rest of Asean</td>
<td>3.2</td>
<td>2.3</td>
<td>3.2</td>
<td>6.2</td>
<td>6.4</td>
</tr>
<tr>
<td>Rest of World</td>
<td>25.9</td>
<td>24.0</td>
<td>21.5</td>
<td>24.8</td>
<td>29.0</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Economic Report, Ministry of Finance Malaysia (Various issues)
Additionally, and as was suggested earlier, export-led industrialization is likely to enhance Malaysia's trade dependence.

The direction of Malaysia's trade is summarised in Table 1.3 above. The four countries/country groupings with which Malaysia has the largest flow of visible trade are the United States, the European Economic Community (EEC), Japan and Singapore. In 1970 the EEC was Malaysia's major source of imports largely on account of Malaysia's colonial ties with Britain. But by 1974 Japan replaced the EEC as the major source of Malaysia's imports accounting for 22.3 per cent of its total imports. In the case of exports, Japan emerged as Malaysia's largest export market in 1976, accounting for 22.8 per cent of its total exports. Currently Japan is the second largest export market for Malaysia (after Singapore) and is by far the most important source of Malaysia imports accounting, for example, for twice the share of imports from EEC. Taking both exports and imports Japan emerges as Malaysia's most important trading partner.

Table 1.4 shows the direction of Japan's trade. Evidently, Malaysia is an insignificant trading partner of Japan. Japan's imports from Malaysia ranged between 1.6 per cent to 3.3 per cent of total Japanese imports between 1970 and 1985. For the same period Japan's exports to Malaysia has never exceeded 2 per cent of total Japanese exports. Also of some importance
### TABLE 1.4

**JAPAN : DIRECTION OF TRADE**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Import from</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>USA</td>
<td>29.4</td>
<td>20.4</td>
<td>17.4</td>
<td>19.2</td>
<td>19.9</td>
</tr>
<tr>
<td>EEC</td>
<td>5.9</td>
<td>6.4</td>
<td>5.6</td>
<td>6.7</td>
<td>6.9</td>
</tr>
<tr>
<td>Aust &amp; N.Zealand</td>
<td>8.8</td>
<td>7.1</td>
<td>5.6</td>
<td>4.6</td>
<td>6.4</td>
</tr>
<tr>
<td>SEA</td>
<td>13.7</td>
<td>18.5</td>
<td>20.1</td>
<td>19.7</td>
<td>20.0</td>
</tr>
<tr>
<td>Malaysia</td>
<td>2.2</td>
<td>1.6</td>
<td>2.5</td>
<td>3.2</td>
<td>3.3</td>
</tr>
<tr>
<td>Middle East</td>
<td>12.4</td>
<td>25.6</td>
<td>31.7</td>
<td>23.7</td>
<td>23.1</td>
</tr>
<tr>
<td>Latin America</td>
<td>7.3</td>
<td>4.4</td>
<td>4.1</td>
<td>5.2</td>
<td>4.8</td>
</tr>
<tr>
<td>Communist Bloc</td>
<td>4.7</td>
<td>5.1</td>
<td>4.7</td>
<td>5.7</td>
<td>6.5</td>
</tr>
<tr>
<td>Rest of World</td>
<td>15.5</td>
<td>10.9</td>
<td>8.4</td>
<td>12.0</td>
<td>8.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Export to</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>30.7</td>
<td>23.0</td>
<td>24.2</td>
<td>35.2</td>
<td>37.2</td>
</tr>
<tr>
<td>EEC</td>
<td>6.7</td>
<td>10.7</td>
<td>12.8</td>
<td>11.4</td>
<td>11.4</td>
</tr>
<tr>
<td>Aust &amp; N.Zealand</td>
<td>3.6</td>
<td>4.5</td>
<td>3.1</td>
<td>3.7</td>
<td>3.7</td>
</tr>
<tr>
<td>S.E.A.</td>
<td>24.5</td>
<td>21.6</td>
<td>22.2</td>
<td>19.9</td>
<td>17.7</td>
</tr>
<tr>
<td>Malaysia</td>
<td>0.6</td>
<td>1.3</td>
<td>1.6</td>
<td>1.7</td>
<td>1.2</td>
</tr>
<tr>
<td>Middle East</td>
<td>3.3</td>
<td>6.6</td>
<td>11.1</td>
<td>8.3</td>
<td>6.9</td>
</tr>
<tr>
<td>Latin America</td>
<td>6.1</td>
<td>9.1</td>
<td>6.9</td>
<td>5.0</td>
<td>4.8</td>
</tr>
<tr>
<td>Communist Bloc</td>
<td>5.4</td>
<td>7.1</td>
<td>7.0</td>
<td>6.2</td>
<td>7.1</td>
</tr>
<tr>
<td>Rest of World</td>
<td>18.6</td>
<td>16.1</td>
<td>11.1</td>
<td>8.4</td>
<td>10.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

*Source: Economic Statistic Annual 1985 Vol. 60 Research and Statistic Dept., The Bank of Japan.*

18
is the fact that the relative importance of Malaysia as a market for Japanese exports had declined in the 1980s. Overall it would appear that the trade relationship between Japan and Malaysia is asymmetrical. Malaysia is heavily dependent on Japan both as a market and as a source of imports, while to Japan, Malaysia is a minor trading partner. Tentatively it is possible that the importance accorded by Malaysia to its visible trade relations with Japan and the expectations of Malaysia from this relationship are unlikely to be reciprocated by Japan.

Implicit in Japan's emergence as Malaysia's main trading partner is the enormous growth in bilateral trade between the two countries. Over the period 1972-1984 exports to Japan rose at an average annual rate of 18.8 per cent per annum. Likewise Malaysia's import from Japan grew at 17.5 per cent per year. These contrast with Malaysia's total imports growth rate of 16.3 per cent. Consequently not only is Japan, the most important trading partner of Malaysia, it is likely to remain so for the foreseeable future.

Having established the importance of Japan to Malaysia as a trading partner, it is useful to analyse two aspects of the Visible trade relations between Malaysia and Japan, namely the trade balance and the commodity composition. Malaysia's Visible trade balance with Japan is presented in Table 1.5. Malaysia's trade balance with Japan was favourable in only five of the
### TABLE 1.5

**MALAYSIA'S VISIBLE TRADE BALANCE WITH JAPAN**

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports</th>
<th>Exports</th>
<th>Total Trade</th>
<th>Balance of Trade</th>
<th>Balance of Trade excluding Crude Petroleum</th>
</tr>
</thead>
<tbody>
<tr>
<td>1972</td>
<td>942.3</td>
<td>832.4</td>
<td>1,774.7</td>
<td>-109.9</td>
<td>-256.6</td>
</tr>
<tr>
<td>1973</td>
<td>1,347.5</td>
<td>1,336.4</td>
<td>2,683.9</td>
<td>-11.9</td>
<td>-150.0</td>
</tr>
<tr>
<td>1974</td>
<td>2,200.6</td>
<td>1,717.6</td>
<td>3,918.2</td>
<td>-483.0</td>
<td>-679.4</td>
</tr>
<tr>
<td>1975</td>
<td>1,708.0</td>
<td>1,326.2</td>
<td>3,034.2</td>
<td>-381.8</td>
<td>-713.4</td>
</tr>
<tr>
<td>1976</td>
<td>2,062.4</td>
<td>2,835.2</td>
<td>4,897.6</td>
<td>+772.8</td>
<td>-40.9</td>
</tr>
<tr>
<td>1977</td>
<td>2,615.9</td>
<td>3,061.0</td>
<td>5,676.9</td>
<td>+445.9</td>
<td>-503.4</td>
</tr>
<tr>
<td>1978</td>
<td>3,169.0</td>
<td>3,703.0</td>
<td>6,872.0</td>
<td>+534.0</td>
<td>-639.0</td>
</tr>
<tr>
<td>1979</td>
<td>3,840.3</td>
<td>5,668.2</td>
<td>9,508.5</td>
<td>+1,827.9</td>
<td>-41.1</td>
</tr>
<tr>
<td>1980</td>
<td>5,368.3</td>
<td>6,429.3</td>
<td>11,797.6</td>
<td>+881.0</td>
<td>-1,804.6</td>
</tr>
<tr>
<td>1981</td>
<td>6,516.0</td>
<td>5,727.6</td>
<td>12,243.6</td>
<td>-788.4</td>
<td>-3,389.7</td>
</tr>
<tr>
<td>1982</td>
<td>7,253.1</td>
<td>5,726.3</td>
<td>12,979.4</td>
<td>-1,526.8</td>
<td>-3,658.2</td>
</tr>
<tr>
<td>1983</td>
<td>7,768.7</td>
<td>6,429.2</td>
<td>14,197.9</td>
<td>-1,339.5</td>
<td>-4,605.2</td>
</tr>
<tr>
<td>1984</td>
<td>8,646.0</td>
<td>8,629.0</td>
<td>17,275.0</td>
<td>-16.5</td>
<td>N.A.</td>
</tr>
</tbody>
</table>

**1972-1984**

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports</th>
<th>Exports</th>
<th>Total Trade</th>
<th>Balance of Trade</th>
<th>Balance of Trade excluding Crude Petroleum</th>
</tr>
</thead>
<tbody>
<tr>
<td>1972-1984</td>
<td>53,4381.</td>
<td>53,421.4</td>
<td>106,859.5</td>
<td>-196.2</td>
<td>-16,481.50</td>
</tr>
</tbody>
</table>

thirteen years. The overall Visible trade balance between Malaysia and Japan between 1972 and 1984 recorded a deficit of M$ 196.2 million. Malaysia's Visible trade balance with Japan is worse than is presented in column 4 of Table 1.5. The rapid growth of petroleum exports has concealed the true position of Malaysia's trade balance with Japan. The exclusion of petroleum from Malaysia's exports to Japan reveals a very unfavourable Visible trade balance with Japan (column 5, Table 1.5). The exclusion of petroleum exports indicate that Malaysia has posted a deficit in the Visible trade balance each year. Of equal importance is the fact that the deficits are on an upward trend. Because crude petroleum is a depleting resource and also because crude petroleum prices are volatile, in the long run there is a significant tendency for an unfavourable trade balance with Japan. And because Japan is Malaysia's major trading partner, the trade balance with Japan will have a significant impact on the position of the Malaysian Balance of Payment. The outcome of visible trade between Malaysia and Japan is clearly in conflict with Malaysia's objective of maintaining a surplus in the country's balance of payment.

The second aspect of Visible trade relations between Malaysia and Japan is the commodity composition of trade. It has been established earlier that one of Malaysia's principle economic objective is export led
industrialization. The industrialization process has resulted in the manufacturing sector becoming the major industrial activity and in 1985 it accounted for 13 per cent of the GNP. The share of manufactured exports in Malaysia's total exports registered an increase for the period from 1970 to 1983 (Table 1.6). Manufactured exports accounted for 26.1 per cent of Malaysia's exports in 1970 and 30.2 per cent in 1983. In the light of Japan's importance as a trading partner the success of an export-led industrialization strategy would depend, to an important extent, on Malaysia exporting a significant amount of manufactured goods to Japan. The detailed commodity composition of Malaysia's exports by country is not obtainable. But what little evidence that is available suggests that Japan does not constitute an important market for Malaysian manufactured exports.

### TABLE 1.6
MALAYSIA: % OF MANUFACTURING GOODS IN TOTAL EXPORTS

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>26.1</td>
<td>30.7</td>
<td>21.4</td>
<td>15.0</td>
<td>15.7</td>
</tr>
<tr>
<td>USA</td>
<td>68.4</td>
<td>61.4</td>
<td>52.2</td>
<td>44.4</td>
<td>76.6</td>
</tr>
<tr>
<td>EEC</td>
<td>18.8</td>
<td>25.1</td>
<td>34.9</td>
<td>42.5</td>
<td>48.3</td>
</tr>
<tr>
<td>World</td>
<td>28.1</td>
<td>26.1</td>
<td>30.4</td>
<td>27.8</td>
<td>30.2</td>
</tr>
</tbody>
</table>

Source: AIDXT, cited by Tsuneo Nakauchi (Mac 1987).
The market share of Malaysia's manufactured exports to its major trading partner is presented in Table 1.6. While Malaysia's manufactured exports to some of its trading partners, namely the USA and EEC increased during the period from 1970 to 1983, its manufactured exports to Japan actually fell substantially from 30.7 per cent in 1970 to about 15.7 per cent of total exports to Japan in 1983. Of greater significance is the fact that export of manufactured products to Japan also decreased in absolute terms. The export of manufactures were valued M$ 752 million in 1980 and M$ 488 million in 1982. Obviously Malaysia's exports to Japan does not reflect the structural changes in the economy. Instead it reflects a pattern that is in conflict with Malaysia's diversification strategy and industrial programme.

Malaysia remains committed to an export promotion philosophy but Japanese policies do not always facilitate the realization of Malaysia's aim. The major hinderance to Malaysia's effort to diversify and increase the volume of its exports to Japan is protectionism. While Japanese products have comparatively easy access to the Malaysian market. Japan has resorted to protectionist devices to maintain a strict control over access into its market. Japan's intentions are to protect its less competitive and inefficient industries from foreign competition. The common practice is to impose various forms of tariff and non-
tariff barriers on imports. With regard to Malaysia, barriers erected by Japan are as follows:

(1) The existing tariff structure in Japan favours the import of raw material rather than processed or finished products. In the case of sawn logs and sawn timber, for example, tariffs range from 0 to about 10 per cent, while duty on plywood ranges between 15 per cent to about 20 per cent. Thus although Japan has always imported more than 54 per cent of Malaysian sawn log (at times as much as 60 per cent) Japan's share of Malaysian sawn timber exports is seldom more than 3 per cent. In the case of other down stream wood products the situation is not very disimilar. Such a differential tariff policy not only discourages Malaysian exports of manufactured wood products, it also undermines Malaysia's resource base industrialization policy. In addition import duties imposed by Japan tend to be higher than those imposed by other developed countries. For example the import duties imposed by Japan on garments ranges between 14-17 per cent where else other OECD members impose a much lower import duty.
(2) Non-tariff barriers in the form of stringent import regulations and other specifications are imposed to restrict the entry of manufactured goods into the Japanese market. For example, in addition to health and sanitary regulations producers of food products must also satisfy certain requirements pertaining to the percentage of various ingredients used in the production of the food products.\textsuperscript{18}

(3) Malaysian exporters have to rely on the Japanese Sogoshosha's distribution channels for marketing their products in Japan. The monopolistic distribution system prevents the Malaysian manufacturer from conducting market research, inter alia, to determine the important components of demand of the Japanese consumer.\textsuperscript{19}

Malaysia and its Asean counterparts have frequently voiced their dissatisfaction and frustrations toward Japan's protectionist policies.\textsuperscript{20} The concessions made in response to such criticisms have often been marginal and ineffective.\textsuperscript{21} The concessions are merely symbolic in nature because for most products the value of tariff cuts are not very significant, and also the concessions are given on a very limited range of sample of items and often major export items are not exempted.
from the tariff concession. The Generalised System of Preference (GSP) scheme excludes a large number of Malaysia's major exports such as canned pineapples, coconut oil, plywood of tropical hardwood, fish and palm oil kernel. Furthermore the GSP is generally not effective because the scheme has a safeguard mechanism in the form of quotas and ceilings beyond which the GSP is either inoperative or insignificant. Japan took a major step to liberalize its trade policies in 1983, when the existing ceiling on imports of manufactured goods produced by developing countries was raised from 7.6 billion to $11.5 billion. Clearly this is a general concession and does not apply to Malaysia or its Asean partners per se. While this concession certainly provides an opportunity for Malaysia to increase its manufactured exports to Japan, the extent to which Malaysia is likely to benefit from this concession is dependent upon the outcome of competition between Malaysia and other developing countries to exploit the increase in the ceiling.

In quantitative and qualitative terms, the Visible trade between Malaysia and Japan is less beneficial to Malaysia. The trade balance is by and large in Japan's favour and can thus constitute a hinderance to Malaysia's long term objectives. In quantitative terms, Malaysia's exports to Japan continue to be dominated by primary commodities. Consequently Malaysia's trade with Japan does not facilitate export-
led industrialization of this country. There is thus a conflict of interest between Malaysia and Japan. While Malaysia's objective is to increase manufactured exports it would seem that it is in Japan's interest to prevent this from happening. Given the opposing interests, a major change in the existing pattern of Visible trade between Malaysia and Japan is not likely. Moreover because from Japan's point of view Malaysia is an unimportant trading partner, Malaysia's ability to influence Japanese trade policies is likely to be minimal.

3.2 Invisible Trade

The trade in Invisibles between Malaysia and Japan is much smaller than merchandise trade between the two countries. Nevertheless a persistent trend of a large and growing deficit in the Invisible account has raised concern in Malaysia. The deficits in the Invisible trade account between Malaysia and Japan quadrupled from M$ 503 million in 1979 to M$ 2,177 million in 1985. This is an enormous increase over a period of 4 years. The major components of the Invisible trade account are 'Freight and Insurance', Other transportation, travel, Investment income, government transactions and other services. There are several factors related to each of these components that explain the growing deficit in the Invisible account.
To a large extent, the deficit in the freight and insurance component is a result of Japan's trading policy which involves buying in Fob prices and selling in Cif prices. This implies that the freight and insurance component of the trade between Malaysia and Japan is handled by Japanese shipping and insurance companies. Consequently there is a negative 'Freight and Insurance' element in the Malaysian balance of payment. But the dominance of Japanese shipping and insurance companies in the trade between the two countries alone cannot explain the size and rapid increase in the deficit on the 'freight and insurance' component. Clearly Japanese shipping and insurance companies are serving a much larger portion of Malaysia's external trade than merely their bilateral trade.

Another factor which contributes to the increasing deficit is Japan's practice of switching currencies of settlement by which imports and exports are paid for. In 1980 Malaysian exporters lost an equivalent of about M$ 554 million simply because they were unable to denominate Malaysian exports in Yen which was then appreciating in value. This discriminating practice enables Japan to take advantage of the fluctuations in the exchange rates.

Payment on Investment income is a significant component to Malaysia-Japan trade in Invisibles because Japan is a major source of foreign investment for Malaysia. Investment income basically consists of funds
flowing out of Malaysia in the form of profits, dividends and interests. Investment income payments to Japan increased progressively from M$ 165 million in 1981 to M$ 230 million in 1983 (see Table 1.7).

