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## The Historical Development of Japanese Investment in Malaysia, 1971 – 1980

**ABSTRACT:** *Malaysia-Japan economic relations continued during the administration of Tun Abdul Razak (1970-1975); and Malaysia-Japan economic relations strengthened during the administration of Tun Hussein Onn (1976-1980). This study discusses the historical development of Japanese investment in Malaysia between 1971 and 1980. The objective of the study is to see the patterns on the Japanese investment in Malaysia after the implementation of the NEP (New Economic Policy) in 1971. After 1970, Japanese investors began investing through joint venture with government organizations, such as the National Corporation Limited (PERNAS), Majlis Amanah Rakyat (MARA), and the Federal Land Development Authority (FELDA). This is in line with the NEP policy that emphasizes the participation of Bumiputera (Malay citizen). These agencies represent Bumiputera participation. Japanese investment in this period was in labour-intensive industries that involve cheap labour, raw material processing, and trade-related investment.*

**KEY WORD:** *Investment, Japan, Malaysia, New Economic Policy, economic relations, joint ventures, and Bumiputera participation.*

**IKHTISAR:** *“Sejarah Perkembangan Pelaburan Jepun di Malaysia, 1971 – 1980”. Hubungan ekonomi Malaysia dan Jepun diteruskan semasa zaman pentadbiran Tun Abdul Razak (1970-1975); dan hubungan ekonomi Malaysia dan Jepun diperkukuhkan lagi semasa zaman pentadbiran Tun Hussein Onn (1976-1980). Kajian ini membincangkan sejarah perkembangan pelaburan Jepun di Malaysia antara tahun 1971 hingga 1980. Objektif kajian ialah melihat corak pelaburan Jepun di Malaysia selepas pelaksanaan DEB (Dasar Ekonomi Baru) pada tahun 1971. Selepas tahun 1970, pelabur Jepun mula melabur melalui usahasama dengan organisasi kerajaan, seperti Perbadanan Nasional Bhd (PERNAS), Majlis Amanah Rakyat (MARA), dan Lembaga Kemajuan Tanah Persekutuan (FELDA). Ini selaras dengan dasar DEB yang menekankan kepada penglibatan golongan Bumiputera. Agensi-agensi ini mewakili penyertaan Bumiputera. Pelaburan Jepun dalam tempoh ini adalah dalam industri berintensif buruh yang mengambil tenaga buruh murah, pemrosesan bahan mentah, dan pelaburan berkaitan perdagangan.*

**KATA KUNCI:** *Pelaburan, Jepun, Malaysia, Dasar Ekonomi Baru, hubungan ekonomi, usahasama, dan penyertaan Bumiputera.*

### INTRODUCTION

Malaysia-Japan economic relations continued during the administration of Tun Abdul Razak, when Japanese ODA (Official Development Assistance)

channelled to Malaysia to finance the bulk of the country's development projects (Akrasane, 1983; Doherty, 1987; Denker, 1990; Cheong, 1994; Muhaza binti Sh Zainal, 1994;

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Ali Seman, 1996; Yamada, 1996; and Watanabe, 2005). Ahmad Ali Seman (1996:336) said that the second Yen credit loan agreement was 36,000 million Yen from 1972 to 1976. Malaysia-Japan economic relations strengthened during the administration of Tun Hussein Onn (Loy Mui, 1997/1998:48-52). One of the significant developments is the establishment of MAJECA (Malaysia-Japan Economic Association) and JAMECA (Japan-Malaysia Economic Association) by Raja Mohar Raja Badiozaman, Economic Special Adviser to Tun Hussein Onn (Md Khalid & Poh Ping, 2003:69; and Md Akhir, Hassan & Paidi, 2008:197).

Japanese investments in the Federation of Malaya after independence, followed by the formation of Malaysia after that, has been touched by many previous studies, among the important studies are from Chee Peng Lim & Lee Poh Ping (1979 and 1983); Mehmet Sami Denker (1990 and 1994); Makoto Anazawa (1994); Md Ali Hasan (1996); and Sumanthy a/p Murugaiah (1997/1998). This study complements the previous study through the use of different sources. These different sources will be collected from the National Archives of Malaysia and also the government organizations that involved. Through the use of these sources, it is hoped that this study will uncover the data of Japanese investment that has never been known before. The focused study on Japanese investment directed to the investment date, the parties involved, and the amount of capital, location, and sectors of activities.

Kiyoshi Kojima (1978) states that in the 1960s and 1970s, the main factors determining the Japanese investment in developing countries was the comparative advantage. Japan's industrial sector after the Second World War (1939-1945) is labour-intensive. When Japanese development pace,

the cost of labour and materials also increased, and resulted in the Japanese firms began to move their operations to developing countries with more and cheaper labour supply than the capital.

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

Between 1951 to 1979, North America, Central America, and South America are the three most important places for Japanese investment, respectively represent 27 per cent, 26 per cent, and 18 per cent of Japanese abroad investment. The bulk of Japanese investment in the Asian region is in ASEAN (Association of South East Asian Nations). Each ASEAN countries has attracted major investments Japan with Indonesia accounted for 64 per cent from it, or 12 per cent of the total Japanese investment abroad (Beng & Thambipillai, 1981:164). Japanese investments in developed countries are concentrated in the mining sector, trade, and banking and insurance. In developing countries, Japanese investment are concentrated in the manufacturing and mining.

The patterns of Japanese investment

abroad can be explained easily. As Japan is a country with limited natural resources, an important motif in the country's overseas trade was to get raw materials and mineral supply. So, mining is an important field for Japanese investment in countries that are rich in mineral resources, regardless of the level of GDP (Gross Domestic Product) per capita income of these countries. Japan has a large investment in the sectors of trade and banking and insurance in North America and Europe, because it is a developed financial markets; while in developing countries, Japanese investment in the manufacturing sector was driven by cheap labour, access to raw materials, and the desire to protect the local market (Razak, 1971:34-35; and Cheong, 1994:87).

### **JAPANESE INVESTMENT, 1971-1980**

Japanese investment in Malaysia are booming during the administration of Tun Abdul Razak and Tun Hussein Onn, who views that the more money the government have, the faster the development can be carried out (Razak, 1971; *Straits Echo*, 21/1/1984; and Cheong, 1994). After 1970, Japanese investors start investing through joint venture with the government organization, such as PERNAS (*Perbadanan Nasional*), MARA (*Majlis Amanah Rakyat*), and FELDA (the Federal Land Development Authority). This is in line with the NEP (New Economic Policy) that emphasizes the involvement of *Bumiputra* (sons of the earth or Malay citizen).

Japanese investment during this period was in the labour-intensive industry that takes cheap labour, processing of raw materials, and trade-related investment (Ganesharatnam, 1993:110). After 1970, Japanese investors start looking for an opportunity to increase market share and competitiveness of exports on the basis of cheap labour and investment

environment offered by Malaysia (Haji Abd Rahman, 1985/1986:82). This contributes to the first wave of Japanese investment in Malaysia's manufacturing sector in the early 1970s (Nagai, 1993:22). The increasing production costs problem, as a result of salary increases, have been compounded by the rising value of the Japanese yen in 1971 (Samsudin, 1988:90; and Loy Mui, 1997/1998:57). As a result, the Japanese labour-intensive industry face the possibility of losing foreign and domestic markets unless an export center was established in overseas.<sup>1</sup>

Japanese firms in Malaysia at present is generally small in size, especially in terms of employment (Saravanamuttu, 1988:21). The smallest firms has only one employee. There are three types of firms, whether the contact office, trade office representative, or the insurance company. The smallest manufacturing firms has only four employees, a paid-up capital of RM (*Ringgit Malaysia*) 690 thousand and producing wooden cabinets for sewing machine and television set. On the other hand, Japan's largest manufacturing firms have more than 3 thousand employees and a paid-up capital of RM 20 million (Peng Lim & Poh Ping, 1979:16). This firm, Pentex Sdn Bhd (*Sendirian Berhad*), was established in 1971 and produced polyester/cotton, mix grey thread, and fabric.