TABLE 1.7

<table>
<thead>
<tr>
<th>Year</th>
<th>Payment on Investment Income</th>
<th>Contract and professional charges</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>165</td>
<td>165</td>
</tr>
<tr>
<td>1982</td>
<td>198</td>
<td>326</td>
</tr>
<tr>
<td>1983</td>
<td>230</td>
<td>477</td>
</tr>
</tbody>
</table>

Source: Lin See Yan, 'Malaysia-Japan Trade Remsted', Mac 1984.

Within the broad category of 'other services' there are several items which account for substantial outflow of funds from Malaysia to Japan. These include payment for professional and technical services in the field of exploration and production of oil; and the construction sector. Contract and professional charges paid to Japan increased from M$ 165 million in 1981 to M$ 477 million in 1983 (Table 1.7). Finally the 'travel' component also records a continuous deficit vis-a-vis Japan. The deficit increased from M$ 0.3 million in 1981 to about M$ 50 million in 1983.  

27
The size and the increasing trend of deficits in the Invisible trade indicates that this trade is a matter of concern to Malaysia. In the case of most items, the deficits are either too small or an inevitable outcome of policies of the Malaysian government. Payment for contract and professional charges by Malaysia to Japan is, for example, an outflow arising from the decision of the Malaysian government to award a number of large infrastructure projects to Japanese companies. Such payments are thus the result of policies related to Malaysia's 'Look East' policy (which is discussed in the latter part of the chapter). On three components, however, the deficits are sufficiently large to prompt Malaysia to rectify the situation. These are payment for 'Investment income', 'Freight and Insurance' and 'travel'. Moreover these 3 components of the Invisible trade between the two countries are amendable to manipulation by Malaysia.

On the question of 'Freight and Insurance', the Malaysian government has adopted two strategies to reduce the deficits. The first strategy concentrates on expanding and improving the shipping industry. The government has provided a number of incentives to encourage the growth and expansion of the shipping industry in Malaysia. But for several reasons such as: the global over capacity in the industry; traditional practices and links, Japanese overpresence with its efficient shipping and competitive freight
rates, Malaysia has had little success in reducing its dependence on foreign shipping services. This is evident from the continuous escalation in the 'Freight and Insurance' component of the Balance of Payment of Malaysia. The second strategy adopted by Malaysia to reduce the deficits on 'Freight and Insurance' was to encourage its traders to adopt a policy of selling Cif and buying Fob. But Malaysia has had little success in this endeavour because it is not economical for Malaysian traders who trade in small lots to sell Cif and buy Fob. In any event deficits on the 'Freight and Insurance' element will continue because the solutions to rectify it will take a long time to take effect.

The second component of the Invisible trade is payment on Investment income which is closely related to Japanese direct investment activities and other forms of capital fund such as loans from Japan to Malaysia. These funds are a major and significant input for development and hence will continuously be encouraged by Malaysia. Therefore it is very unlikely that the deficit in this component will be reversed in the short run. In order to stamp the outflow, the Malaysian government has encouraged reinvestment of profits and dividends. The fact that the outflow of fund in the form of dividends and profits is growing seem to indicate that there has been very little positive response from the Japanese.
The third component is 'travel'. There is a relatively greater prospect for reduction on this outflow. The Malaysian government can make a contribution towards reducing deficits in the 'travel' component. There is already some evidence that the deficits need not remain a permanent feature of the Malaysia-Japan bilateral relations. Data compiled by the Japan National Travel Organization showed that the total number of Japanese travellers visiting Malaysia increased from 78,000 in 1980 to about 90,700 in 1983. It was calculated that the average increase works out to be about 4.9 per cent per annum. Also another study by the Malaysian Tourist Development Cooperation observed that 58.4 per cent of Japanese travelling to Malaysia were repeat visitors. Hence if the tourist industry can be developed in Malaysia and if the large potential Japanese market can be drawn to the country, foreign exchange losses and deficits in the travel component can be reduced. In the long run there is no reason why a well developed tourist industry and an efficient marketing programme in Japan cannot allow Malaysia to even record a surplus from the travel component.

Overall the trade relations between Malaysia and Japan were initially pursued because of the complementary nature of the two economies. The complementary relationship is being replaced by an increasingly competitive relationship as Malaysia pursues its industrialization and development goals. There are
now differing and opposing interests as the two countries pursue this bilateral trade relationship. Japan being economically stronger, has been able to obtain more benefits from the trade relationship because it is able to impose its trading practices and policies such as buying Fob and selling Cif, quotas on import and protectionist policies that restrict access to its market. Malaysia, with the weaker economy, is the subordinate trade partner. Being the weaker party in the trade relations Malaysia is unable to significantly alter the structure of bilateral relations with Japan to correspond to its economic objectives. Consequently attempts to resolve problems related to trade with Japan are seldom on a bilateral basis and are usually attempted via Asean. Furthermore Japanese trade policies and practices are determined by its global trade relationship, especially its relations with major trading partners namely the United States and the EEC. Malaysia is too insignificant a trading partner to be able to influence Japan's trade policies and practices. Hence it appears that the trade relations between Japan and Malaysia is a dependent trade relation between a developed and a developing economy in which the distribution of benefits is likely to favour the developed economy.

Having established that the existing trade relations between Malaysia and Japan is asymmetrical, the following section will consider whether Japanese investment activities in Malaysia tend to reinforce this conclusion.
4. **Investment**

Malaysia, recognizing the importance of foreign investment for its economic development, encourages investment from various sources. The main sources include the USA, United Kingdom, Singapore, West Germany, Japan and Australia. Japanese investment is significant because it always ranks as one of the top three (Table 1.8).

**TABLE 1.8**

MALAYSIA : FOREIGN INVESTMENT IN APPROVED PROJECTS BY COUNTRY AND RANKING

<table>
<thead>
<tr>
<th>Year</th>
<th>Japan</th>
<th>W.Germany</th>
<th>Australia</th>
<th>Hong Kong</th>
<th>Singapore</th>
<th>United Kingdom</th>
<th>U.S.A.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1978</td>
<td>2</td>
<td>5</td>
<td>7</td>
<td>6</td>
<td>4</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>1979</td>
<td>1</td>
<td>6</td>
<td>7</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>1980</td>
<td>2</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>1</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>1981</td>
<td>1</td>
<td>7</td>
<td>2</td>
<td>5</td>
<td>4</td>
<td>6</td>
<td>3</td>
</tr>
<tr>
<td>1982</td>
<td>1</td>
<td>5</td>
<td>3</td>
<td>7</td>
<td>6</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>1983</td>
<td>3</td>
<td>7</td>
<td>6</td>
<td>2</td>
<td>4</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>1984</td>
<td>1</td>
<td>6</td>
<td>7</td>
<td>4</td>
<td>2</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>1985</td>
<td>1</td>
<td>7</td>
<td>6</td>
<td>4</td>
<td>2</td>
<td>5</td>
<td>3</td>
</tr>
</tbody>
</table>

A change in Japanese foreign policy posture toward Southeast Asia from non-involvement to active involvement in the 1950s triggered a rapid growth in Japanese investment in these countries. The first influx of Japanese capital into Malaysia occurred in the mid-1950s. Japan's first postwar investment in Malaysia was a joint venture in textile set up in 1957. In the late 1950s and throughout the 1960s Japan, was encouraged by Malaysia's attitude toward foreign investment but it nevertheless exercised restraint in its investment activities. There were still anti-Japanese sentiments and reparation negotiations were long drawn and settled only in 1967. Japanese investment in the early stage was in import substitution such as light manufacturing and processing activities. The pattern of Japanese investment was consistent with the incentives granted by Malaysia as part of its import substitution policy. Up to 1969 there were only 46 Japanese joint venture investments in Malaysia.\(^{34}\) Japanese investment activities however increased and expanded in the late 1960s and 1970s. Between 1970 and 1973, 179 new Japanese firms invested in Malaysia and by 1977 there were 489 firms with a cumulative capital of US$ 425 million.\(^{35}\) The change in degree of involvement can be explained by several 'push' and 'pull' factors.

Malaysia introduced an extensive and attractive package of fiscal incentives under the Investment Act of 1968. The incentives were designed to provide tax relief
to companies setting up new enterprises or expanding existing ones. Generally these incentives took the form of awards of pioneer status, labour utilization relief, investment tax credits, export incentives, locational incentives, and appropriate tariff protection and exemption from import duty on raw material and machinery required by the manufacturing sector. The Malaysian government also provided a variety of physical facilities such as 21 industrial estates in various parts of the country, 4 Free Trade Zones and also licensed manufacturing warehouse facilities. Another pull factor which attracted Japanese investment was the fear of being excluded from the Malaysian market.

There were several push factors responsible for the increase in Japanese investment. The oil crises in the 1970s necessitated an industrial reorganization in Japan. Up until then Japan relied exclusively on petroleum as its main source of energy and 100 per cent of its petroleum requirements were imported. The worst hit industries were those processing raw material which were no longer able to maintain international competitiveness. This forced Japanese industries to set up 'off shore' production for primary processing of raw materials. Consequently there was increased Japanese investment in resource abundant countries in Asia and Central and South America. Also the widespread concern about high levels of air pollution and the associated health hazards forced some industries, such
as the steel industries, to be relocated in suitable sites abroad.

With the development of industries in Japan labour became scarce and consequently wage rates increased in Japan. The average annual wage increase for the period 1965-1975 was 16 per cent which was double the average increase of 8 per cent recorded for the period 1955-1965. Because the wage increase were not accompanied by an increase in productivity, the increase in production costs led to a decline in competitiveness in overseas markets. This led labour intensive industries to invest in labour abundant and low wage countries in Asia and Latin America.

Another contributing factor was the surplus in the balance of payments. This led the Japanese government to encourage foreign investment. Foreign investment was preferred to the revaluation of the Yen. In 1969 the Japanese government extended automatic approval for foreign investment for amounts less than US$ 200,000 and in 1972 completely liberalized foreign investment. Other initiatives include the modification of the special reserve for losses from foreign investment, the enlargement of the foreign investment insurance scheme and the increased activities of the Export-Import Bank in the area of investment finance.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Malaysia</strong></td>
<td>126</td>
<td>52</td>
<td>146</td>
<td>142</td>
<td>79</td>
<td>1,125</td>
</tr>
<tr>
<td><strong>per cent</strong></td>
<td>3.6</td>
<td>1.6</td>
<td>3.1</td>
<td>1.4</td>
<td>0.6</td>
<td>1.3</td>
</tr>
<tr>
<td><strong>Asean</strong></td>
<td>625</td>
<td>856</td>
<td>921</td>
<td>906</td>
<td>935</td>
<td>13,469</td>
</tr>
<tr>
<td><strong>per cent</strong></td>
<td>17.9</td>
<td>26.1</td>
<td>19.6</td>
<td>8.9</td>
<td>7.7</td>
<td>16.1</td>
</tr>
<tr>
<td><strong>North America</strong></td>
<td>913</td>
<td>905</td>
<td>1,596</td>
<td>3,544</td>
<td>5,495</td>
<td>26,965</td>
</tr>
<tr>
<td><strong>per cent</strong></td>
<td>26.2</td>
<td>27.6</td>
<td>34.0</td>
<td>34.9</td>
<td>45.0</td>
<td>32.2</td>
</tr>
<tr>
<td><strong>Europe</strong></td>
<td>337</td>
<td>333</td>
<td>579</td>
<td>1,937</td>
<td>1,930</td>
<td>11,002</td>
</tr>
<tr>
<td><strong>per cent</strong></td>
<td>9.7</td>
<td>10.2</td>
<td>12.3</td>
<td>19.1</td>
<td>15.8</td>
<td>13.2</td>
</tr>
<tr>
<td><strong>China</strong></td>
<td>0</td>
<td>0</td>
<td>12</td>
<td>114</td>
<td>100</td>
<td>287</td>
</tr>
<tr>
<td><strong>per cent</strong></td>
<td>0</td>
<td>0</td>
<td>0.3</td>
<td>1.1</td>
<td>0.8</td>
<td>0.3</td>
</tr>
<tr>
<td><strong>World</strong></td>
<td>3,491</td>
<td>3,280</td>
<td>4,693</td>
<td>10,155</td>
<td>12,217</td>
<td>83,649</td>
</tr>
<tr>
<td><strong>per cent</strong></td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

In absolute terms, the values of Japanese investment shows a definite declining trend in the first half of 1980s (Table 1.9). In relative terms, that is, the proportion of Japanese investment in Malaysia to total Japanese overseas investment, a declining trend is also evident in the 1970s and in the early 1980s. Japanese investment in Malaysia in relative terms declined from an insignificant 3.0 per cent in 1973 to be almost negligible in 1985. On the other hand in the same period, an increase, at least in absolute terms was recorded for Japan's investment in the advanced industrialized countries of Europe and the United States (Table 1.9). It appears that Japanese overseas investment is not guided by consideration of altruism.

The following discussion will consider the various features of Japanese investment in Malaysia and their impact on Malaysia's development priorities discussed earlier.

The first characteristic of Japanese investment in Malaysia is that it takes the form of joint ventures. This is also the general practice of most other foreign investors in Malaysia. In the period 1971-1979 a total of 1577 foreign investment projects were approved by the government. Out of this total about 126 projects or 8 per cent of the total approved projects were wholly foreign owned while the remaining 92 per cent or 1451 projects were joint ventures. Of the 287 Japanese projects approved in the same period 12 per cent
(36 projects) were wholly Japanese owned while the remaining 88 per cent (253 projects) were joint venture projects. Furthermore not only do Japanese investors prefer joint ventures, they also show a preference for minority equity participation. For investment up to 1979, in 60 per cent of Japanese joint ventures, Japanese equity participation was less than 50 per cent. In this respect Japanese investment differs from investment from other large foreign investors. For example in 75 per cent of United States' joint ventures in 1979, United States investors held majority equity participation.

The prevalence of joint ventures as the common form of investment in Malaysia can be attributed in part to the guidelines of the NEP. The guidelines require companies producing for the domestic market to have at least 51 per cent Malaysian equity. In this regard, Japanese investors' preference for joint ventures and their generally minority equity participation is in conformity with the NEP requirements. However having minority equity participation does not mean that the Japanese investors do not have effective control of the joint venture. In fact there is no direct relationship between equity participation and effective control. Effective control instead is achieved by other means namely management contracts, technical and licensing agreements, trade mark and patent rights and turnkey operations. A statistical analysis for the period
1970-1979 found that Japanese firms did indeed employ all the devices mentioned above.  Having effective control enables the Japanese to determine the various aspects of the investment, i.e., the location, type of industry and the choice of production techniques which is to their interest rather than that of the host country. For example, Japanese investment is concentrated in the textile and electronic industries because the Japanese have demonstrated technological superiority over other investors. On the other hand Japanese investment is marginal in export-oriented industries because these industries threaten 'production at home' and increase competition in the competitive international markets. Overall then the possession of effective control, not withstanding their minority status in a joint venture, would imply that the nature and character of Japanese investment in Malaysia would promote Japanese interests and these need not necessarily coincide with Malaysia's aims and aspirations.

Another consideration on equity participation is the target set out in the NEP. Firms are required to set aside at least 30 per cent of their equity for Bumiputras. Based on observation of Bumiputra equity share in the Japanese projects approved between 1980-1982, there is a discernible trend in recent years towards increased Bumiputra equity participation. However with regard to the appointment of dealers, Japanese firms have yet to achieve the 30 per cent Bumiputra target.
in the distributive trade.  

The second feature of Japanese investment in Malaysia is that it is concentrated in the manufacturing sector. In 1980 47.1 per cent of Japanese firms were involved in manufacturing, 24.6 per cent in trading and commerce, 9.1 per cent in construction and engineering, 2.1 per cent in mining and the rest in finance, insurance and other services.  

In fact Japan is a major investor in the manufacturing sector (Table 1.10). As at December 1985 Japan accounted for 27.47 per cent of the total investment in the manufacturing sector and was only 1.17 percentage points behind the United Kingdom.

Within the manufacturing sector there is another form of concentration. The bulk of the Japanese investment is in two main industries, namely textile and textile products, and electrical and electronic products (Table 1.11).