Associated Steel Industries (M) Sdn Bhd was established in Shah Alam, Selangor, on 7 June 1971. Its paid up capital was amounted to RM 1.1 million. It is a joint venture between Japanese and locals, with Japan holding a stake of 35 percent and a total of 65 percent from *Bumiputera*. The company was involved in the steel product and steel fabrication industry through the

<sup>1</sup>Japanese industry not necessarily moved to Malaysia as there are many more developing countries that can be selected. For example, Singapore that popular as an export center; but since the massive transfer of Japan firms in search of low-cost centre, Malaysia has good opportunities to be selected.

production of steel types. Its product release is 100 percent for the domestic market.<sup>2</sup> On 16 September 1971, the Ministry of Welfare has received a total of 10 radio transistors from a Japanese company for use in Charitable Foundations in Peninsular Malaysia.<sup>3</sup> On 15 June 1972, Sony Company has donated an equipment in the form of a video cassette recorder and a video mobile unit for National Broadcasting Training Centre at Angkasapuri, Kuala Lumpur.<sup>4</sup>

In terms of paid-up capital, the smallest Japanese firms in Malaysia is IPI Sdn Bhd (*Sendirian Berhad*), which has a paid-up capital of RM 42,500. This firm is located in Petaling Jaya, employs 25 workers and produce ink print. The other Japanese firm that has a paid-up capital of less than RM 100 thousand is Southern Cross Trading Sdn Bhd. This Firm has a paid-up capital of RM 50 thousand, employs 137 employees and produces veneer, core stock, and plywood. Five Japanese biggest investor at the moment, as cited by Chee Peng Lim & Lee Poh Ping (1979:16), are Penfibre Sdn Bhd (RM 70 million), Nan Sing Dyeing Works (M) Sdn Bhd (RM 44 million), Malayawata Steel Bhd (RM 39 million), Malaysia Shipyard and Engineering Sdn Bhd (RM 20 million), and Pentex Sdn Bhd (RM 20 million). Nine Japanese textile firms were established in 1973, among them are Pentley Sdn Bhd; Pen Fibre Sdn Bhd; Pentex Sdn Bhd; Woodard Sdn Bhd; Kanebo and I.H.B. Sdn Bhd; Pentley; Pen Fibre and Pentex; Woodard; and Pen Fabric known as Pen Group which is a subsidiary of Japanese textile giant, Toray Enterprises (Denker,

1990:558).

Three large investors Penfibre Sdn Bhd, Nan Sing Dyeing Works (M) Sdn Bhd, and Pentex Sdn Bhd are involved in textile industry (Saravanamuttu, 1988:21). Japan's largest investors, Penfibre Sdn Bhd, employs 719 employees and produces polyester staple fibre. It was established in 1973 and is located in Pulau Pinang (Saravanamuttu, 1988:13). Pentex Sdn Bhd products are polyster/cotton, mix grey thread, and cloth. Pentex Sdn Bhd was established as a result of Chief Minister of Penang prompts, Lim Chong Eu, to TAL (Textile Alliance Limited) from Hong Kong to set up a factory in Prai Free Trade Zone.<sup>5</sup>

Generally, there is an increase in the amount of paid-up capital for each Japanese firms since the beginning of the decade. K. Yoshihara (1973) studies showed that in 1972, about half of Japanese firms in Malaysia has a paid-up capital of less than RM 300 thousand. The majority of Japanese firms in 1978 have at least RM 1 million in paid-up capital (Saravanamuttu, 1988:13).

On 22 February 1973, Kyowa Limited and Central Securities (Holdings) Berhad established CEC joint venture company, an export-oriented company that located in Prai Industrial Complex. The construction of buildings for this project began in August 1973 and its commercial production began in June 1974. In just 4 years, the company has become the largest producer of rubber bracelets in the world with its export-based value amounting to RM 10 million. This project started with a paid-up capital of RM 3 million, with Kyowa holds interest by 49 percent.

<sup>2</sup>Data obtained from the SSIC (Selangor State Investment Centre).

<sup>3</sup>See, for example, file on "Jabatan Penerangan Malaysia No.G.11264: Jepun Memberi 10 Buah Radio Transistor kepada Kementerian Kebajikan Am, Kuala Lumpur, 16.9.1971, Photo".

<sup>4</sup>See also file on "Jabatan Penerangan Malaysia No.G.11823: Jepun, Syarikat Sony Menghadihkan Peralatan untuk Pusat Latihan Penyiaran Kebangsaan, Angkasapuri, Kuala Lumpur, 15.06.1972, Photo".

<sup>5</sup>TAL (Textile Alliance Limited) has linkages with local capitalists who obtain 10 percent in Pentex Sdn Bhd, while the people of Hong Kong hold the interest of 30 percent. The balances were taken by C. Itoh and Co and Toray Industries Inc. These Japanese partners had relations with Hong Kong business group and they are also interested to get involved because the textile sector situation is not favourable in Japan. They hope to take advantage of cheap labour costs in Malaysia and the quota for local textile granted by other countries.

Then, in line with the Government's requirements, Kyowa interest dropped to 35 percent, the rest held by the Development Bank a total of 29 percent and Central Securities a total of 36 percent.<sup>6</sup>

On 26 February 1973, PERNAS (*Perbadanan Nasional*) Bhd signed a joint venture agreement with NEC (Nippon Electric Company) Ltd.<sup>7</sup> As a result, PERNAS-NEC Multiplex was incorporated on 5 April 1973, began operating in the same month, and in January 1974 started its commercial production. The company is a joint venture between PERNAS Engineering Sdn Bhd, a full subsidiary of PERNAS and NEC Ltd from Japan, with PERNAS Engineering holds 60 percent equity shares, and the rest by NEC. However, NEC equity shares will be reduced to 35 percent by 1981 and 30 percent by 1986, along with NEC goals.<sup>8</sup>

PERNAS-NEC Multiplex has an authorised capital of RM 6 million and a paid-up capital of RM 2 million (*ibidem* with footnote 7). The company will produce a multiplex equipment primarily for Telekom. The company's factory and offices are located in Ampang/Ulu Kelang Industrial Area. The idea of setting up a factory to produce sophisticated multiplex equipment was triggered three years ago, when Tun Abdul Razak visited Japan and met representatives of NEC (Nippon Electric Company). Both parties have shown interest and PERNAS has been selected as local partners.<sup>9</sup>

There is an official opening of Matsushita Complex in Sungai Way

<sup>6</sup>File on "Lembaga Kemajuan Perindustrian Malaysia (MIDA) No.8000/30, Jld.II: Malaysian Investment Mission to Japan 1978, Malaysian Investment Promotion from 25 October 1978 to 16 Januari 1979, No Year".

<sup>7</sup>See, for example, news on "Kumpulan PERNAS, Multiplex Factory in Another Tie-Up with Japan" in *Suara PERNAS*, 1(2), 1973.

<sup>8</sup>News on "Kumpulan PERNAS and NEC Renew Joint Venture Agreement" in *Suara PERNAS*, 8(2), 1982, p.7.

<sup>9</sup>See, for example, news on "Kumpulan PERNAS, Official Opening of PERNAS-NEC Multiplex" in *Suara PERNAS*, 3(3), 1975, p.8.