Other than the manufacturing sector, there is also Japanese investment in resource-based industries. Among the activities where there is Japanese interest are steel mills, tin factories, cement works and sawmills. Japanese investment in these industries is part of Japan's long term strategy to secure a constant supply of natural resources inputs for its industrial needs. When Malaysia embarked on heavy industrialization Japanese investors participated actively in many of the major projects. These include the M$ 455 million sponge iron and steel billet plant in Trengganu which is a
<table>
<thead>
<tr>
<th>Country</th>
<th>Paid-up (M$'000)</th>
<th>Loan (M$'000)</th>
<th>Total (M$'000)</th>
<th>Percentage %</th>
<th>Fixed Assets (M$'000)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Singapore</td>
<td>1,263,740</td>
<td>198,105</td>
<td>1,461,845</td>
<td>19.07</td>
<td>1,126,847</td>
</tr>
<tr>
<td>Japan</td>
<td>774,584</td>
<td>1,331,713</td>
<td>2,106,297</td>
<td>27.47</td>
<td>1,402,790</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>720,905</td>
<td>1,475,039</td>
<td>2,195,944</td>
<td>28.64</td>
<td>874,876</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>287,627</td>
<td>191,671</td>
<td>479,298</td>
<td>6.25</td>
<td>663,774</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>261,120</td>
<td>117,421</td>
<td>378,541</td>
<td>4.94</td>
<td>415,242</td>
</tr>
<tr>
<td>Holland</td>
<td>148,160</td>
<td>4,570</td>
<td>152,730</td>
<td>1.99</td>
<td>528,712</td>
</tr>
<tr>
<td>W. Germany</td>
<td>112,194</td>
<td>27,086</td>
<td>139,280</td>
<td>1.82</td>
<td>127,814</td>
</tr>
<tr>
<td>Australia</td>
<td>104,837</td>
<td>9,335</td>
<td>114,172</td>
<td>1.49</td>
<td>163,865</td>
</tr>
<tr>
<td>Switzerland</td>
<td>90,536</td>
<td>3,990</td>
<td>94,526</td>
<td>1.23</td>
<td>202,409</td>
</tr>
<tr>
<td>Denmark</td>
<td>79,935</td>
<td>6,317</td>
<td>86,252</td>
<td>1.13</td>
<td>39,253</td>
</tr>
<tr>
<td>Arab Countries</td>
<td>34,719</td>
<td>5,439</td>
<td>40,158</td>
<td>0.52</td>
<td>45,581</td>
</tr>
<tr>
<td>India</td>
<td>26,300</td>
<td>27,280</td>
<td>53,580</td>
<td>0.70</td>
<td>41,938</td>
</tr>
<tr>
<td>Canada</td>
<td>25,348</td>
<td>-</td>
<td>25,348</td>
<td>0.33</td>
<td>59,410</td>
</tr>
<tr>
<td>Taiwan</td>
<td>23,098</td>
<td>31,632</td>
<td>54,730</td>
<td>0.71</td>
<td>29,543</td>
</tr>
<tr>
<td>France</td>
<td>16,519</td>
<td>16,991</td>
<td>33,510</td>
<td>0.44</td>
<td>20,736</td>
</tr>
<tr>
<td>Sweden</td>
<td>11,016</td>
<td>683</td>
<td>11,699</td>
<td>0.15</td>
<td>18,635</td>
</tr>
<tr>
<td>Norway</td>
<td>8,361</td>
<td>2,748</td>
<td>11,109</td>
<td>0.15</td>
<td>12,776</td>
</tr>
<tr>
<td>New Zealand</td>
<td>6,666</td>
<td>-</td>
<td>7,039</td>
<td>0.09</td>
<td>6,254</td>
</tr>
<tr>
<td>Thailand</td>
<td>3,602</td>
<td>370</td>
<td>3,972</td>
<td>0.05</td>
<td>3,534</td>
</tr>
<tr>
<td>Korea</td>
<td>3,420</td>
<td>-</td>
<td>3,420</td>
<td>0.05</td>
<td>5,291</td>
</tr>
<tr>
<td>Brunei</td>
<td>2,414</td>
<td>5,750</td>
<td>8,164</td>
<td>0.11</td>
<td>1,825</td>
</tr>
<tr>
<td>Belgium</td>
<td>1,933</td>
<td>4,991</td>
<td>6,924</td>
<td>0.09</td>
<td>16,067</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1,751</td>
<td>150</td>
<td>1,901</td>
<td>0.03</td>
<td>2,488</td>
</tr>
<tr>
<td>Italy</td>
<td>1,591</td>
<td>1,141</td>
<td>2,732</td>
<td>0.04</td>
<td>1,477</td>
</tr>
<tr>
<td>Bahamas</td>
<td>200</td>
<td>1,500</td>
<td>1,700</td>
<td>0.02</td>
<td>856</td>
</tr>
<tr>
<td>Philippines</td>
<td>15</td>
<td>-</td>
<td>15 Negligible</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>9</td>
<td>-</td>
<td>9 Negligible</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>158,831</td>
<td>32,189</td>
<td>191,020</td>
<td>2.49</td>
<td>244,559</td>
</tr>
<tr>
<td>Unknown</td>
<td>832</td>
<td>-</td>
<td>832</td>
<td>0.01</td>
<td>1,347</td>
</tr>
</tbody>
</table>

Total       4,170,263  3,496,111  7,666,374  100%  6,055,908

Source: MIDA
<table>
<thead>
<tr>
<th>Code Sector</th>
<th>Paid-up Capital</th>
<th>Fixed Asset</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>M$ mil</td>
<td>M$ mil</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Food Manufacturing</td>
<td>43,778</td>
<td>53,664</td>
</tr>
<tr>
<td>Textile &amp; Textile products</td>
<td>215,901</td>
<td>183,859</td>
</tr>
<tr>
<td>Wood &amp; Wood products</td>
<td>34,322</td>
<td>22,282</td>
</tr>
<tr>
<td>Paper, Printing &amp; Publishing</td>
<td>210</td>
<td>394</td>
</tr>
<tr>
<td>Chemical &amp; Chemical products</td>
<td>18,863</td>
<td>22,717</td>
</tr>
<tr>
<td>Petroleum &amp; Coal</td>
<td>105,240</td>
<td>488,744</td>
</tr>
<tr>
<td>Rubber Products</td>
<td>5,482</td>
<td>9,131</td>
</tr>
<tr>
<td>Plastic Products</td>
<td>14,677</td>
<td>18,906</td>
</tr>
<tr>
<td>Non Metallic Mineral Products</td>
<td>38,632</td>
<td>130,096</td>
</tr>
<tr>
<td>Basic Metal Products</td>
<td>65,126</td>
<td>83,349</td>
</tr>
<tr>
<td>Fabricated Metal Products</td>
<td>27,091</td>
<td>26,009</td>
</tr>
<tr>
<td>Machinery Manufacturing</td>
<td>23,377</td>
<td>25,538</td>
</tr>
<tr>
<td>Electrical &amp; Electronic Products</td>
<td>115,619</td>
<td>242,718</td>
</tr>
<tr>
<td>Transport Equipment</td>
<td>44,939</td>
<td>56,880</td>
</tr>
<tr>
<td>Professional Scientific and Measuring Equipment</td>
<td>2,000</td>
<td>3,475</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>7,414</td>
<td>14,554</td>
</tr>
<tr>
<td>Hotel &amp; Tourist Complexes</td>
<td>11,913</td>
<td>20,474</td>
</tr>
</tbody>
</table>

| Total                              | 774,584         | 1,402,790   | 100.0      |

joint venture with a Nippon Steel Corp-led Japanese consortium, and the 'Malaysia Car' industry which is a joint between Hicom (Heavy Industries Malaysia) and Mitsubishi Corp and Mitsubishi Motor Corp.

The growth of the manufacturing sector is to a large extent influenced by foreign investment. It was pointed out earlier that Japan is one of the major investors in the manufacturing sector and therefore has the capacity to influence the pattern of development of this sector. The concentration of Japanese investment in a few industrial activities namely textile and the electrical and electronic industry cannot make a significant contribution towards the development of a broader based manufacturing sector. There is wide scope for Japanese investment in other industries that currently have marginal Japanese participation. Japanese participation in the processing of timber, rubber and tin is marginal. As at December 1984 Japan invested only 0.7 per cent of its total investment in the rubber processing industry. Likewise, only 4.4 per cent of total Japanese investment was in wood and wood product industries (Table 1.11). It would appear that the contribution of Japanese investment in Malaysia towards resource based industrialization is at best only marginal.

The third feature that will be considered is the size of Japanese firms. Based on the number of employees, Japanese firms are considered to be relatively
small. A survey of Japanese firms in Malaysia observed that 41 per cent of the firms employed less than 50 workers each and only 13.4 per cent employed 500 or more workers.49

A fourth feature of Japanese firms in Malaysia is the presence of a large number of expatriates. On average Japanese firms have the most number of expatriates. In 1981 there were 904 foreign joint venture manufacturing companies in Malaysia which employed a total of 1914 expatriates.50 Out of this total there were 166 Japanese firms which had 476 Japanese expatriates.51 It was calculated that on the average Japanese joint ventures have the highest number of expatriates with a ratio of 4.1 expatriates per company compared to a national average of 2.02 expatriate per foreign company.52

The third and fourth feature mentioned above determines the employment creating capacity of Japanese foreign investment in Malaysia. Malaysia has an increasing unemployment problem. The unemployment rate was about 5 per cent in the late 1970s and is currently about 7 per cent. The Malaysian government has provided incentives such as the Labour Utilization Relief to encourage foreign investors to employ larger numbers of local employees. It was earlier pointed out that Japanese investments are concentrated in manufacturing activities that are relatively labour intensive but the small size of Japanese firms restricts the employment creating capacity and hence falls short of Malaysia's expectations.
Furthermore the continued presence of large numbers of expatriates will prolong the transfer of expertise and knowledge to local employees.

The fifth feature of Japanese foreign investment concerns the location of Japanese firms. Generally most of the Japanese firms are located in major towns and in the more developed states, namely the Federal Territory, Selangor and Penang (Table 1.12). The tendency to concentrate in developed areas indicate that infra-structural facilities and other advantages take precedence over locational incentives granted by the government of Malaysia. The distribution of Japanese investment has an impact on Malaysia's regional development. The Malaysian government has placed emphasis on the development of the poorer states on the East Coast of peninsula Malaysia and the states of Sabah and Sarawak in Borneo. The concentration of Japanese investment in the more developed states of Malaysia cannot contribute toward redressing the regional imbalances prevailing in the country. On the contrary, Japanese investment would seem to contribute towards unequal regional growth.

Finally, another feature that must be considered is the linkage effect of Japan investment. Generally linkage effects of Japanese foreign investment are small. Japanese firms in Malaysia have not encouraged or developed ancillary industries which not only can expand the industrial sector but can also increase employment creating capacity. Most Japanese joint venture contracts
<table>
<thead>
<tr>
<th>States</th>
<th>No. of Companies</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Territory</td>
<td>87</td>
<td>26.4</td>
</tr>
<tr>
<td>Selangor</td>
<td>71</td>
<td>21.6</td>
</tr>
<tr>
<td>Penang</td>
<td>45</td>
<td>13.7</td>
</tr>
<tr>
<td>Sabah</td>
<td>39</td>
<td>11.9</td>
</tr>
<tr>
<td>Johore</td>
<td>24</td>
<td>7.3</td>
</tr>
<tr>
<td>Sarawak</td>
<td>18</td>
<td>5.5</td>
</tr>
<tr>
<td>Perak</td>
<td>17</td>
<td>5.2</td>
</tr>
<tr>
<td>Trengganu</td>
<td>7</td>
<td>2.1</td>
</tr>
<tr>
<td>Kedah</td>
<td>5</td>
<td>1.5</td>
</tr>
<tr>
<td>Negri Sembilan</td>
<td>4</td>
<td>1.2</td>
</tr>
<tr>
<td>Malacca</td>
<td>4</td>
<td>1.2</td>
</tr>
<tr>
<td>Pahang</td>
<td>3</td>
<td>0.9</td>
</tr>
<tr>
<td>Kelantan</td>
<td>3</td>
<td>0.9</td>
</tr>
<tr>
<td>Perlis</td>
<td>1</td>
<td>0.3</td>
</tr>
<tr>
<td>Singapore-Based</td>
<td>1</td>
<td>0.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>329</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

include clauses which tie the firm to purchase all components from Japan despite the fact that all these components are locally produced. Often the explanation offered is that locally produced components are of poorer quality and more expensive. What research done in the past would seem to indicate there is very little linkage effect if any.\(^5^4\) Similarly complaints by local manufacturers would seem to reinforce this conclusion.\(^5^5\) The absence of linkage effects indicate that Japanese investment in Malaysia does not contribute towards a broad based integrated development of the manufacturing sector of Malaysia.

The discussion in this section has considered the major forms of capital flow from Japan to Malaysia. Japanese investment in Malaysia again reflects an asymmetrical relationship. Japan is a significant source of foreign investment for Malaysia while to Japan, Malaysia is an insignificant outlet. Japanese investment has been a major source of foreign investment for Malaysia. In addition the distribution of equity of Japanese firms in Malaysia would seem to conform to the latter's aspirations particularly the NEP objectives. But some aspects of Japanese investment in Malaysia would appear to be in conflict with Malaysia's objectives. First Japanese investments are concentrated in a limited range of industries, and their absence in the export-oriented resource based industries (excluding petroleum) is inconsistent with Malaysia's aim to promote resource
based industrialization. Second the location of Japanese investment tends to accentuate the regional imbalances in Malaysia and renders the balanced growth objectives of the Malaysian government that much more difficult to attain. Third, while there is some evidence that employment in Japanese firms conform to the NEP objectives the overall employment generated is not large by virtue of the fact that Japanese firms tend to be fairly small in size. Finally the weak linkage effects of Japanese investment in Malaysia would suggest that they are unlikely to promote the growth of a broad based manufacturing sector in Malaysia. 56

5. Transfer of Technology

Malaysia's indigenous technology is inadequate to undertake the task of creating a viable industrial sector. Consequently Malaysia is dependent upon imported technology which is normally channelled through investment activities. Transfer of technology can take various forms namely: transfer of design, use of patents, blue prints, technical literature and technical advice; transfer of machinery and equipment including complete 'turnkey' projects; and the transfer of skills.

Since Malaysia's industrialization strategy in the 1980s emphasises heavy and engineering industries, the need for technological transfer has become even more significant. Japan being a major foreign investor in Malaysia is a potential source of technology. It is
beyond the scope of this study to ascertain the extent of technology transfer from Japanese investment in Malaysia. There are, however, a number of indicators that suggests that technology transfer by Japanese investors has been less than satisfactory. First, Japanese investors have made very little effort to adapt their technology to Malaysian conditions or to develop new technologies that would be consistent with conditions in Malaysia. In most cases, Japanese firms introduce their production techniques to Malaysia without any modifications.

The second major indication of the absence of technological transfer is the failure of Japanese investors to establish Research and Development (R & D) facilities in Malaysia. On the contrary, Japanese investors are totally dependent on the parent company in Japan to undertake further development of the product and production techniques. The absence of R & D activities by Japanese firms in Malaysia is to some extent attributed to the insufficient technical and skilled Malaysian labour that is necessary to sustain an extensive R & D programme. Also the choice of industries by Japanese investors would limit the scope for R & D since the process involved in these industries are relatively simple operations. The absence of R & D facilities by Japanese investors cannot facilitate the process of technological transfer and does not increase the capacity to absorb technology by Malaysia.
The third indication of the absence of technology is the tendency on the part of Japanese firms not to employ local personnel in finance, production, managerial, marketing and purchasing function. Often the reason given is the lack of trained and skilled indigenous personnel. This might be overcome by instituting proper training programmes but training in Japanese firms is often selective and limited to certain type of skill. Also there have been occasions when opportunities to train local labour was available but were overlooked.

Some recent initiatives would seem to imply a greater commitment by the Japanese government towards technological transfer to the Asean countries. An 'Asean Human Resource Development' project was initiated in 1981 for each Asean state. This project was geared towards the needs of the individual states. Another project that was launched was the Okinawa International Centre which opened in 1985. It is a training centre of Japan International Cooperation Agency (JICA). The centre is specifically aimed at providing technical training for capable personnel from the Asean countries.

These initiatives not withstanding, Japan's contribution to the process of technology transfer has not been up to expectations. This would be consistent with the general impression that the Japanese are not particularly liberal in skill transfers. On the contrary joint ventures, managerial contracts, licensing agreements
and turnkey operations would suggest technological
control by Japan and Malaysia's technological dependence.

6. **Look East Policy**

The 'Look East' policy was introduced on
February 8 1982 at the joint annual conference of the
Malaysia-Japan Economic Association, Majeca and Jameca.
It is a governmental policy pursued at two levels:

1. at the level of an external economic policy
   Japanese and Korean (and other so defined
   'Eastern') governmental and private sector and,
   technical assistance and training are sought
   and contracted by Malaysia. As an extension
   of this, students are also to be sent to both
   Japan and South Korea for vocational and
   tertiary education.\(^6^3\)

2. at the level of domestic policy the Malaysian
   government seeks to inculcate the 'Eastern'
   work ethics through various propaganda devices
   and through various policies in the private
   and public sector.\(^6^4\)

Malaysia is in the process of industrializing
and has realized that its indigenous technology is not
adequate. It is also aware that its labour force is
largely unskilled. In order to overcome these two
deficiencies the Prime Minister of Malaysia advocated
the emulation of Japanese work attitudes, ethics and
skills. The main thrust of the campaign was first to promote labour discipline (via propaganda campaign, company welfarism, in-house unions); second to increase productivity (via work ethics, higher proportion of incentives payments); and third to reduce losses (via quality control circle, 'zero-deficit' groups).  

A mechanism to imbibe Japanese work ethics is via the award of major constructions contracts to Japanese companies. In addition to the obvious negative impact of the award of these projects on the country's balance of payments, there has also been criticism from specific groups within Malaysia. The Malaysian construction industry has expressed its displeasure over the number of turnkey projects being awarded to Japanese contractors. Malaysian contractors have asserted that at least some of these projects could have been undertaken by local contractors. A second criticism of the award of such contracts to Japanese firms is related to the fact that Japanese firms have won contracts despite the fact that their quotation were far in excess of other bidders.

Implicit in 'Look East' policy was the expectation that technology transfer to Malaysia would be enhanced. Based on the discussion in section 5 (Transfer of technology) it can be said that the modus operandi of Japanese firms in Malaysia does not encourage the process of technology transfer. There is no evidence of formal training of Malaysian personnel that can
indicate that technology transfer has taken place. More often the unskilled labour is expected to 'pick up sufficient skills' in the normal process of working side by side with the Japanese. However, if it is Malaysia's expectation to increase technology transfer by awarding large infrastructure projects to Japanese firms, the responsibility of ensuring that such transfer does actually take place cannot be left entirely to Japanese altruism. The Malaysian government should impose the necessary conditions to ensure that a transfer of technology does in fact take place. The failure of the Malaysian government to impose such conditions is probably the main reason for the absence of technology transfer from projects awarded to Japanese firms.

With regard to investments, the declining trend in both absolute and relative terms after the implementation of the 'Look East' policy (Table 1.9) indicates that there is no positive response to the policy as was hoped for by Malaysia.

Thus far it would appear that the Look East policy hinders rather than accelerates the development of the Malaysian economy. The large outflow of foreign exchange because of contracts awarded to the Japanese contributes to the deficits in the balance of payment. These contracts are awarded to the Japanese to hasten the process of technology transfer. However there is no evidence of technology transfer. Concerning the emulation of Japanese work practices and ethics, it is
desirable to instill good work ethics, discipline and loyalty. However these characteristics alone cannot guarantee productivity increase. For successful emulation of Japanese work practices and ethics, other initiatives at the domestic i.e. Malaysian level are required. There is yet no evidence that the government is aware of the type of changes that may be required to facilitate the absorption of Japanese work ethics and attitudes by the Malaysian labour force.

7. Conclusion

This chapter has attempted to analyse the major components of the economic relationship between Malaysia and Japan. This bilateral economic relationship is significant to Malaysia because Japan is its dominant trading partner, a major investor and consequently a major source of technology. The nature of the relationship between Malaysia and Japan is primarily influenced by the difference in their economic strength. Japan's economic preponderance is manifested by its dominance in all major aspects of its economic relations with Malaysia.

The Malaysia-Japan trade relations has expanded rapidly, but two aspect of the trade relations remains by and large unsatisfactory from the Malaysian point of view. First, Malaysia remains an exporter of primary commodities and an importer of manufactured products and capital goods. This neo-colonial trade relations is in
Japan's interest because it ensures a flow of natural resource inputs for its industries and provides a market for its manufactured products. Malaysia on the other hand, is unable to diversify its exports to include a large proportion of manufactured products and processed primary commodities. The need to diversify is more urgent in the 1980s because of the declining prices of Malaysia's major primary commodities namely rubber, tin and palm oil. Diversification into higher value-added exports, namely manufactured exports, represent a long-term strategy to achieve a more balanced bilateral trade relationship with Japan. But it is precisely in this area that Malaysia-Japan trade relations are not evidencing any change. The responsibility for this lies in Japanese trade practices such as tariff and non-tariff protectionism.

Second, the trade balance tends to be in Japan favour. LNG and crude oil exports to Japan conceals the long-term tendency of a persistent trade deficit for Malaysia in its trade with Japan. The implications on growth prospects of a deficit in trade balance with its most important trading partner are obvious. But barring major changes in the exports of Malaysia to Japan, the deficit in the trade balance will in all probability become even more pronounced.

Japan is a major foreign investor in Malaysia and largely as a result of the attractive and liberal terms offered by the government under the 1968 Investment
Incentive Act. But the benefits accruing to Malaysia from Japanese investments are not significant and in some instances tend to work contrary to the objectives of the Malaysian government. The concentration of Japanese investment in a few industries would seem to imply that Japanese investment does not make a substantial contribution to expanding the industrial base of Malaysia. Likewise the employment generated by Japanese investment in Malaysia is small. Furthermore there is little evidence that Japanese foreign investment makes significant contribution to technology transfer. In some instances Japanese investment 'can undermine Malaysia's development objectives. For examples, the concentration of Japanese investment in the more developed states of Malaysia conflicts with Malaysia's objective of balanced regional growth. Overall Japanese investment activities result in a dependency relationship which would suggest that the distribution of benefits of Japanese investment in Malaysia is in Japan's favour.

In light of the preceding conclusion the question is, should Malaysia foster closer economic ties with Malaysia? The general thrust of the Look East policy is obviously to foster closer economic relations with Japan. The discussion in this chapter would seem to suggest that the Look East policy is misplaced. In the long term it will only reinforce the existing dependency relationship. And barring major altruistic initiatives by Japan to reciprocate Malaysia's Look East
policy the benefits from a closer economic relationship between Japan and Malaysia is likely to benefit Japan more than Malaysia.
Footnotes


2. The most important form of reliefs are: Pioneer Status, Investment tax credit Labour Utilization Relief, Locational Incentive and Accelerated Depreciation Allowance MIDA, Incentives for Industry, Mac 1979.

3. The main feature is the granting of a maximum tax relief of up to 10 years to approved industries which are located in designated locational incentive area. The following areas have been gazetted as areas qualifying for locational incentive: State of Kedah (excluding Kuala Muda District), Kelantan, Trengganu, Johor Tengara, Sabah and Sarawak. MIDA, Incentives for Industry Mac 1979.

4. Under this scheme there are several allowance provided as export incentives. These include

   (i) double deduction for promotion of export which allows double deduction of outgoing expenses for the promotion of export of an approved company from income tax

   (ii) Export allowance - non resident company does not qualify for this allowance and export of primary commodities are excluded. The formula to use for computing export allowance is

      (a) Export allowance = (X - Y) x 5%
          where X - export of goods in current year
                 Y - average export of 5 immediately preceding years or as number of years applicable

      (b) If local content exceeds 50% the Export allowance = (X - Y) x 8%

      ibid. pg 7.


6. Ibid. pg. 27.
7. A foreign exchange gap or export-import gap \((M - X)\) exists when there is an excess of imports over exports. Trade restricted growth is growth that is limited by the availability of foreign exchange.


9. In so far as exports are concerned it is possible to argue that Japan is in fact Malaysia's largest export market. This is because a substantial portion of Malaysia's exports to Singapore are not actually destined to Singapore but are in fact transhipped via Singapore to Third Countries.

10. Computation based on data in Table 1.5.

11. **Malaysia's External Trade**

<table>
<thead>
<tr>
<th>Year</th>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1972</td>
<td>4,736</td>
<td>4,371</td>
</tr>
<tr>
<td>1985</td>
<td>37,585</td>
<td>28,709</td>
</tr>
</tbody>
</table>


13. This is not to deny that in the remaining 84.3 per cent of exports to Japan there is a more wider range of primary commodities. This suggests that the first form of diversification of the Malaysian economy namely, diversification in primary commodity sector is reflected in the composition of Malaysia's export to Japan.


16. Ibid. pg. 4.

17. Ibid. pg. 4.

See also Sanchez, Aurora, Non tariff Barriers and Trade in Asean, Asean Economic Bulletin, ISEAS, July 1987, volume 4, No. 1.


20. At the eighth meeting of the Japan-Asean Forum held on 25-26 July 1986. The Asean states expressed that "much more could be done for further market opening measure in Japan - such as lowering tariffs and expanding quotas. Japan Weekly, 16 August 1986.

21. For example, Japan implemented the Generalized System of Preference (GSP) in 1971 in an attempt to liberalize trade by removing certain tariff and non tariff barriers and by streamlining custom procedures. Between 1971 and April 1982 tariffs were removed or reduced on 1653 items. In May 1982 tariffs were removed on 96 items and reduced on 127 items and in January tariffs were further reduced and removed on 78 items.

22. This concession was granted during the Japanese Prime Minister, Mr. Yasohiro Nakasone's 1983 Asean tour.


24. Freight and insurance payment by Malaysian to Japanese shipping and insurance companies is not available. However total outflow on these two items are large and increasing rapidly. See for e.g. Table 2.3 (Malaysia's Balance of Payment) Ministry of Finance Malaysia, Economic Report 1986/87.


27. Lin See Yan, op. cit., 'Malaysia-Japan trade Revisted' pg. 3.
28. The major effort is concentrated on the shipping industry and the insurance component was by and large ignored because about 90 per cent of the payments made for 'Freight and Insurance' is for freight charges.

29. For details of incentives on shipping, see Economic Report 1986/87, Ministry of Finance, pg. 150.

30. The Malaysian government has offered various forms of incentives to the tourist industry. These incentives are provided for under the Promotion of Investment Act 1986. For details see The Economic Report 1986/87, Ministry of Finance, pp. 143-153.


32. Ibid. pg. 8.

33. Ibid. pg. 10.


38. Ibid. pg. 60.

39. Ibid. pg. 60.


41. Ibid. pg. 23.

42. Ibid. pg. 25.

43. Ibid. pg. 25.


45. Ibid. pg. 321.

47. Ibid. pg. 7.


50. Dato' Shahrir Abdul Samad, op. cit., pg. 4.

51. Ibid. pg. 5.

52. Ibid. pg. 5.

53. Chee Peng Lim and Lee Poh Ping, op. cit., pg. 77.

54. Ibid. pg. 76.

55. A large proportion of auto components for the Malaysian Car is still being imported from Japan. The Malaysian Plastics Manufacturers Association for example have claimed that Perusahaan Otomobil Malaysia (the manufacturer of the Proton Saga) preferred to import plastic components from Japan despite the fact that they were more expensive than locally manufactured parts. The Star September 30, 1987.

56. It is perhaps for these reasons that some critics of Japanese investment in Malaysia have been compelled to suggest that such Investment "is premised upon Japanese core capital exploiting the development needs and goals of an essentially peripheral or some semi-peripheral country". Saravanamuthu, J. 'The role and impact of Japanese direct Investment in Malaysia' presented at Seminar on the Japanese Experience Lessons for Malaysia 1983 pg. 26.

57. Chee Peng Lim and Lee Poh Ping, op. cit., pg. 81.

58. Ibid. pg. 81.


61. In the construction of the Bintulu LNG Plant in 1981, 5000 workers were imported from South Korea by the Japanese when there was a local labour force that could be employed and trained. *(New Straits Times, July 20, 1982).*


65. Jomo *op. cit.*, *'The Sun also Sets'*, pg. XI.


<table>
<thead>
<tr>
<th>Projects</th>
<th>Foreign Construction Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Daya Bumi</td>
<td>Takenaka Komuten &amp; Kumagai Gumi</td>
</tr>
<tr>
<td>2. UMNO Headquarters</td>
<td>Takenaku Komuten &amp; Kumagai Gumi, Shimizu and Konsetso</td>
</tr>
<tr>
<td>3. Permodalan National Berhad Headquarters</td>
<td>Shimizu Kenetsu</td>
</tr>
<tr>
<td>4. UBN/Shangrila Hotel</td>
<td>Taisei Kenetsu</td>
</tr>
<tr>
<td>5. Employees Provident Fund Headquarters</td>
<td>Taisei Kenetsu</td>
</tr>
<tr>
<td>6. PKNS Low-Cost Housing</td>
<td>Hazamagumi, Taisei Kenetsu</td>
</tr>
<tr>
<td>7. Urban Development Authority Bukit Nanas</td>
<td>Taisei - Marubeni</td>
</tr>
</tbody>
</table>


68. The successful Japanese contractor for the Daya Bumi building in Kuala Lumpur was $70 million dollars higher than the lowest price quoted by a local contractor
Ibid. pg. 406.

69. "Looking East means we are also looking toward what we consider - and what the world considers as the best technology. If we are going to learn we should learn from people who are the best in the field.

1. Introduction

Japan's political involvement in the Southeast Asian region is of recent origin. Up until the 1970s, Japan's political involvement in Southeast Asia was negligible. Japan's primary concern was its economic interests in the region. The exclusive concentration on economic ties resulted in political backlash which took the form of anti Japanese street riots during the ASEAN visit of Prime Minister Tanaka in 1974. The demonstrations and riots took place because Japan's economic ties with the Southeast Asian countries was considered to be exploitative rather than mutually beneficial.\(^1\) In view of its enormous economic stake in the region, Japan had to re-evaluate its relationship with these states. Japan came to the realization that in order to safeguard its economic interest in the region Japan had to make a positive contribution toward the economic and political stability of Southeast Asia. In other words, Japan realized that in addition to an economic role it also had to project a political role in the region. In Japan's view, cooperation within ASEAN is a major determinant of political stability in
Southeast Asia. Japan realized that by strengthening cooperation within Asean it would make a positive contribution toward the stability of Southeast Asia. Therefore Japan began to get itself involved more fully with Asean by articulating its political role towards Asean's interest in Southeast Asia. To what extent does Japan's political involvement in the region complements Malaysia's political interests and perceptions? This issue will be the major focus of this chapter. However prior to discussing the central issue it will be useful to review the major components in the foreign policy of Malaysia and Japan.

2. Malaysia's Foreign Policy

Malaysia's foreign policy will be reviewed by considering the major components and developments for the period between 1957 and the first half of the 1980s.

At the time of independence, Malaysia was closely aligned to Britain by way of economic, political, cultural and defence linkages. Britain was Malaysia's major trading partner and major source of foreign investment. Malaysia absorbed the British political and administrative practices and institutions. Britain also provided professional and tertiary education facilities for Malaysia. Malaysia was also dependent on Britain's security guarantee formalized through the Anglo Malaysian Defence Agreement. All these links enabled Britain to influence Malaysia's foreign policy.
to project a prowestern image. In 1970 the Anglo Malaysian Defence Agreement of 1957 lapsed and was replaced by the Five Power Defence Arrangement. Also in 1970 Malaysia obtained membership in the Non Aligned Movement and subsequently Malaysia established contacts with other members of the movement and became actively involved in the movement. These two developments began the process of loosening of links between Malaysia and Britain. This process was gradual throughout the 1970s and culminated in 1982 when Malaysia adapted an anti British attitude and implemented the 'Buy British Last' policy. Such an attitude is the result of Malaysia's dissatisfaction over the British government's policies and attitudes towards Malaysia.  

Malaysia's involvement in the Non Aligned Movement and the loosening of ties with Britain influenced its international outlook. First, Malaysia began to diversify and develop new contacts with other states in the international community. For example, Malaysia established and expanded links with the Islamic states. Malaysia also became actively involved in the Organization of Islamic Conference; in mediation efforts in the Iran-Iraq Conflict; and it also maintains strong support for the struggle of the Palestinian people and the Palestinian Liberation Organization (PLO). In addition to the Islamic states, Malaysia also took the initiative to foster links with the Pacific Island states of Fiji, Western Samoa, Tonga, Papua New Guinea
and Maldives. Second, Malaysia also developed a more independent posture which by comparison is a far cry from its pro western image which it projected at the time of its independence. Malaysia now asserts political independence in international affairs and provides support to the initiatives of the Non Aligned Movement.

Another component of Malaysia's foreign policy is its reaction toward communism. For more than a decade since independence, Malaysia demonstrated strong and rigid opposition towards communism both within the country and internationally. Such an attitude was caused by its own experience of political subversion and guerilla terrorism during the communist insurgency which took place between 1948 and 1960. In the 1970s, Malaysia relaxed its rigid anti communist posture when it adopted a policy which makes a clear distinction between internal communism and external communism. To reflect its new posture Malaysia took the initiative to establish diplomatic ties with several communist states in Europe and Asia. The most significant effort was the establishment of diplomatic ties between Malaysia and the People's Republic of China which maintains links with the Malaysian Communist Party (MCP).

Regionalism represents a significant component of Malaysia's foreign policy. Since independence, Malaysia has actively fostered regional cooperation and participated in the creation of several regional organizations in Southeast Asia. Currently Malaysia
participates actively in Asean, a regional organization established in 1967 to enhance the development of member states through regional, economic, social and cultural cooperation. Asean is significant to Malaysia's foreign policy because Malaysia like other member states, utilizes Asean as a channel to pursue its political and economic policies. The Asean member states have cultivated solidarity and cohesion within the regional organization which enables them to work together for their common good. Furthermore Asean as a regional grouping provides its member states the leverage of collective bargaining to promote their interest. Thus far it has been generally observed that Asean as a regional grouping has been more successful in the political sphere than in the economic sphere.

In the security component of Malaysia's foreign policy, Malaysia's focus is on the security of Southeast Asia, its immediate vicinity. In 1970 Malaysia introduced the concept of creating a Zone of Peace, Freedom and Neutrality (ZOPFAN) in Southeast Asia to promote regional peace. ZOPFAN is concerned with the maintenance of security in Southeast Asia by excluding superpower and other major power involvement and intervention in the region. In the 1971 Kuala Lumpur Declaration, Asean adopted ZOPFAN as its policy for establishing regional security in Southeast Asia. Thus far there has not been much headway in the
implementation of this policy, mainly due to the Kampuchean crises; and the lack of common understanding among Asean member states concerning the definition of the concept. To overcome these impediments, Malaysia through Asean is actively involved in finding an amicable political solution to the Kampuchean crises. With regard to the problems related to the definition of the concept, Malaysia emphasises the need to consider the practical aspects of the implementation of the concept, and also the need to consistently rationalize the principles of ZOPFAN with the realities of the 1980s.12

Economic diplomacy represents another component of Malaysia's foreign policy. Malaysia's economic diplomacy is determined primarily by the nature of its economy and its major economic objectives and priorities. Malaysia is basically a primary commodity producer with an open economy which is subject to price fluctuations in the international commodity markets. As such Malaysia needs to develop the capacity to influence the pricing mechanism of its major export commodities. Hence Malaysia participates actively in various negotiating forums such as the International Natural Rubber Organization (INRO), International Tin Council (ITC) and the Association of Tin Producing Countries (ATPC). In order to hasten the development process, the Malaysian government also constantly formulates
policies to foster and encourage new trade relations, foreign investment, foreign aid and technology transfer. For example, in order to enhance the industrialization process, the government implemented numerous policies such as tax incentives, protectionist policies to protect local infant industries and the Look East policy.

With regard to Japan, Malaysia maintains cordial and amicable relations despite its past unpleasant experience during the Japanese Occupation in the Second World War. The economic component represents the major aspect of the bilateral relationship between Malaysia and Japan and this component became increasingly more significant when the Look East policy was announced in 1982. Malaysia's approach to the political and military issues in its bilateral relations with Japan is guided by its desire to safeguard its national interest. Furthermore since Malaysia has only limited political influence and military capacity, Malaysia is primarily concerned about political and military issues that could destabilize the Southeast Asian region.

3. Japan's Foreign Policy

The formulation of Japanese foreign policy since independence takes place within a framework set by the 1947 Japanese Constitution and the 1954 US-Japan Security Treaty. The Japanese Constitution, in Article 9, makes provision for the renunciation of war, non-possession of war potential and the rejection of the
right to belligerency. Japan was only allowed to maintain a self defence force which is a basic right of every sovereign state. Japan realized its inability to protect its territory integrity from external threat and therefore accepted the United States' security guarantee against external aggression and nuclear threat which was formalized through the US-Japan Security Treaty. However the United States' influence was not limited to the military aspect of Japan's foreign policy only. The United States' influence also embraces the political, economic and cultural aspects. In fact it was the United States that moulded Japan's interest toward the international community.

In the immediate postwar period, Japan identified economic reconstruction as its primary task. In its First Diplomatic White Book in 1957 it was stated 'that the only way to raise living standards, to achieve economic development, and to strengthen national power lay in the peaceful overseas development of economic power'. The reconstruction of the Japanese economy required access to foreign markets, technology, raw materials and fuel supplies. To obtain these inputs Japan needed to establish amicable economic ties with countries that can contribute towards developing its economy and industrial sector.

The rejection of belligerency and the concentration on economic reconstruction under the American security umbrella resulted in Japan pursuing
a value free diplomacy and a foreign policy which made a clear distinction between economics and politics. This policy however was never a credible policy and it became increasingly impractical in the 1970s. For example, this policy does not apply to Japan's relations with the superpowers. The United States is a strategic ally to Japan while the Soviet Union is a major source of threat to Japan. Similarly the conclusion of a Peace Treaty between Japan and China is evidence that Japan has chosen China in preference to the Soviet Union. Furthermore it was impossible to pursue a policy which separates politics from economics when other states such as the Middle Eastern States to precisely the opposite, that is, using economic power to attain political goals in their bilateral relations with Japan.

The emergence of Japan as an economic power brought about changes in the US-Japan relationship in the mid 1970s. Unlike in the earlier period, the US was no longer willing to accept Japan's concentration on economic ties only. The US began to pressure Japan to assume a more active international role commensurate with its status as an economic power. In more specific terms, the US wants Japan to share its defence and security burden in Asia. The lack of credibility in its foreign policy and the US's pressure caused Japan to re examine its foreign policy. Japan's search for a new foreign policy had to take into account the following factors namely, the need to maintain a
relation with the US based on mutual trust and cooperation in order to maintain the credibility of its security arrangement; Japan's external security vis-a-vis Soviet expansionism and massive build-up; and the reaction of countries such as the ASEAN states with which Japan has extensive economic links.

The solution to Japan's foreign policy dilemma took the form of the 'Comprehensive National Security Concept' which was introduced in 1980. The Comprehensive National Security was defined as a policy to "secure our national survival or protect our social order from various kinds of external threats which will or may have serious effects on the foundation of our nation's existence, by preventing the arising of such threats, or by properly coping with them in the case of their emergence, through the combination of diplomacy, natural defence, economic and other policy measures". In the Comprehensive National Security Concept, Japan identifies three pillars of foreign policy namely economic, political and military, and emphasises that all three components are equally important for Japan's security. But Japan's contribution to global peace and security will be through various forms of economic aid programmes and mutually beneficial trade and investment relations. Based on the comprehensive concept, Japan pursued an 'omni dimensional diplomacy' also known as 'multi dimensional peace diplomacy'. Such an orientation was intended to put into practice
the clause in Japan's constitution preamble on 'trusting in the justice and faith of the ...... people of the world'.