Free Trade Zone on 6 May 1973. The complex consists of two mills, namely Matsushita Industrial Corporation and Matsushita Electric Component. Both of these factories are export oriented (Johari ed., 1977:420-421). On 19 May 1973, a joint enterprise agreement of a shipyard worth million of dollar between the government of Malaysia with three private enterprise companies: SSM (Sumitomo Shipbuilding and Machinery) Company from Japan; IMC (International Maritime Carriers), Overseas Incorporation from Liberia; and KB (Kuok Brothers) Sdn Bhd from Malaysia was signed at the Treasury.<sup>10</sup>

On 3 December 1973, the Malaysian government and the Japanese government have signed an agreement on marine engineer training project in *Bilik Gerakan Negara, Jabatan Perdana Menteri*.<sup>11</sup> On 3 July 1974, Renesas Semiconductors (KL) Sdn Bhd was established at Telok Panglima Garang, Selangor. The company is involved in the electrical and electronic industry through the production of semiconductor material consisting of transistors, IC and diode.<sup>12</sup>

Another PERNAS Engineering joint venture project commenced operations on 1 December 1975. This collaboration was with two Japanese firms to start commercial production of palm oil and finished products such as margarine, ghee, and vegetable oil.<sup>13</sup> The complex

<sup>10</sup>See file on "Jabatan Penerangan Malaysia, No.G.12548: Perbendaharaan, Perjanjian Perusahaan Bersama Limbungan Kapal diantara Kerajaan Malaysia dengan Sumitomo Shipbuilding and Machinery Company Jepun, International Maritime Carriers Incorporation, Liberia, dan Kuok Brothers Sendirian Berhad, Malaysia, Ditandatangani di Kuala Lumpur, 19.5.1973, Photo".

<sup>11</sup>File on "Jabatan Penerangan Malaysia, No.G.13238: Projek Latihan Jurutera Laut, Upacara Menandatangani Perjanjian antara Malaysia - Jepun, Jabatan Perdana Menteri, Kuala Lumpur, 03.12.1973, Photo".

<sup>12</sup>Data obtained from the SSIC (Selangor State Investment Centre).

<sup>13</sup>See, for example, news on "Kumpulan PERNAS, PERNAS Engineering in Venture Project with Japanese Investors" in *Suara PERNAS*, 3(4), 1976; and news on "Kumpulan PERNAS, \$12 Million Joint Venture with Japan" in *Suara PERNAS*, 1(3), 1973, p.1.

will be located in Pandamaran Industrial Area, Port Klang and priced at RM 25 million. This joint venture agreement was signed on 19 July 1973 between PERNAS Engineering with two Japanese companies (*ibidem* with footnote 13). The company running the project, Malaysia International Palm Oil Industries Sdn Bhd was incorporated on 28 November 1973 with the participation from Marubeni Corporation and Nippon Oil and Fats from Japan.<sup>14</sup> PERNAS Engineering holds the interest of 51 percent, Marubeni of 24 percent, and Marubeni Nippon Oil and Fats of 25 percent.

Under the agreement, Marubeni Corporation is responsible for the marketing of finished products for a period of 5 years in Western Asia market, while Nippon Oil and Fats provide technical assistance in the field of engineering and processing. Marubeni Corporation will exporting 90 percent of factories output, with the remaining 10 percent will be determined by PERNAS Engineering. Under the second phase, the complex will produce detergents and soaps. This advanced program will require an additional RM 7 million as capital cost, and is expected to be implemented by the year 1978 or 1979. The third phase will involve the separation of fatty acid, palm oil products, and other raw materials for detergent and soap manufacturing process. It will require an additional RM 25 million as capital cost.<sup>15</sup> The company's management will held by locals.

There is also an official launch of Pertanian Baring Sanwa Multinational Berhad on 25 October 1974 between Bank Pertanian from Malaysia, Baring Brothers and Multinational Banks from

<sup>14</sup>For more information about this company, kindly see the news on "Kumpulan PERNAS, MIPOI's M\$13 Million Expansion Programmed" in *Suara PERNAS*, 8(1), 1981.

<sup>15</sup>News on "Kumpulan PERNAS, PERNAS Engineering in Venture Project with Japanese Investors" in *Suara PERNAS*, 3(4), 1976.