The Comprehensive National Security Concept had a significant impact on Japan's defence. The concept enabled the government to gradually increase its defence spending without much opposition. Japan thus stepped up its defence spending to strengthen and modernize the self defence forces (SDF). The increased defence spending was perceived to cause fears among other states in the region. To allay any fears among other states Japan also stepped up its Overseas Development Aid (ODA) quota.

In its new foreign policy, Japan reemphasised its identification with the United States and the Western Alliance. In the 1981 diplomatic White Book it was stated:

'Our country shares in common with the United States, the European Community and other advanced democracies basic political and economic values, and the country's peace and stability are closely related with the peace and stability of advanced democratic society as a whole. This is the reason why solidarity and cooperation with these nations must be the key basis for the conduct of Japan's active peace diplomacy'.

77
The current Japanese administration seem to reaffirm its association with the US and the Western Alliance. The Prime Minister, Mr. Nakasone has talked about Japan's 'common fate' with the US and the West and has referred to Japan's role as an 'unsinkable aircraft carrier'. In fact strengthening Japan's solidarity with the US and other Western countries is one of Mr. Nakasone's basic diplomatic goal.23 A major challenge to this objective is the present crises in the United States - Japan economic relations. The major problem is the increasing trade deficits. The United States runs a larger deficit with Japan than with any other country: The resolution of this crises will determine the future of the United States - Japan relationship.

Japan's policy toward Malaysia is contained in its policy toward the Asean countries collectively. From the end of the Second World War up to the mid 1970s, Japan was primarily interested only in its economic ties with the Asean states. Japan has extensive trade, investment and aid links with these states. It was also dependent on these states for raw material, fuel supplies and market for its finished products. There is also the strategic waterway, the Straits of Malacca, through which Japan's oil purchases from the Gulf has to pass through. Following the anti Japanese riots during Mr. Tanaka's visit to the Asean states, Japan was forced to reexamine its relations
with the Asean states. Consequently in 1977, Prime Minister Fukuda laid out a set of guidelines that would regulate Japan's relations with the Asean states. Commonly known as the 'Fukuda Doctrine' the following principles were established:

(1) First, Japan a nation committed to peace, rejects the role of a military power, and on that basis is resolved to contribute to the peace and prosperity of Southeast Asia and the world community.

(2) Second, Japan, as a true friend of the countries of Southeast Asia; will do its best for consolidating the relationship of mutual confidence and truest based on 'heart to heart' understanding with these countries, in wide ranging fields covering not only political and economic areas but also social and cultural areas.

(3) Third, Japan will be an equal partner of Asean and its member countries, and cooperate positively with them in their own efforts to strengthen their solidarity and resilience, together with other nations of the like mind outside the region, while aiming at fostering a relationship based on mutual understanding with the nations
of Indochina and will thus contribute to
the building of peace and prosperity
throughout Southeast Asia.

The Fukuda Doctrine sets the framework for Japan to
play a political role in Southeast Asia. The 'Fukuda
Doctrine' was accompanied by an aid package valued at
$1 billion for the Asean Industrial Complementation
Projects plus an additional economic assistance of
¥400 billion. The Yen loan and the 'Fukuda Doctrine'
represents Japan's firm commitment towards the prosperity
and stability of Asean. The current Japanese
administration also reaffirms this commitment by
emphasising the need to pursue 'heart to heart'
diplomacy by accentuating the commonality of the Asean
spirit and destiny which was latter dubbed 'Asean
idealismin.25

To what extent does Japan's political
involvement in Southeast Asia complements Asean's
efforts in maintaining the prosperity and stability in
the region? This issue will unavoidably influence
Japan's political relations with Malaysia. In order
to understand Japan's political involvement in Southeast
Asia, three regional issues will be analysed. These
issues will be considered in the context of Japan and
Asean because that is how Japan approaches these issues.
Nevertheless Malaysia's involvement and its perception
on these issues will also be highlighted.
4. The Kampuchean Crises

Vietnam invaded Kampuchea in December 1978 and it subsequently established a pro-Vietnamese regime in Kampuchea headed by Heng Samrin in January 1979. Since then Kampuchea became the battlefield between two contending forces namely the Vietnamese troops backing the Heng Samrin regime to pacify the country; and the Kampuchean resistance forces comprising of the ousted Pol Pot regime (also known as Khmer Rouge), the Khmer People's National Liberation Front (KPNLF) led by Sonn Sann and the Prince Sihanouk loyalists.

The Kampuchean conflict was caused by several factors. These include Vietnamese expansion ambition in Indochina; and the Sino-Soviet rivalry for power and influence in Indochina and Southeast Asia. The Sino-Soviet rivalry has caused this conflict to be generally regarded as a proxy war between China and the Soviet Union. The Soviet Union provides support and various forms of aid to Vietnam while China does the same for the communist Khmer Rouge regime, the largest resistance group.

The Kampuchean crises has detrimental effects on the Asean states. The conflict presents a threat to the security of the Asean states. The Asean states fear that if the Vietnamese invasion into Kampuchea goes unchallenged, the Vietnamese will not hesitate to venture beyond the Kampuchean border into the Asean
region. Another detrimental effect of the Kampuchean conflict is the increase in Soviet and Chinese involvement in Southeast Asia. The Soviet Union and China represent major threat sources to the Asean states. In view of these destabilising effect, the Asean states have taken the initiative to find an amicable political solution to the crises.

Asean's initial reaction to the Vietnamese invasion into Kampuchea was to condemn the action and express its strong protest. Asean also demanded an immediate and complete withdrawal of the Vietnamese troops from Kampuchea. The Vietnamese action was seen as an act of aggression that violated the norms sanctioned by international law (i.e. the violation of a nation's territorial integrity by an external power). Following its protest against the Vietnamese invasion the Asean states coordinated a campaign against the legitimisation and acceptance of Vietnam's intervention and occupation of Kampuchea. Asean ardently canvassed for political support to prevent the Heng Samrin regime from assuming the representative seat of the Kampuchean people in the United Nations. Instead Asean supported the continued seating of the ousted Pol Pot regime. In June 1981, the Asean states laid out a set of proposals for resolving the conflict. The proposals called for:

(1) a UN peace keeping force in Kampuchea;
(2) withdrawal of all foreign armed forces under the supervision of the UN peace keeping forces;

(3) disarming of all Khmer fractions immediately after the withdrawal of foreign forces; and

(4) an interim administration to conduct free and fair elections under the UN supervision.  

In order to facilitate the resolution of the conflict, Asean initiated an effort to build a united opposition against the Vietnamese by bringing together the three resistance fractions, i.e., the Khmer Rouge, the KPNLF and Prince Sihanouk's loyalists to form a tripartite coalition. Subsequently the tripartite coalition formed the government of Democratic Kampuchea headed by Prince Sihanouk in 1982. This government was intended eventually to replace the Vietnamese backed Heng Samrin regime.

The Asean states also pledged to continue their pressure on the United States to become involved in the process of finding a practical solution to the crises. Asean as a whole requested arms support for the Kampuchean resistance at the 1984 expanded foreign ministers' meeting. In response to this request the US Secretary of State Mr. Schulz replied:
"We will continue to do our part, including providing moral, political and humanitarian support for the organization led by Prince Sihanouk and Sonn Sann. We will not support Khmer Rouge whose atrocities outraged the world."  

Another of Asean's initiative was the proximity talks proposals. This diplomatic initiative was mooted by Malaysia's Foreign Minister in 1985. It involved negotiations through an intermediary between Vietnam and the Kampuchean tripartite coalition. Thailand proposed a modified version which involved talks between the three fractions of the coalition and Vietnam. In response to Malaysia's proposal Vietnam sent a high level delegation to Kuala Lumpur to discuss this proposal but since then there has been no progress. Asean's current diplomatic initiative is to arrange an informal meeting known as a 'cocktail party' for the warring fractions. The proposal involves 'one meeting initially among the Kampuchean parties, followed immediately by the participation of Vietnam'.

Japan's involvement in the Kampuchean crises was motivated by its concern for the security and stability of the region in which Japan has enormous economic interests. In the wake of the Vietnamese invasion into Kampuchea, Japan severed all forms of economic assistance to Vietnam and joined the Asean states in condemning Vietnam's belligerency.
Furthermore not only did Japan support Asean by voting for the continued seating of the ousted regime at the United Nations, Japan also lobbied extensively in the African, Middle Eastern, Latin American and European countries where Asean representation was weak or absent to support Asean's cause. Japan also agreed with Asean that the United States should take more interest in the Kampuchean crises. In 1979 Japan proposed that the United States use its influence to organize an International Conference on Kampuchea. Consequently through the efforts of Japan, Asean and other states an International Conference on Kampuchea was held in 1981. At the conference Japan was elected to join a consultative committee to advice the United Nation Secretary General on matters concerning a political solution to the Kampuchean problem.

Japan also attempted to be a mediator between Asean and China at the beginning of the Kampuchean conflict. During his Asean tour in 1981, Mr. Suzuki offered to play a mediator's role. He explained:

"We can talk with China about anything. For example we could work on China and try to persuade them to do something that would be helpful to bring about a solution to this question".

It was reported that in a meeting with China's ambassador to Japan, the Japanese foreign minister explained the Asean's views toward China and called on China to improve its relations with Asean.
Japan also involved itself in efforts to counter the refugee 'hazard' in the Asean states. The influx of refugees from Vietnam, Laos and Kampuchea was perceived as a national threat and therefore the Asean states were reluctant to accept the refugees. Therefore international involvement was galvanised to obtain financial aid and to resettle the refugees in other countries. Japan's acceptances of refugees as citizens was negligible and was criticized. However Japan's monetary contributions for the refugee programs was substantial. Japan also sent food and medical teams to various refugee camps.

Japan's economic aid is very significant to Vietnam's undeveloped economy. In response to Asean's request, Japan severed its economic aid to Vietnam in the wake of Vietnam's invasion into Kampuchea. Japan also declared that it would not lift its ban on economic aid to Vietnam as long as Japan refused to withdraw its military forces from Kampuchea. If however Vietnam would accept a political settlement (including withdrawal of armed forces) Japan has promised to provide reconstruction aid.

Malaysia and Japan have similar perceptions on certain aspects of the Kampuchean conflict and they also disagree on some other aspects of the conflict. Both Malaysia and Japan want an amicable political solution to the conflict and this is obvious from the discussion above concerning their support and participation in efforts to resolve the conflict.
also demonstrate flexibility in their reaction towards Vietnam and therefore reflect an inclination to compromise on the crises. Japan was reluctant to sever its economic aid to Vietnam because it did not want to isolate Vietnam. While Malaysia, unlike some of its Asean partners does not consider Vietnam as the major source of threat and therefore Malaysia tends to dismiss Vietnam's expansive ambitions as an immediate threat to the region. Malaysia and Japan have differing views concerning China's involvement in the conflict. Japan is comfortable with China's involvement in the conflict. Malaysia on the other hand sees China's involvement as a threat to the security in the region. Malaysia views China as the major security threat in the region and looks to a relatively strong Vietnam as a buffer against China.

From the discussion in this section, it is evident that Japan is supportive of Asean's efforts in resolving the Kampuchean conflict. Its symbolic and diplomatic support has been much appreciated by the Asean countries. Japan's involvement in the resolution of the conflict shows that Japan does project a political role in the region. However, this political role is minor and low keyed, and such passiveness leaves Japan's declared political commitment to the region yet to be tested.
5. The Superpower Connection

The United States and Soviet Union emerged as the leaders of the 'Capitalist' and 'Socialist' worlds respectively at the end of the second world war. The relations between the U.S. and Soviet Union are basically characterised by cold war despite on-and-off short periods of detente. Being Superpowers it follows that the relations between the United States and Soviet Union permeate and affect relations between all other nations of the world. The discussion in this section will consider the Superpowers involvement in Southeast Asia, their influence on Japan's involvement in the region and Asean's reaction to the Superpower involvement in the region, including their influence on Japan's activities in the region.

The United States emerged as a victor out of the Second World War. It was also the only major country that was unscathed by the war. This advantage and the United States' monopoly of atomic power made it the pinnacle of power. This domination was however short lived. The Soviet Union soon recovered from the war and rose to challenge the United States' aspiration for world leadership. This confrontation, widely known as the Cold War, began in Europe when the United States attempted to contain the Soviet Union's effort in expanding its sphere of influence in Europe. The 1950's saw the extension of the Cold War to Asia. The proximity of several events, namely Mao Zedong's
communist victory in China, the Korean War in 1950 and the Sino-Soviet Treaty of Friendship and Cooperation signed four months after the outbreak of the Korean War, was perceived by the United States as a communist scheme to extend its sphere of influence into Asia. To counter and contain the Soviet expansionism the United States established a global network of alliances such as SEATO, ANZUS and CENTO. It also established bilateral security relations with Taiwan, Japan, South Korea and the Philippines.

In Southeast Asia, the United States' and Soviet attention was centered on Indochina. The United States' involvement began during the war between the Vietnam and the French. The United States' involvement deepened in the Vietnam War because of the United States' fear that the domino theory would become a reality. The United States regarded the non-communist states in Southeast Asia as highly vulnerable to the communist subversion. Hence the United States increased its involvements in the region. The United States filled the power vacuum left behind by the colonial powers and through SEATO, which was set up in 1954, the United States' position in the region was further strengthened. However the United States' interest in these states (i.e. the non-communist states in Southeast Asia) was selective. The United States' attention was primarily focussed on Thailand and the Philippines. Thailand was used as a major site for United States' air and naval bases during the Vietnam war. Thailand also blocked...
communist land access to Malaysia and Singapore. The Philippines' importance is attributable to historical factors and also because of the United States' air and naval bases there. Malaysia and Singapore were regarded as Commonwealth responsibilities and therefore relations between these two countries and the United States were somewhat distant.

Toward the late 1960s, the United States reassessed its participation in the Vietnam War and its role as 'world policeman'. Its new policy was to a large extent influenced by the relaxation of tensions between the Superpowers i.e., detente. The major outcome of detente was the shift in emphasis in the foreign policy of the Superpowers. Ideological considerations were no longer as important as in the earlier period. The United States' new policy toward Southeast Asia was set out in the Nixon Doctrine of 1969. The United States decided to disengage militarily from Indochina and also to transfer the primary defense responsibility to individual states and local powers. The Nixon doctrine set the stage for the United States to project a low profile in Asia, a posture which it continues to maintain at the present time.

The United States' withdrawal from Indochina occurred with the realization that the area is not vital to its national interest. The United States nevertheless has important interests as distinguished from vital
interest in the region which make it necessary to maintain a presence in Southeast Asia. The region is of strategic significance to the United States for two reasons. First, it is a region connecting the Pacific and Indian Oceans. Freedom of passage through the straits is vital for the efficient operation of the United States Seventh Fleet. The straits are also the petroleum 'lifeline' for the United States's allies in East Asia. Second, the United States's bases in the Philippines have great significance to the United States defence structure for the Asia-Pacific region. Third, politically, these non-communist states being members of Asean are significant to the United States. Asean as a regional organization represents an obstacle to the growth of Soviet influence in the region. Hence it is in the United States' interest to maintain peace and stability in these states. The United States aims to achieve this by providing various forms of aid to develop the market economies of these states. The United States is a major trading partner of these states and similarly Asean is also a major trading partner of the United States. Asean was United States's fifth largest trading partner in 1985.

In view of its vital interest in Southeast Asia, the United States has to take into account the major threat sources that can destabilize the region. The United States' perception of the source of external threat to Southeast Asia has altered over the years. In the
1950s and 1960s China was considered the major threat and therefore the United States' policy was directed toward the containment of China. The Sino-American rapprochement in 1978 made China a de facto ally and a significant partner in the United States' effort to contain Soviet Union's expansionism in Asia. The Soviet Union and Vietnam now represent the primary threat to the United States' interest in Southeast Asia. The increased Soviet military presence is related to the Soviet Union's access to air and naval facilities in Cam Rhan Bay and DaNang. The Cam Rhan Bay facility has been transformed into the largest Soviet naval forward deployment base outside of the Warsaw Pact. The United States however is not unduly alarmed by the Soviet presence. There is a very low probability that the Soviet Union will attempt to close the sea lanes or strike the United States' bases in Philippines except in the context of a global confrontation. Also Southeast Asia is not a vital area for the Soviet Union. The Soviet Union has placed greater priority on other region in Asia, namely the Northeast Asia and South and Southwest Asia.

The United States' concern with Vietnam is related to the threat it poses to Asean. In the United States' view the Vietnamese invasion of Kampuchea is linked to the Soviet invasion of Afghanistan and Soviet activities in Africa and the Middle East. Also it was Vietnam's dependence on Soviet aid that provided
the Soviet Union with the opportunity to increase its presence and influence in the region. The United States apparently believes that Vietnam has a desire to obtain hegemony in Southeast Asia and a status as a regional power. The United States' however does not perceive any immediate Vietnam threat to the Asean states because of its involvement in Kampuchea.57

Despite the Kampuchean crises, and the increased Soviet presence in the region, the United States regards Southeast Asia as a relatively stable area and therefore the United States continues to maintain its low profile policy in the region.58 However to project a sustainable role in Southeast Asia, the United States emphasises burden sharing.59 Japan is United States' most important ally in the context of United States' policy to counter Soviet threat in the Asian region. At present the United States depends primarily on Japan's economic ties with the Asean states to complement the United States presence in Southeast Asia. Japan's economic ties with the Asean states accelerates United States efforts to develop the market economies of the Asean states, and this in turn will ensure stability in the region and hinder the expansion of Soviet influence in Southeast Asia. Since the mid 70s the United States has been pressuring Japan to increase its defence capabilities. The United States position is not that Japan should assume military commitments in Southeast Asia but that it should be taking over more of the responsibility of
its own conventional military defence to free the United States' resources for other commitments. This policy has an impact on the security of Southeast Asia. Some have argued that Japan by increasing its self defence capabilities (without a direct military role in Southeast Asia) would be enhancing military capabilities of the United States vis-a-vis the Soviet Union. This could provoke the Soviets into responding in kind and thereby increasing tension in the Asian region generally and also complicating the regional balance.\(^60\) It can also be argued that increased Japanese defence capabilities would allow the United States to divert forces from the defence of Japan to other areas in the South such as Southeast Asia. The increased United States presence will also increase the probability of a US - Soviet confrontation in the region. Because of the potential implications on the security of Southeast Asia, the United States - Japan relationship has become a source of concern for the states in the region. Can similar Asean reaction be expected towards Japan - Soviet relations in the region?