Britain, and Sanwa Bank from Japan (one of the five largest banks in Japan). The establishment of the merchant bank was aimed at responding to the government's call to make Kuala Lumpur as a financial center.<sup>16</sup> D & C Nomura Merchant Bankers Berhad was launched officially on 28 October 1974 between Nomura Securities, Mitsui, the National Bank of Australia and D & C (Johari ed., 1974:447-448).

The first large increase for Japanese investment took place from 1973 to 1976 with the establishment of many companies in the integrated circuit industry (Kawabe, 1993:270). Japan also saw the textile industry and electronic goods production factory can be transferred to Malaysia (*New Straits Times*, 23/10/1974). In 1973, the Japanese electronics sector has a total of 17 factories and place it in the first place compared to other sectors; but in terms of capital, it ranked third with a total of RM 40.5 million (Amri Baharuddin, 1977:104). Nearly 63 percent of the total capital invested by Japan in the electronics sector in Malaysia owned by Matsushita Electronics Group, a total of RM 25 million.<sup>17</sup>

By August 1973, there was a total of 68 Japanese joint venture companies in Malaysia (Amri Baharuddin, 1977:104; and Samsudin, 1988:88), and 58 more were approved.<sup>18</sup> In the mid 1970s, investment in the textile industry are booming, with the formation of Pen Group (Toray) and Kanebo in Prai Free

<sup>16</sup>For more information about Tun Abdul Razak's speech during the official launch of the bank in Hotel Hilton, Kuala Lumpur, on 25 October 1974, kindly see Ibrahim bin Johari ed. (1979:431-434).

<sup>17</sup>See Shamsul Amri Baharuddin (1977:105). For more information about the amount of Japanese investment in Malaysia's manufacturing company between the years 1975 to 1977 and Japanese investment by industry in production companies by 31 December 1977, kindly see file on "2/401/33: Malaysia - Japan Economic Association (MAJECA), 25 March 1985".

<sup>18</sup>See news on "It's Time to Think about What a Massive Japanese Presence will Mean" in *Malaysian Business*, December 1973, p.13.

Trade Zone in Penang, and Toyobo in Perak and Kedah (Anazawa, 1994:81). However, the wood industry is still the largest in terms of projects number (Peng Lim & Poh Ping, 1979:13). Although the textile industry only has nine factories, but in terms of capital it occupied second place compared with other Japanese sectors capital in Malaysia. Its total capital as of 1973 is RM 49.7 million (Amri Baharuddin, 1977:103).

On 7 December 1976, Cheng Hua Engineering Works Sdn Bhd was established in Klang, Selangor. Its paid up capital was amounted to RM 6 million and total investment amounted to RM 17 million. The company is involved in machinery and equipment industry through the production of industrial materials handling system and integration process automation system. Its product output was 35 percent for the domestic market and 65 percent for the export market. On 26 October 1977, UMW Auto Parts Sdn Bhd was established in Shah Alam, Selangor. Its paid up capital was amounted to RM 2.4 million. It is a joint venture between Japanese and locals, with Japan holding a stake of 15 percent, *Bumiputera* a total of 74 percent and *Non-Bumiputera* a total of 11 percent. The company is involved in the transport equipment industry through the production of oil filters, brake fluid, brake system and clutch, oil and lubricants.<sup>19</sup>

Another Japanese firm which houses its operations in Malaysia is Hino Motors Ltd. Hino Motors Ltd is the oldest vehicle manufacturer in Japan. The introduction and the entry of Hino brand vehicle in Malaysia began as early as 1973 through the appointment of Sarawak Motors Industries Sdn Bhd (Sarawak Motors) as a franchisee. At that time, the business entity are engaged in the installation activities and marketing of Hino products. Four years

later, a joint venture was held between Sarawak Motors and two Japanese companies: Hino Motors Ltd and Toyo Menka Kaisha Ltd (Azde, 2012), to establish Hino Malaysia Sdn Bhd (Hino Malaysia). Now, the company is located in Petaling Jaya. The total investment amounted to RM 15 million. It is a joint venture between Japan with Chinese traders, where Japan holds interest a total of 58 percent and Chinese dealers at total of 42 percent. The company is involved in the transport equipment industry by becoming Hino trucks and buses franchisee in Malaysia and Brunei as well as after sales service (*ibidem* with footnote 19).

On 25 September 1978, Sanden Air Conditioning (M) Sdn Bhd was established in HICOM-Glenmarie Industrial Area, Selangor. Its paid up capital was amounted to RM 3 million. It is a joint venture between Japan, Singapore, and locals with Japan holding an interest a total of 26.5 percent, Singapore a total of 18.5 percent, *Bumiputera* a total of 51 percent, and *Non-Bumiputera* a total of 4 percent. The company is involved in the transport equipment industry through the production of automotive air-conditioning system and its parts (*ibidem* with footnote 19). Following an investment promotion mission to Japan between October and November 1978, several Japanese companies have been informing the Johor State Economic Development Corporation for the possibility of setting up their factories and other activities in Johor.

On 28 November 1978, Matsushita Precisions Industrial Company (M) Sdn Bhd has applied for a 16.5 acre parcel of land in Senai Free Trade Zone for the purpose of electronics component manufacturing for exporting. Ujiden Chemical Industry Company Ltd plans to build a plant in Pasir Gudang Industrial Area for the purpose of bauxite processing to ingot that will be exported to Japan. The factory will

<sup>19</sup>Data obtained from the SSIC (Selangor State Investment Centre).

also produce rough powder and sand. Nippon View Hotel Co Ltd is keen to engage in a joint venture with Malaysian partners to establish a first class hotel in Johor Bahru. Nippon Sheet Glass Co Ltd is keen to buy silica sand which is produced by the Johor State Economic Development Corporation.<sup>20</sup> Nichiro Fisheries Co Ltd is keen to set up a fisheries project in Malaysia.<sup>21</sup>

On 23 December 1978, the Japanese government has agreed to contribute not more than RM 370 thousand as part of Japan's Cultural Assistance Scheme to the Ministry of Education for the purchase of certain types of audio-visual education equipment i.e. audio-visual.<sup>22</sup> On that year, there is also a proposed joint venture between the Perak State Development Corporation with Toyo Rubber Industry Co Ltd for the production of rubber-based products, and a proposed joint venture between the Perak State Development Corporation with Rondex Rubber Thread Co Ltd for a rubber thread project in Perak.<sup>23</sup>

At the end of 1967, the NEC (Nippon Electric Company) investment valued at RM 8 million, includes land, building,

and machinery in Teluk Panglima Garang Free Trade Zone in Kuala Langat, Selangor, has increased to about RM 20 million in 1978; and is expected to double by the year 1980. Most of the investments made in buildings and machinery, while the funds come from long term loans. The first Japanese firm investing in Kedah is Yuasa Battery in 1979. This firm produces car battery for another Japanese company, Honda Motor. Later, a Japanese electrical and electronics firm, Roxy, build a plant to produce product for the domestic market. All of these firms are local market-oriented, shows Japanese investment in Kedah are import substitution type. The next firm coming is a textile firm, Acrylic Textile and Cameyama Candle (Furuoka, 1995:58). Only four from 368 Japanese firms in Malaysia that invest in Negeri Sembilan by 1979. The firms was Naito Electronics (M) Sdn Bhd, Hatome (M) Sdn Bhd, Masyur Industrial Corporation Sdn Bhd, and Perfect Electric Sdn Bhd. Whilst in Kedah, Perlis, Terengganu, and Kelantan, there are three firms only. Selangor as an advanced state has 191 Japanese firms (Murugaiah, 1997/1998:109).