The Soviet Union's interest in Southeast Asia is said to have begun in the 1920s and 1930s. A logical extension of Lenin's theories of imperialism was to attack the capitalist system where it was weakest.\(^61\) This implied the colonial and semicolonial areas where communism could take advantage of rising nationalism. Thus the Soviet Union encouraged the formation of
communist parties throughout Southeast Asia (except Burma). The Soviet Union as a state however had no presence in Southeast Asia then.

After the Second World War the Soviet Union's involvement in Asia was limited until it adapted a more flexible foreign policy in 1956. This new posture was manifested in Southeast Asia in the Soviet Union's relations with Indonesia. Between 1957 and 1962 the Soviet Union provided economic, political and military aid to Indonesia in return for political gains which proved to be disappointing and shortlived. Following this the Soviet Union focussed its attention on the Indochina states. The Soviet Union provided economic and military aid including sophisticated heavy weaponry to North Vietnam during the Vietnam War. The Soviet Union did not wish to limit its influence in the region to Indochina. It was also interested in extending its influence to include the non-communist states in Southeast Asia. However it was not as successful in its relations with these states as it was in Indochina. The non-communist states were suspicious of Soviet interests in the region. They were aware of the Soviet Union's ideological and hegemonic aspirations and hence were cautious in their response to the Soviet Union's diplomatic and economic overtures. The Soviet presence in the region was one of the major factors that caused concern about regional security among the non-communist states which in turn led to the formation of Asean in
Asean at the time of its formation represented a pro western and anti-communist approach to regional security and cooperation. The pattern of relations between Asean and the Soviet Union has altered several times over the last twenty years in response to shifts in the Soviet's objectives and developments in the region.

The Soviet Union pursued a policy of hostility toward Asean in the initial years. The Soviet Union condemned it as an imperialist creation for stamping out the national liberation struggle of the Asian people. Then in the early 1970s, international detente was formalized through big power agreements and the termination of the Vietnam War was in sight. Because of these factors the Soviet Union adjusted its policy toward Asean as one which could be described as only moderately hostile. The Asean proposals for the neutralization of Southeast Asia by creating ZOPFAN announced in the 1970s mitigated the Soviet's hostility toward Asean. To the Soviets, a neutral Asean was more favourable than a prowestern and anti-communist posture which Asean thus far projected. Throughout the latter half of the 1970s and up to the present time the Soviet Union's attitude toward Asean became increasingly positive. The Soviet Union has intensified its diplomatic and economic overtures toward these states. But unlike the United States, the Soviet Union does not have economic clout in the region. And politically
the Soviet Union has very little influence over the Asean states. Nevertheless the Soviet Union has significant interests in the region which are as follows:

(1) to check the United States' economic, political and military expansion and influence in the region.

(2) to contain the expansion of China's influence in Southeast Asia.

(3) to establish a presence and influence in this region that is commensurate with its status as a Superpower.

(4) strategic considerations require that the Soviet Union has freedom of passage in Southeast Asian waters for two reasons. First, the sea lanes of communications passing through Southeast Asia remain an important link between the Soviet Union's eastern and western extremities. Second, it is also important for the maintenance of balance fleet deployment between the Pacific and Indian Ocean.68

The Soviet Union does not only have the United States as a rival in Southeast Asia. The Soviet Union also has to compete with Japan and this contributes to the existing tensions in the Soviet - Japan relations. Within its immediate vicinity in Northeast Asia, Japan views the Soviet Union as its most dangerous neighbour.
There is also the unsettled dispute over the Kurile Islands that contribute to tension in the Soviet - Japan relations. In Southeast Asia there are several factors which aggrevate the tension in the Soviet - Japan relations. First, Japan's extensive economic links with the Asean states are seen as a hinderance to the Soviet efforts to expand its economic links with these states. Second, in the postwar era Japan has functioned as an adjunct of United States policy in Asia and this implies that Japan's influence in the Southeast Asia will complement the United States' influence and efforts to build a credible deterrent to counter the Soviet presence in the region. The Soviet Union view Japan's presence in Southeast Asia with considerable suspicions and has embarked on a campaign aimed at exploiting the difference that arise in Asean's trade relations with Japan and the United States.

The Asean states view the Superpower rivalry in the region with concern. The Southeast Asian strategic thinkers see the escalation of United States - Soviet tensions as a threat to the Asean region. The endorsement of ZOPFAN concept by the Asean states is said to be 'a manifestation of their desire to make the Southeast Asian region free from the conflict between US and USSR or between any other great power.' However the ZOPFAN concept remains a long term objective because pre conditions for achieving such a zone does not exist. In the meantime the Asean states
have to accommodate the Superpower presence in the region. Generally the United States and the Asean states find themselves in basic agreement on most political and security issues. The Asean governments also look to the United States as the ultimate external guarantor of their security. The Soviet Union on the other hand, represents a major threat source but not a direct or immediate threat at the present time. Nevertheless the Asean governments distrust the Soviet Union and have been very cautious in their dealings with the Soviet Union.

The Superpowers' influence on Japan has become a source of concern to Asean because of the resulting impact on the security of the region. The Asean states are comfortable with the existing United States - Japan alliance and accept their combined presence in the region. However the Asean states are apprehensive about the United States pressure on Japan to assume a greater portion of its self defence responsibilities. This apprehension can be explained by three factors. First, the ambiguity in the definition of the term 'self defence' makes Japan pledge not to project a military role in Southeast Asia questionable especially in view of its vital interests in the region. Second, the political instability in Philippines which can jeopardize the United States strategic advantage in the region. Third, the insecurities that can arise if the United States projects a greater presence in the region.

99
With regard to Soviet influence on Japan, the Asean states also view this as a potential source of threat which need to be taken more seriously because of the Soviet Union's recent initiative to expand its economic ties with the Asean states.  

Superpower rivalry in Southeast Asia not only contributes to tensions in the region but they also influence Japan's links with the Asean states. The potential insecurities in the region arising from the United States's and Soviet Union's presence in Southeast Asia has to a certain extent increased Asean's and Japan's attention to security issues which otherwise might be neglected in favour of economic issues.

6. China Relations

The China question is a significant issue to the Asean states and Japan. China, situated in Northeast Asia, is geographically in close proximity to Japan. The main security threat to Japan remains the presence of overpowering communist states in its immediate vicinity. While previously Japan considered both the Chinese and Soviet threats, it now has only the Soviet threat to worry about. China now has amicable relations with Japan and joins Japan in countering the increasingly domineering Soviet presence in the region.

Japan's post-war policy toward China dovetails with the United States' China policy. Throughout the Cold War Japan and the United States recognized the
Kuomintang government in Taiwan under the leadership of Chiang Kai Shek as the central government of China. The drastic change in the United States' policy toward China by President Nixon's decision to seek detente and rapprochement with China was reflected in Japan's relations with China. The Tanaka - Chou Communique in September 1972 normalized relations between Japan and China. This bilateral relationship, generally considered successful, was further solidified by the signing of the Treaty of Peace and Friendship in August 1978. Since the normalization of relations, economic ties in the form of trade, investment and foreign aid increased considerably between the two countries. For example in 1975 trade between the two countries reached a total of $3.79 billion, the largest share of China's trade with a single trading partner at that time. Japan's oil imports from China also increased considerably since the signing of a $20 billion trade agreement in 1978. China's modernization programme provided a lot of investment and business opportunities for Japanese entrepreneurs.

The Japan - China bilateral relationship provided Japan with valuable leverage and assurance against the Soviet Union's increased deployment of strategic weapons system and general force build-up. This Sino-Japanese convergence balances the reduced United States' presence in the Asia Pacific region generally. However there is no military cooperation
between the two countries. It has been suggested that China's amicable relations with Japan are motivated by its intention to obtain military cooperation from Japan. China has expressed hopes that Japan will help it develop heavy industries and transfer technologies such as radar technology, ship building, tank and armoured carrier design and computer technology. Japan responded by reaffirming its decision not to provide military aid to China and reiterated its willingness to assist China's effort in developing and modernizing its economy.

Concerning the Superpower rivalry Japan and China have similar perceptions. Both China and Japan see the United States presence and influence in Northeast Asia as a stabilizing force vis-a-vis the Soviet presence. There now exist a United States - China - Japan axis to balance the Soviet presence and thereby ensuring stability in Northeast Asia.

With regard to Southeast Asia, Japan is of the opinion that China has a significant role in the region and is trying to bring China and the Asean states into a closer association. During his Asean tour in 1983, the Japanese Prime Minister, Mr. Nakasone, said that in Japan's view:

"..... China is big in size and population and therefore it should play a constructive role in Asia".
He also attempted to act as a mediator to hasten the normalization of relations between China and Indonesia but was unsuccessful. Diplomatic ties between Indonesia and China were severed at the time of the abortive Communist Coup in 1965. Malaysia, Thailand and the Philippines have established diplomatic ties with China. Their decision was influence by the desire to project neutrality in international politics and also by the reversal of the United States' policy toward China in the 1970s. Singapore does not have diplomatic ties with China. Singapore has declared that it will not establish relations until Indonesia has done so.

There is no uniform Southeast Asia attitude toward China. A persistent source of stress among Asean members is their different views toward China. Thailand and Singapore have been most appreciative of China's role in pressuring Vietnam. They are also least concerned about China's support for revolutionary movements in the region. Indonesia, whose past experience of China's support of the Indonesian Communist party and the 1965 coup has caused it to distrust China, sees it as a long run threat to the entire region. Malaysia shares a similar view of China because of its long struggle against the armed uprising of the Malaysian Communist Party (MCP). The Philippines provide a moderating influence in support of Asean solidarity.

Despite the varying perceptions about China as a source of threat to Southeast Asia, there is
general agreement among the Asean states that China still seeks to influence politics in Southeast Asia as it has traditionally done and also because of a more contemporary strategic objective, that is to prevent this area from falling under Soviet influence. Hence, despite repeated assurances by China that 'China will not interfere with the internal situation in Southeast Asia', the Asean states remain suspicious and skeptical about China's involvement in the region. There is also no clear indication that China has severed ties with the communist parties in the region. Rather China's policy of dividing its relations with the Asean states into state-to-state, party-to-party and people-to-people levels reinforces the view that China does maintain links with communist parties in the Asean states.

These states are also irritated by China's ambiguous policies on the citizenship status of persons of Chinese descent who have taken up citizenship in another country. Its policy enables them to regain their Chinese citizenship if they return to China and it also allows them entry into China without a visa. There is fear that the 22 million-odd Chinese in Southeast Asia are 'potential fifth columns' for China.

The Kampuchean crisis is the primary focus of China's policy in Southeast Asia at the present time. China's extensive involvement in the conflict is related to the general perception that this conflict is also a proxy war between China and Soviet Union.
China supports the largest resistance fraction, the Khmer Rouge. It provides various forms of aid and support. China also supports Asean initiatives toward finding a political solution as long as it does not have to compromise its interest. For example China does not agree with the Asean proposal that after the withdrawal of all foreign troops and before a United Nation supervised election is held, all elements within the country would have to disarm. China would not accept this proposition because the Khmer Rouge fraction would lose the advantage of being the strongest armed Kampuchean group.\(^6\) China is also part of the anti-Soviet-Vietnamese coalition together with the United States, Japan and Asean.

There are also economic issues that influence China's relations with the Asean states. Deng Xio Ping's effort to modernize and develop China has both positive and negative implications on the Southeast Asian region. China's concentration on economic development leaves it very little resources to pursue hegemonic ambitions in Southeast Asia. Successful modernization could cause China to become a responsible member of the world community. This in turn might cause it to discontinue its support for communist activities in the Asean countries.\(^7\) China's economic progress could also provide new economic opportunities for Asean states to exploit. However the Asean states have also expressed fears that China's modernization programme is attracting

105
Japanese resources away from the Asean states. Prime Minister Suzuki attempted to allay this fear by stressing that it was unfounded and that Japan's economic assistance to China 'will not be at the expanse of Asean'. Instead Japan will endeavour to maintain a balance. China's modernization programme also includes modernization and expansion of China's military capabilities. Asean states fear that a China with a strong economy and enormous military build-up will pose a greater threat to the security of the region. Malaysia and Indonesia expressed dismay at the United States' decision to sell 'dual use' technology to China for its military modernization.

Malaysia's perception of China is explained by the present Prime Minister in the following manner.

"a well developed China, with its enormous military might and high population could very well tempt its leaders to venture downwards especially to Southeast Asia. The repeated pronouncements against hegemony by the present Chinese leadership does not necessarily mean that they have given up the idea of hegemony. If the same Chinese leadership can make 180 degree turn to offer hands of friendship to countries it once regarded as enemies it is no guarantee that the future leadership of that country will not reverse the position."

Malaysia and other Asean members are aware of the divergence in interests between them and Japan with regard to China. It is very unlikely that Japan and Malaysia will be willing to compromise their view about China. However in view of economic and security
interests, both Malaysia and Japan will endeavour to maintain their current relations with each other independent of their individual relationship with China.

7. Conclusion

With the Fukuda Doctrine Japan projected a political role in the region. Japan intended to articulate its policies and actions to be associated with the Asean states and thereby complement Asean's efforts to maintain peace and stability in Southeast Asia. The Asean states on the other hand, have acknowledged that Japan can project a constructive political role in the region. A former Malaysian foreign minister stated

"in our view, Japan can play a useful role in Southeast Asia in the political and economic field ....... In the political field Japan could play a useful role in concert with other Southeast Asian countries. ....... The need for acting in concert with countries in the region is paramount. At the same time it is equally important that Japan should accept that other countries, especially neighbouring medium powers such as India and Australia, have also a useful role to play in the region and should regard them as partners, not competitors in Southeast Asia."

From the earlier discussion on three regional issues, some features of Japan's political role in the region can be identified. First, Japan projects a low keyed political role in the region as evident by its participation in the Kampuchean crises. Second, Japan by endorsing Asean's efforts in resolving the Kampuchean
crises, makes a political commitment to stand with the Asean states. However its passive involvement leaves Japan's declared political commitment to the Asean states yet to be tested. Third, Japan's involvement in Southeast Asia is influenced by its relationship with the United States. Japan's presence complements the United States presence vis-a-vis the Soviet presence in the region. However Japan is not inclined to provoke the Soviet Union because of fears of Soviet repercussions in its immediate vicinity in Northeast Asia. Japan's dependence on the United States security guarantee gives the United States the capacity to influence Japan's activities in the Asian region. The Asean States' are concerned about United States' influence on Japan because the United States could use this influence to include Japan in its global strategy which could result in insecurities in Southeast Asia. Fourth, Japan and the Asean states have differing perceptions concerning China's role in the region and Japan has attempted to influence the Asean states to accommodate China's presence in the region.

In view of differing perceptions between Japan and the Asean states on some significant issues discussed in this section and also because of the various features of Japan's political involvement identified above, it is necessary for Malaysia and the other Asean states to maintain their independence in addressing political issues. If closer ties between Malaysia and Japan will
result in greater political influence for Japan in the region, this must be avoided as it will undermine the existing political independence of Malaysia and the other Asean states.
Footnotes


2. Ibid. pg. 7

3. Ibid. pg. 8

4. The Anglo Malaysian Defence Agreement was signed in 1957. By the terms of this agreement Britain undertook to guarantee the territorial integrity of Malaysia against any external attack. This agreement lapsed in 1970.

5. For example, there was strong criticism of Britain's policy of raising education fees for foreign students, of whom Malaysians constituted the largest element. A change of rules of game by the London Stock Exchange following the takeover of Guthrie which was engineered by Permodalan National Berhad (a Malaysian government agency set up to achieve the targets of the NEP) also contributed to strains in the ties between Malaysia and Britain.

6. Up to 1970 Malaysia had cordial relations with only Egypt and Saudi Arabia. Malaysia's relations with socialist-oriented Egypt was developed because of educational linkages arising from the fact that University Al-Azhar provided a source of inspiration and academic training for Malaysians pursuing Islamic studies at the tertiary level. The linkage with Saudi Arabia is due to the fact that it is the point of pilgrimage (Mecca) as specified in the Holy Quran.

7. Prior to the formation of ASEAN, Malaysia was involved in the 3 other regional organizations namely Association of Southeast Asian (ASA), Southeast Asian Friendship Treaty (SEAFET), and Maphilindo.

8. ASEAN consists of non-communist states in Southeast Asia namely Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand. Brunei joined as a member only in January 1984.

10. The Asean states have been able to exercise collective bargaining at various forums. These include the expanded Asean foreign ministers meeting in which the United States, Japan, Australia, New Zealand, the EEC and Canada participate; and also the Japan-Asean Forums.


12. Tan Sri Gazali Shafie, op. cit. 'Southeast Asia in the 80's' pg. 22.


14. Ibid. pg. 90.

15. Ibid. pg. 91.

16. Ibid. pg. 93.

17. Morrison, Charles E., Japan, the United States and a Changing Southeast Asia, University Press of America, USA 1983 pg. 41.


20. Ibid. pg. 94.


22. Chapman JWM, Drift R, Gow ITM, op. cit. pg. 95.


26. Matsuzaka Hideo, Future of Japan-ASEAN Relations, Asia Pacific Community, Summer 1983 No. 21, pg. 19

27. Xuto, Somsakdi, Asean and Regional Security: A Perspective on Asean Contribution, Security in the ASEAN Region, Tokushoku University 1983 pg. 60.


29. Morrison Charles E. op. cit. pg. 60.

30. Ibid. pg. 60.


33. Khong Kim Hoong, Malaysia-Japan Relations in Historical and Regional Perspective, Trilateralism in Asia ed. by KS Nathan and M. Pathmanathan pg. 127.

34. Lai Fung-Wai op. cit. Japan's Political and Defence Role in Southeast Asia: Some ASEAN Reaction pg. 117.

35. Ibid., pg. 115.

36. New Straits Times, January 7 1871

37. Japan Times, January 29 1981

38. As at the end of March 1982 Japan had only taken in 1,789 refugees as residents. Lai Fung-Wai op. cit. pg. 117.

39. Between 1979 and 1981 Japan spent $274,460,000 on various kind of refugee relief. Ibid. pg. 117.


42. Nagi, R., op. cit., pg. 126.

43. Southeast Asia Treaty Organization is a collective defence organization with the following members: Australia, France, New Zealand, Pakistan, Philippines, Thailand, Britain and United States.
44. ANZUS is a security treaty signed by Australia, New Zealand and the United States in 1951 at San Francisco. The objective is to coordinate defence against armed attack in the Pacific. New Zealand ceased to be a member in 1986.

45. Central Treaty Organization was set up in 1959. Members are Iran, Pakistan, Turkey and Britain. The United States is not a member but it gives military backing and this has enabled this organization to be integrated into the Western alliance system.

46. Morrison, Charles E. op. cit., pg. 29.

47. Ibid., pg. 29.

48. Ibid., pg. 30.


50. Ibid., pg. 50.

51. Wanandi Jusuf, Security Dimension of the Asia-Pacific Region in the 1980s, Yayasan Proklumasi, Centre of Strategic and International Studies Jakarta 1979 pg. 44.


54. Muthiah AL op. cit., pg. 30.

55. Ibid., pg. 30.

56. Ibid., pg. 30.

57. Ibid., pg. 31.


60. Morrison Charles E., op. cit., pg. 42.

In 1956 Khrushchev announced that peaceful coexistence was the new theme of Soviet relations with the capitalist west. In its policy towards uncommitted nations in Asia, Africa and Latin America, the Soviet Union decided to offer economic and military aid to rival America's aid programme. It also downplayed its support for national liberation movements.


Bilveer Singh, Moscow's New Cold War Against Asean, Asia Pacific Community, Winter 1986 No. 31, pg. 139.


Ibid., pg. 74

Ibid., pg. 75.


Nathan K.S., op. cit., Detente and Soviet Policy in Southeast Asia, pg. 70.

Richardson Michael, op. cit., pg. 23.

Morrison Charles E., op. cit., pg. 23.

Ibid., pg. 32.

Ibid., pg. 38.

The United States has air and naval bases in the Philippines. The United States bases have become an internal political issue which can jeopardize the renewal of the agreement for the bases in 1991.


77. Ibid., pg. 160.

78. Ibid., pg. 162.

79. Ibid., pg. 163.


82. China stopped support for the Communist Party of Thailand in exchange for Thailand's permission to send arms to Khmer Rouge forces through Thai territory.


84. Osborn UI, George K., op. cit., pg. 12.


87. Wanadi Jusuf op. cit., pg. 38.


CHAPTER THREE

MALAYSIA-JAPAN RELATIONS:
DEFENCE POLICY CONSIDERATIONS

1. Introduction

The defence policy of a state generally outlines the strategic environment, and perceived threats to the perceived national interest, and how these threats would be countered. Malaysia's defence posture is limited primarily to the defence of its territorial boundaries. Japan currently espouses a similar defensive posture. Nevertheless considering Japan's widespread global economic interests, its perceived security needs similarly extend beyond its national boundaries. While Japan at present pursues strong economic ties and resources diplomacy to ensure its economic security, it was not so long ago that it pursued the same objectives through militarism. Japan's status as a global economic power, its vast monetary resources and technological know how has provoked fears of the possible revival of Japanese militarism among developing countries such as the ASEAN states where Japan already has a dominant economic influence. Repeated assurances by the Japanese leadership that Japan will not pursue militarism has not eliminated the fears of these states.

In his keynote speech to ASEAN in 1981, Prime Minister Zenko Suzuki emphasized that Japan would never
be a major military power.

"..... we remain as firmly committed as ever to the fundamental principle that our defence capability shall be an exclusively defensive one. This position is a result of our soul-searching reflection on the grave mistakes of the past. The national consensus of the Japanese people is that Japan shall never become a military power threatening other nations - and this consensus is unshakeable. It would, thus be completely mistaken either to hope that Japan might once again emerge as a military giant."

Similarly during his Southeast Asian tour in 1983, Prime Minister Nakasone repeatedly told the Asean leaders that Japan would adhere exclusively to a 'defensive defence', within the framework of its war-renouncing constitution and has no intention of becoming a major military power. He pledged that Japan would maintain its three Non-Nuclear principles and that its military build-up would be within the framework of the Japan-US Security Treaty. The former foreign minister, Mr. Shintaro Abe, one of the three candidates most likely to replace Mr. Nakasone, reiterated the same pledge of rejecting a military role for Japan in Asia. His policy, dubbed the 'Abe Doctrine', is one which endeavours to strengthen economic and political ties between Japan and the present Asean states.

Does Japan's existing defence policy project a long-run posture that will reflect the theme repeatedly proclaimed by the Japanese leadership? This is an important issue to consider in the context of Malaysia - Japan bilateral relations because both Malaysia and
Japan are concerned with the security of Southeast Asia. Malaysia's long-term objective for the security of Southeast Asia is the creation of ZOPFAN which will deny Japan, together with other big powers, a military presence in the region. This chapter will analyse Japan's defence policy and its implications for Malaysia and the Asean states generally. The focus will be on the regional grouping rather than Malaysia alone because that is how Japanese defence planners generally view the region. The following questions will be addressed:

1. What is the present Japanese defence policy in so far as it affects Southeast Asia;
2. What is the strategic importance of Asean for Japan;
3. How do the Asean countries perceive Japan; and
4. What role does Japan have in the Asean region.

2. JAPAN's Defence Policy

Unlike other countries, Japan has adopted a Constitution that places specific limitations on the nation's defence capabilities. Article 9 of the Constitution, the so called 'no war clause', renounces war and the maintenance of armed forces. Circumstances in the 1950s, however necessitated the formation of the 'National Police Reserve', a predecessor of the Self Defence Forces (SDF). The primary purpose of the SDF is to enable Japan to exercise the right to self defence.
in accordance with the United Nations Charter. This limited defence capability was reinforced in 1960 by the Japan - US Treaty of Mutual Cooperation and Security which committed the United States to the defence of Japan. On the one hand, this treaty allows Japan to focus its resources on economic development which hastened Japan's return to the international community. On the other hand, it tied Japan closely to the United States' strategy in the Far East. It has been suggested that this collective security arrangement between the United States and Japan serves to restrain the possible resurgence of militarism in Japan.

Further, Japan ratified the Nuclear Non-Proliferation Treaty in 1976 and committed itself to adhere to the so-called Three Non-Nuclear Principles, namely: not to possess; not to manufacture; and not to admit nuclear weapon into the country. Japan has also until recently adhered to the policy of not exporting arms or military technology. In relation to this policy it should however be pointed out that so far there has been only one agreement with the United States over the exchange of technology. On the other hand it would easily be argued that many of Japan's export items are dual purpose exports which have military potential.

The principle of Japan's current defence policy was laid out in the 1976 National Programme Outline. Japan's basic defence policy is to possess capability adequate for its own defence within the
frame of the Japan - US security arrangement. In
the event of having to cope with aggression the outline
stipulates that:

(1) against indirect aggression Japan 'will take
immediate responsible action in order to
settle the situation at an early stage';

(2) in case of limited and small-scale aggression
Japan will repel it 'in principle without
external assistance';

(3) in cases in which aggression cannot feasibly
be dealt with without assistance, 'Japan
will continue unyielding resistance ......
until such time as cooperation from the United
States is introduced'; and

(4) against nuclear threat, Japan will rely on
the nuclear deterrent capability of the
United States.11

Japan's defence policy, as it stands, limits
its military power to the defence of its territorial
waters and homeland. Japan, as the second largest
industrial and economic power, has global interests.
However its defence policy does not enable it to project
military power away from its immediate surroundings in
order to secure its perceived interests in other regions,
such as Southeast Asia, the Middle East and the Southeast
Pacific.
As an alternative policy, Japan has undertaken to contribute to the peace and stability of these regions by economic means; namely through trade, aid and investment. The Report of the Comprehensive National Security Study Group of 1980 has been an important influence on Japan's official view concerning national security. According to this report, Japan is liable to face a wide range of serious threats other than those in the military sphere. Thus military power is only one of the many components responsible for ensuring national security.  

Prior to considering Japan's defence policy and its relation to the Asean states, it would be beneficial to consider current Japanese defence issues. In the past Japan has made two defence policy statements which reflect different defence postures for Japan. The Basic Policy for National Defence of 1957 identifies Japan's defence posture as preventative and reactive in nature. It stipulates that aggression can be repelled only after Japan is invaded and not before. The current defence policy based on the National Defence Programme Outline of 1976 states "should indirect aggression - or any unlawful military activity which might lead to aggression against this nation occur, Japan will take immediate responsive action." Then in 1981 Prime Minister Suzuki extended Japan's defence commitment to encompass 1000 nautical miles radius which takes Japan's defence beyond its territorial waters.
In 1983 the current Prime Minister Mr. Nakasone reaffirmed Japan's commitment in protecting the sea lanes of communication and furthermore expressed bluntly that the Japanese archipelago should become an 'unsinkable aircraft carrier' which could defend the nation against Soviet Backfire Bombers. He also suggested that Japan should acquire complete control of the straits (Straits of Soya, Tsugaru and Tsushima) commanding the approach to Moscow's Far Eastern harbours. This trend of development in Japan's defence policy suggests an expanding forward defence role which seems to be in contradiction with Japan's official defensive military posture.

The United States under both the Carter and Reagan administrations pressured Japan to increase its defence expenditure beyond the self imposed '1 per cent of GNP' ceiling adopted in 1976. The United States wants Japan to move from a dependent position and take up a partnership role sharing the United States' burden for the security not just of Japan but also the region. In other words, the United States wants Japan to view its defence policy in terms of the global balance instead of just the limited self-defence goals admitted by the Japanese constitution. The recent defence budget for the 5 years up to 1990 allocated approximately $70 million, which is about 1.04 per cent of the GNP in that period. This increase was said to be necessary for Japan to effectively protect the sea lanes of
communication up to the 1000 nautical miles radius which is now its responsibility. Hence Mr. Nakasone has succeeded in breaking the 1 per cent barrier and it can be expected that in the future Japan's defence spending will be 'around 1 per cent of GNP' instead of 'within 1 per cent of GNP'.

The need to revise the constitution is raised from time to time. Since Mr. Nakasone came into office there has been increasing attention focused on the debate about Japan's military role and the limitation of the 'no war' Peace Constitution. Mr. Nakasone was favourably disposed towards increasing defence outlays and the revision of the constitution when he first took office. He also specifically expressed the need for a new constitution that would not be vague about Japan's right to have a military force for self defences. While a new constitution is most unlikely to eventuate largely because of the perceived strong domestic opposition, new interpretations of the existing constitution seem the next best alternative. Both Mr. Nakasone and other government officials have given new interpretations to Japan's self defence strategy and its relation with the United States which has raised alarm among conservative Japanese politicians.

Japan has a substantial and growing capacity to develop and produce weapons. This capability has three aspects. First, weapons not developed in Japan but manufactured there under licence; second, weapons
and weapons related technology developed by Japanese concerns; third, 'dual use' technology - technologies developed and provided for civilian purposes but also having military applications. In January 1983, Mr. Nakasone approved, for the first time, the transfer of military technology to the United States. The rationale was that mutual exchange of technology was vital to the effective operation of the Japan-US Security Treaty.\textsuperscript{22} For its part, the United States considers this as a means of reducing the research and development cost of weapons through joint development and joint production. A possible consequence would be Japan's ability to develop more sophisticated weapons for itself in the future. Despite repeated pronouncements that Japan has no desire to become a great military power, it nevertheless has the ability to do so.

3. \textbf{The Strategic Importance of Asean to Japan}

Japan is the most natural-resource-poor country among the major industrial countries. Most of its raw materials and the fuel supplies for its industries have to be imported. The Asean states have become increasingly important suppliers of raw materials, minerals and fuel supplies to Japan. The Asean states account for 99 per cent of Japan's natural rubber and zinc imports and also for 95 per cent of Japan's tropical lumber.\textsuperscript{23} In addition Japan is also heavily dependent on Asean for its vegetable oil, nickel, copper
and bauxite imports. Japan's fuel oil is almost 100 per cent imported and the Asean share has been growing. Since the time of the second 'oil shock' (1979-1981), fuel oil and liquified gas supplies from the Asean states, specifically Malaysia, Indonesia, Singapore and Brunei have become increasingly important to Japan. In 1980 Asean's share of Japan's total import of crude oil and liquified gas was 16.8 per cent and 31.3 per cent respectively. 

Also since the late 1960s Japan has become the leading investor, trading partner and aid donor to the Asean states. Japanese interests have sought to take advantage of the cheap labour and tax inducements offered by the Asean government. Japanese investors account for about 48 per cent of the total foreign investment in the region.

The geostrategic location of the Asean region is essential to Japanese security considerations. Situated southwards from Japan, these states of Southeast Asia are strategically located between the Indian and Pacific Oceans. The Straits of Malacca and the West Malaysian peninsula serves as a major international navigation route linking the Indian Ocean with the South China Sea and the Pacific Ocean beyond it. The Straits of Malacca is considered one of the five vital 'choke points' for world maritime interests. Japan is heavily dependent on maritime transport for its supply of raw materials, oil supplies and also to reach its widely
spread overseas market.

The sea lanes of communications through the South China Sea and the Straits of Malacca are described as Japan's 'life line'. It is in Japan's interest that oil tankers and cargo vessels operating between Japan, the Middle East, Africa and Australia are assured safe passage along the sea lanes in the South China Sea, the Straits of Malacca and the Indian Ocean. In May 1981 Prime Minister Suzuki committed Japan to defend its vital sea lanes up to 1000 nautical miles southward from its coast although this 1000 nautical miles does not reach the 'choke points' in the Southeast Asian waters. This commitment however, was not undertaken on Japan's own initiative based on assessments of the importance of sea lanes of communication. Japan was pressured to undertake this task by the Carter and Reagan administrations which believed it was more appropriate for Japan than United States to undertake this security responsibility.26

Thus far there has been no large scale study by Japan to provide a strategy for defending its vital maritime interests in the sea lanes beyond the 1000 nautical miles mark, southward into the South China Sea and the Straits of Malacca. In considering a possible strategy it is vital to consider the contingencies that could threaten and harass Japan's shipping using the sea lanes in the Southeast Asian region. There are three possible contingencies. First, internal change in the Asean states which could result in social and
political change in turn resulting in hostile attitudes toward Japan and its interests. The second level of contingency is regional conflict between two or more of the Asean states. Such regional conflict could take place both on land or at sea and it could draw in the Superpowers, the United States and the Soviet Union, or a regional power particularly China. The third level of contingency is a global war arising from armed conflict between the United States and the Soviet Union. In each of these contingencies Japan could be denied resources and markets. Its shipping would be open to harassment and disruption.

While the sea lanes through Southeast Asian waters and the Straits of Malacca are important, their significance could perhaps be exaggerated. Japanese ships could take alternative routes. In the event that only passage through the Straits of Malacca is hindered, ships heading to and from Japan could use the Lombak-Sunda, Makassar or the Ombai Straits which are all within Indonesian archipelagic waters. If passage is denied in both the Straits of Malacca and in Indonesian waters, shipping could be re-routed to the South of Australia, then through the Solomon Islands and then on to Japan. 27

In the event of a global war all Japan's ships will be vulnerable to Soviet attack in both the open seas and at 'choke points'. However should the Soviet Navy be directed to attack Japanese shipping it is
more likely to strike near homeports and air cover than on sea lanes. With regard to raw material and fuel supplies Japan could attempt to seek out alternative suppliers in other parts of the world. It could also consider using substitutes where possible, for example synthetic rubber instead of natural rubber or other forms of energy instead of fuel oil. This would ensure continuous industrial operations in the event that passage through the Southeast Asian waters is closed to Japanese vessels.

4. Asean Perceptions of Japan's Defence Posture

The Asean states are not reluctant to accept Japanese economic aid, investment, technical know how and other economic involvement despite the fact that it could create 'dependency' instead of mutually beneficial 'interdependent relations'. The Asean states however appear very hesitant about Japan's defence policy and acknowledge it merely out of diplomatic courtesy. As it stands, Japan's military capabilities are structured for defensive and deterrent purposes and Japan appears to want to continue to maintain this posture. It is not always possible to make a clear distinction between defensive and offensive weapons. Nevertheless in term of overall force structure, there are criteria which can be used. The fact that Japan does not possess aircraft carriers, transport and ships designed for military purposes, an air tanker fleet for the air-to-
air refueling of long-range bombers or amphibious landing craft suggests that at present it does not seek an offensive force structure.

The Asean states' main concern with regard to Japan's defence policy is the substantial and continuous improvement and build-up in Japan's military capabilities. The primary purpose for the military build-up according to Japan, is to counter the increased Soviet build-up in the Far East. Soviet forces stationed on the Northern Islands (Kurile Islands) include one division of ground troops and MIG 25 Foxbat interceptors. There are also more than 40-TU-22M Backfire Strategic bombers, more than 30 naval aviation Backfire bombers equipped with long range anti-ship missiles and approximately 165 SS-20 missiles deployed in the Far East. The Soviet Pacific Fleet has been qualitatively modernized and reinforced. It now has such large-sized sophisticated weapons systems as the Delta III-class SSBN, the kiev-class aircraft carrier, the kara-class missile cruiser and Ivan Gogio class amphibious assault ships. The Soviet Union has also deployed two aircraft carriers in the Far East, namely the Navarossiysk and the Minsk. The Soviets have also established a wartime theater level command (TVD) in the Soviet Far East. Dibb in his assessment of the Soviet build-up in the Asia-Pacific region concludes that it does pose a threat to Japan but is not directed toward Japan as often proclaimed in the Japan Defence Agency's White Paper.
The Asean states recognize the need for Japan to increase her military capability to counter any threat of aggression. At the same time these states fear the revival of a militarily powerful Japan that could seek to establish dominance in Southeast Asia. These fears were revived and strongly expressed by the Asean states because of recent policies adopted by Japan, namely the extension of defence responsibility to include the sea lanes up to the 1000 nautical mile radius.

Indonesia and the Philippines were especially apprehensive that the extended sphere would include their territorial waters. Mr. Nakasone however gave an assurance that this was not so and also stated that Japan has no intention of expanding its defence responsibility to include the Straits of Malacca in the future. In contrast to the responses of Indonesia and the Philippines, Thailand indicated that it would welcome a security role for Japan in the region. Singapore, which had in the past expressed support for a Japanese role in the security of the region, this time discouraged Japan's involvement in the region. The Malaysian Foreign Minister, on the other hand said Japan "should play its proper role in securing the safety of Southeast Asian sea lanes ....... "

The second issue is the increasing defence allocation in Japan's budget. Even prior to the latest budget allotment which exceeds the 1 per cent barrier, Asean states were already aware that the '1 per cent
barrier' was insignificant because the rapid growth rate of Japan's GNP and the appreciation of its currency implies that Japan's defence spending had actually been increasing substantially for many years running.

Another concern among some individuals in the Asean states is the effect that a revision of the Japanese Constitution could have. The former Chief of the Indonesian Intelligence Board and Governor of the Indonesian National Defence Institute, Lieutenant-General Sutopo Juwano has expressed his fear that Japan would become a major military power if the constitution is revised. He therefore advocates the idea that the Japanese defence build-up should be accompanied by a corresponding increase in Asean military capabilities. Adherence to this idea would eventually result in an arms race in the region. Such an arms race in turn would threaten any possibility that ZOPFAN might become a reality. Malaysia is still hopeful for ZOPFAN, which it is confident will keep the region politically neutral and free from the intervention of outside powers.

5. Japan's Role in Southeast Asia

The Asean states generally accepted Japan's Comprehensive National Security Concept which recognizes that the sources of potential threat and instability in Southeast Asia are not only military in nature but could also arise from internal domestic conflict. Such conflicts could be caused by lack of religious and
political freedom, human rights issues and inequitable economic growth. In view of Japan's economic interests in the region, it would be beneficial in the long run if Japan could help these nations to develop politically, economically and socially. How about a defence role for Japan in the region?

At the Asean-Japan dialogue held in Kuala Lumpur in late August 1982, Asean delegates expressed concern at the prospect of a militarily aroused Japan. This concern was caused by Japan's increased defence spending and military build-up following its commitment to increase its defence responsibility to the 1000 nautical mile mark. The Asean states' reaction is based on an old fear borne of the trauma of the last war. In that war Japan's militaristic ambition was to create a grand economic scheme named the 'Greater East Asia Coprosperity Scheme'. It was designed to bring the resource rich countries of Southeast Asia into the folds of an industrial Japan. Despite its commitment to a pacifist policy, Japan has the capability to easily rearm itself and establish itself as another military superpower.

The Asean states are also aware of the United States' Asian policy aimed at having Japan share the security burden. Their fear is that Japan's military build-up is intended for a military role in the region. The US Defence Secretary, Casper Weinberger, took great pains to explain that Japan's military build-up was
defensive - to develop its military clout so that it could take over completely the responsibility of its own defences which include the 1000 nautical mile defence responsibility.\textsuperscript{38} In considering Japan's military role in Southeast Asia it is also necessary to take into account Japanese - American military cooperation. Thus far Japan's economic diplomacy has been complemented by the US military presence to ensure the stability and security of the region. While the Asean states and Japan see the presence of the US in the region as a stabilizing force, the US demonstrates very little commitment and involvement. It has taken a low profile since its withdrawal from Vietnam.

The US presence is especially significant in view of the Soviet and Chinese presence in the region. The increasing Soviet military presence is perceived as threatening to the Asean states. The Soviet Union has invested heavily in building new air fields, improving existing ones and enhancing port facilities at Cam Rhan Bay.\textsuperscript{39} This can be taken as an indication that the Soviet Union intends to maintain a permanent presence in the region. The Chinese presence in the region is also regarded with some apprehension by Asean members. It is feared that the presence of these two communist powers in the region vis-a-vis a low keyed US presence in the region might create an unstable balance of power in the region. In this context, it might be argued that a Japanese military role, if
accepted by Asean states, could contribute positively to the stability of the balance of power by supporting the United States' military presence in the region. However the lack of enthusiasm among Asean leaders for a military role for Japan in the region indicates that they perceive a Japanese military presence in the region as 'destabilizing' rather than contributing to the strategic balance in the region. This perception could be based on fears that if they accept a Japanese military role in the region the US might eventually hand over the defence burden to Japan and withdraw from the region. From the viewpoint of Asean states, Japan should not be allowed to have an active and independent military role in their region. Japan's contribution to the defence of Southeast Asia will have to be complemented by the presence of other powers, preferably the United States, to act as a 'check' on any unwarranted Japanese military role. It is also expected that Japan will continue to uphold its existing defensive posture.

What role does Japan see for itself in maintaining peace and stability in Southeast Asia? Japan is unlikely to project a military role because it realizes such a posture would displease the Asean nations. Furthermore its Constitution limits its ability to do so. For the time being Japan will continue to contribute to the security of this region by peaceful diplomacy and increased economic aid and
economic cooperation. If however there are hostile elements that threaten Japanese interests in the region and which could in turn have detrimental effects on Japan's vital economic interests, Japan could feel forced to take a military role in the region. However such a role need not take the form of a dominant and overpowering military presence. Rather Japan could become more involved in the United States defence strategy for the region.

6. **Conclusion**

Japan's military posture is significant for Malaysia primarily because Japan has a potential capacity to project a military role in the region. Malaysia, like other Asean member states, will not accept a military role for Japan in the region. The present leadership of the country has experienced the Japanese Occupation during World War II and still have bitter memories of Japanese Occupation army and KEMPATAI (military police). Therefore they are still suspicious of a rearmed Japan. It can be argued that the future generation of leaders will not have experienced the Japanese Occupation and hence might be inclined to accept a Japanese military role in the future. This is very unlikely because it would be unwise to give Japan military influence when it already has a very firm and strong influence over the economy.
Japan's concern for the peace and security of Southeast Asia is attributable to its economic interest in the region. Should Japan decide to project a military role in the region it will be primarily to ensure the peace and stability of the region and thereby ensure that its economic interests are secure. A Malaysian commentator pointed out:

"what is now necessary to emphasize in the clearest term ...... is that Japan's political contribution to the peace, the stability, the independence and prosperity we all want cannot come out of the barrel of the gun ...... There is some ill informed talk in Japan that the Japanese can militarily contribute to the peace and stability of Southeast Asia."\(^2\)

This view coincides with Malaysia's policy which discourages external power involvement in the region. Malaysia, the initiator and advocate of ZOPFAN, still maintains this as its long-run strategy for the peace and security of the region.

The analysis of Japan's defence policy shows there are many internal constraints that have greatly slowed the speed of Japanese rearmament in the post war period. But these constraints, namely the Peace Constitution, Public Opinion and the Three Non Nuclear Principles, are not absolute. They are subject to interpretation and have been circumvented when deemed not practical or when Japan is pressured by an outside force, namely the United States. Japan has been able to develop its military capabilities significantly and ranks nineth in the world. Due to its defensive defence
posture, Japan attempts to guard its perceived global interests through economic and political means. Japan is increasingly seen as a non-threat by the Asean states largely due to the presence of other powers in the region and its economic contribution to peace on security in the region. Nevertheless Malaysia and the other Asean members are aware of Japan's potential ability to adopt a strong military role and therefore are very cautious and hesitant when dealing with this aspect of their relations with Japan.
Footnotes


5. Ibid., pg. 7.


8. Ibid., Chapter 2.


10. United States nuclear powered vessels and nuclear armed vessels do come into Japanese ports and bases. The United States was worried that Japan might follow New Zealand's decision not to admit nuclear armed vessels into its ports.


17. Lai Fung-Wai, op. cit., pg. 56.

19. This increase in defence budget was decided on 18 September 1985, Nagi, R., Big Powers and Southeast Asian Security, Lancer Books, India, 1986, pg. 34.


21. Ibid., pg. 28.


29. Ibid., pg. 29.


32. Mr. Nakasone assured Presidents Suharto of Indonesia and Ferdinand E. Marcos of the Philippines that Japan's defence of its sea lanes would not extend as far as Taiwan, the Philippines and Guam.


34. Ibid., pg. 131.


42. *New Straits Times*, 16 January 1981.
CONCLUSION

In the process of reviewing the three major aspects of Malaysia - Japan relations it became obvious that the bilateral ties between these two countries has developed significantly over the last three decades or so. In addition to greater trade links, Japan has also diversified its economic links through investment, aid and technological transfer. Japan has also developed political ties with Malaysia. With regard to military ties, there exist no significant link between Malaysia and Japan because Japan has pledged that it will never pursue militarism in the region.

It was earlier established that the economic ties between Malaysia and Japan represent the major aspect of the bilateral relationship between these two states. It is said that Japan and Malaysia possess economies that are complementary. Japan is an advanced industrialized country which can offer much to Malaysia in terms of technology, investment and also a market for Malaysian goods. On the other hand, Malaysia needs such aid and also possess an abundance of raw material which are necessary for Japanese industries. In addition to the complementary economy, there is also the geographical proximity and the cultural affinity which should reinforce the ties between Malaysia and
Japan. Mr. Nakasone stressed on this theme (dubbed 'Asian idealism') during his Asean tour. Considering these two factors, a mutually beneficial economic ties between Malaysia and Japan would be expected. However when the economic ties between Malaysia and Japan was analysed, it became evident that an asymmetrical relationship existed.

The trade relations between Malaysia and Japan was initially established because of the complementary nature of the economies of the two countries. This complementary ties is now gradually being replaced by an increasingly competitive relationship as Malaysia pursues industrialization, and this change is most prominent in the composition of Malaysia's exports to Japan. Malaysia wants to increase the proportion of manufactured goods and processed raw material exports to Japan for several reasons. These include to achieve a more favourable balance of trade with Japan and to obtain a more stable flow of foreign exchange earnings. Japan on the other hand uses various protectionist practices and policy to restrict access to its market. Japan being an highly industrialized country and economically stronger, has been able to impose its policies on Malaysia and therefore reap more benefits from the bilateral trade relationship. Malaysia with the weaker economy is unable to alter the structure of its bilateral trade ties with Japan to correspond to its economic objective. Subsequently

142
Malaysia reaps only limited benefits from the bilateral trade relationship.

Japanese foreign investment in Malaysia also reflects an asymmetrical relation. Japan is one of Malaysia's major source of foreign investment. While to Japan, Malaysia is an insignificant investment outlet. Furthermore the various features of Japanese investment in Malaysia show that the benefits accruing to Malaysia from Japanese investment is not significant and in some instances tend to work contrary to the objectives of the Malaysian government. Overall Japanese investment activities reflect a dependency relationship which suggest that the distribution of benefits of Japanese investment in Malaysia is in Japan's favour.

Japan being a major foreign investor in Malaysia is also seen as a potential source of technology. However various indicators suggest that the transfer of technology by Japanese investors in Malaysia is less than satisfactory. This is consistent with the general impression that the Japanese are not particularly liberal in skill transfers. With regard to the 'Look East' policy it appears that this policy hinders rather than accelerate the development of the Malaysian economy. This perception is derived from the unfavourable consequences of several initiatives introduced to implement the 'Look East' policy.

Japan is Malaysia's major trading partner, an important source of investment and potential source
of technology transfer and therefore the significance of this bilateral economic relation to Malaysia cannot be denied. However considering the asymmetrical trade and investment relation, the unequal distribution of benefits, the dependency relationship that prevail in the bilateral relations between Malaysia and Japan, it will be in Malaysia's interest to avoid closer economic ties which would reinforce the existing unfavourable relationship.

In contrast to the economic ties, the political ties between Malaysia and Japan is of more recent origin. Malaysia and Japan do not view each other as the sole objective of their foreign policy. Malaysia has a Non-aligned status and actively participates in various international affairs. However Malaysia's primary concern is the political stability of Southeast Asia, its immediate vicinity. Japan being an economic power has global economic involvement and consequently Japan needs to project a foreign policy that will encompass its global interests. In Southeast Asia, Japan has vital interests to safeguard and therefore it has an interest in maintaining political stability in the region. In addition to its economic interest in the region, Japan's political involvement in Southeast Asia is also influenced by its relations with the United States. Japan is bound to the United States by a mutual security treaty and other political links. The United States has the capacity to influence Japan's
activities in the region and this is most evident in the context of Superpower rivalry in Southeast Asia.

In the discussion on several regional issues in chapter two, Japan's and the ASEAN states' perceptions (including Malaysia's) on these issues were identified. Malaysia and Japan have similar perceptions on certain issues for example, the need for an amicable political solution to the Kampuchean conflict. On some other issues, Malaysia and Japan have differing perceptions. For example, Japan tends to regard the Soviet Union as the most likely source of external threat to the region. Malaysia, on the other hand, views the Soviet Union as a distant power which does not represent an immediate threat to the region. Malaysia's primary concern is the threat from China. Japan, on the other hand, feels that China has a constructive role in the region.

Malaysia's long term objective for Southeast Asia is the creation of ZOPFAN. This will ensure political stability by eliminating external power involvement in the region. Japan holds the view that its political involvement in the region can make a positive contribution to the political stability in the region. Currently Japan projects a low keyed political role. It is possible that future developments, such as instability in the region or the creation of an organization similar to the Pacific Community concept could increase Japan's political role in the region. This will not only hinder the creation of
ZOPFAN but it might also increase Japan's influence in the region and cause Malaysia and the other ASEAN states to be closely identified with Japan. This in turn will undermine Malaysia's credibility as a non-aligned nation. Therefore in view of several factors just mentioned, namely: the United States influence on Japan; differing perceptions between Malaysia and Japan on certain regional issues, and in view of Malaysia's long term objective of creating ZOPFAN, it is necessary for Malaysia to avoid closer ties which could undermine its political independence when addressing political issues in its bilateral ties with Japan.

With regard to Japan's military posture towards Southeast Asia, its pledge not to pursue militarism in the region should not be taken for granted. Japan has economic and strategic interests in Southeast Asia to safeguard. The various constraints which has slowed down Japan's rearmament in the post-war period are not absolute. These constraints, namely the Peace Constitution, Public Opinion in Japan and the Three Non-Nuclear Principles are subject to interpretation and can be circumvented when deemed necessary. Japan also has advanced and high technology industries and it also develops 'dual-use' technologies. Taking all this factors into account it becomes obvious that Japan has the potential capacity to build up its military capabilities to project a strong military role in Southeast Asia. Since Malaysia is not keen on a
military role for Japan in Southeast Asia, it has to
discourage Japan from contemplating such a role in the
region. In view of the limited military capabilities
of Malaysia and the other ASEAN states, Malaysia need
to ensure that Japan's presence in the region is
'checked' by the presence of other powers such as the
United States.

Taking into account all aspects of the
bilateral relations between Malaysia and Japan it is
obvious that there exist no special relationship between
Malaysia and Japan to warrant closer ties between these
two countries. While the Malaysian Prime Minister
might say that Japan as an economic power 'feels a sense
of obligation to the rest of the world, especially to
developing countries like Malaysia'.¹ There is no
indication that Japan does indeed share this perception.²
Therefore Malaysia ties with Japan should be based on
mutual advantage in all aspect of the bilateral
relationship. The bilateral relationship should not
undermine Malaysia's economic development, political
independence and the security of its immediate vicinity
namely Southeast Asia.

147
Footnotes


2. Lim Hua Sing, Japanese perspective on Malaysia's 'Look East' policy, Southeast Asian Affairs, 1984 Institute of Southeast Asian Studies, Singapore, pg. 231.
BIBLIOGRAPHY

Books


Arief Sritua and Sundaram Jomo K. eds. The Malaysian Economy and Finance : The Southeast Asia Research and Development Institute, ROSECONS, Australia, 1983.


149


Jomo eds., The Sun also Sets: Institute for Social Analysis, Malaysia, 1985.


Pathmanathan M. eds., Readings in Malaysian Foreign Policy : Faculty of Economics and Administration, University of Malaya, Kuala Lumpur, 1976.


Polomka, Peter, Ocean Politics in Southeast Asia : Institute of Southeast Asian Studies, Singapore 1978.


151


Yano, Toru, The Greater East Asia Co-Prosperity Sphere: Setting the Stage for the Cold War in Southeast Asia: Discussion Paper No. 83, Centre of Southeast Asian Studies, Kyoto University, Japan, 1975.

Articles


Asian Defence Journal

Asiaweek


Bilveer Singh, Moscow's 'Cold War' against Asean Asia Pacific Community, Winter 1986: 138-149
Choudhury G.W., Asean and the Communist World, Asia Pacific Community, Summer 1981 : 34-49


Far Eastern Economic Review

Far Eastern Economic Review, Asia Yearbook

Foreign Affairs Malaysia


Hong N. Kim, Japan and China in the 1980s, Current History, Vol. 84, No. 506, (Dec. 1985) : 426-448

Lacanlale, Agenco O., Domestic Instability and Security of Sea lanes in Southeast Asia, Asia Pacific Community, Spring 1982 : 25-38

Lai Fung-Wai, Frances, Japan's Defence Policy and its implications for the Asean Countries, Southeast Asian Affairs 1984 : 48-63

Lee Poh Ping, Malaysian Perception of Japan before and during the 'Look East' period, Asia Pacific Community, Vol. 29 (Summer 1985) : 97-107

Lim Hua Sing, Japanese Perspectives on Malaysia's 'Look East' Policy, Southeast Asian Affairs, 1984 : 231-245

Matsuzaka H., Future of Japan – Asean Relations, Asia Pacific Community, Summer 1983 : 11-22

Mochizuki Mike, Japan's Foreign Policy, Current History Vol. 84, No. 506 (Dec. 1985) : 401-404

__________, Japan's Search for Strategy International Security Vol. 8 No. 3 (Winter 1983/84) : 152-179


Pacific Defence Reporter


Sanchez Aurora, Non Tariff Barriers and Trade in Asean, Asean Economic Bulletin, Vol. 4 No. 1 July 1987


Takubo Tadeo, First Round of Nakasone's Diplomacy, Asia Pacific Community, Summer 1983, : 1-11

Toba Reijiro, Japan's Southeast Asia Policy in this Last Decade, Asia Pacific Community, Winter 1982 : 30-43

154
The Japan Weekly

The New Straits Times


Yee, Herbert S., Japan's Relations with Asean and South Korea : From Dependence to Interdependence Journal of Northeast Asia Studies Mac. 1983 : 77-84


Seminar/Conference Papers

First Joint Conference of the Malaysia - Japan Economic Association (MAJECA) and Japan - Malaysia Economic Association (JAMECA) : Kuala Lumpur, 14-15 Nov. 1977

Second Joint Conference of MAJECA and JAMECA : Tokyo, 30-31 Oct. 1978

Third Joint Conference of MAJECA and JAMECA : Kuala Lumpur, 13-14 December 1979

Fourth Joint Conference of MAJECA and JAMECA : Tokyo, 17-18 Nov. 1980

Fifth, Joint Conference of MAJECA and JAMECA : Kuala Lumpur, 8-9 Feb. 1982

Sixth, Joint Conference of MAJECA and JAMECA : Tokyo, 22-23 Mac. 1983

155
Seventh, Joint Conference of MAJECA and JAMECA: Kuala Lumpur, 5-6 Mac. 1984

Eighth, Joint Conference of MAJECA and JAMECA: Tokyo, 15-16 Apr. 1985

Japan - ASEAN Conference '87, The Japan Institute of International Affairs: Tokyo, 29-31 Jan. 1987