Matsushita Group of Companies is one of Japan's largest joint venture in Malaysia at the moment in terms of paid-up capital and number of employees. In October 1978, there were six companies in the Matsushita Group of Companies with a total paid-up capital of about RM 85 million. The first company was Matsushita Electric Co Ltd (MELCOM),<sup>24</sup> which was established

<sup>20</sup>See letter entitled "Investment Promotion Mission to Japan, October/November 1978, Dated 23 January 1979" in file on "Lembaga Kemajuan Perindustrian Malaysia (MIDA), No.8000/30-1: Follow Up, Malaysian Investment Mission to Japan 1978 - Malaysian Investment Promotion from 28 November 1978 to 4 January 1979, No Year", pp.1-3.

<sup>21</sup>See letter entitled "Per: Mahlumat-maklumat Berkenaan Perusahaan Perikanan di Malaysia" in file on "Lembaga Kemajuan Perindustrian Malaysia (MIDA), No.8000/30-1: Follow Up, Malaysian Investment Mission to Japan 1978 - Malaysian Investment Promotion from 28 November 1978 to 4 January 1979, No Year".

<sup>22</sup>File on "Jabatan Penerangan Malaysia, No.G.15924: Jepun, Duta Besar, Tan Sri Eikichi Hara Menandatangani Surat Pertukaran dengan Ketua Setiausaha Kementerian Pelajaran Berkaitan dengan Hadiah Pemberian Kewangan, Kuala Lumpur, 23.12.1978, photo".

<sup>23</sup>See letter entitled "Rubber Based Products: A Proposal for Joint Venture, Dated 29 December 1978"; and letter entitled "Proposal for Latex Thread Project in Perak, Malaysia, Dated 5 December 1978" in file on "Lembaga Kemajuan Perindustrian Malaysia (MIDA), No.8000/30, Jld.II: Malaysian Investment Mission to Japan 1978, Malaysian Investment Promotion from 25 October 1978 to 16 January 1979, No Year".

<sup>24</sup>Matsushita Electric Co Ltd (MECOM) is a partnership company between Matsushita Group of Companies and local public. Matsushita Group of Companies holds a stake of 43 percent, while local public owned 52 percent. Owned by local civilians, *Tabung Haji* and Military Cooperative, are the initial partner who then sell their holdings. Holdings balance of 5 percent is owned by Western firm, Hegemeyer Trading Co, which acts as a distribution agent for Matsushita product before Matsushita Sales and Services Sdn Bhd Company was established. Matsushita Group of Companies enjoys pioneer status incentive for five years. Only 10 percent of the group



in September 1965 in Shah Alam Industrial Area, Selangor.<sup>25</sup> Its products are electrical appliances, such as colour television, fridge, washing machine, electric fan, rice cooker, radio, and others (Akita, 1988:24).

The second company was Matsushita Electronic Components (M) Sdn Bhd (MECOM) established in December 1972 in Sungai Way Free Industrial Area, Selangor. Its products are components, such as resistor, electrolytic capacitor, socket, remote control, and tuner (*ibidem* with footnote 25). The company exports its products to Japan and the United States and is expected to bring revenues more than RM 1 million by the end of 1973 (Johari ed., 1977:421-422).

The third company was Matsushita Industrial Corporation Sdn Bhd (MAICO), established in April 1972 in Sungai Way Free Industrial Area, Selangor. Its products are air conditioning and air conditioning components (*ibidem* with footnote 25). MAICO already exporting air conditioning to about 30 countries, such as Japan, Europe, Central America, Australia, Middle East, and neighbouring countries nearby. 75 percent of MAICO's production namely a total of 10 thousand units per month are exported abroad. Most of air conditioning components, such as compressor, motor, and condenser are made at the factory itself which shows the level of technical efficiency and local workers skill that has risen high (Johari ed., 1977:421).

The fourth company was MELCOM Industries Sdn Bhd, a company that produces iron products, aluminium, and heating element parts. The fifth company was Matsushita Sales and Service Sdn Bhd (MASCO), which was established in March 1976 in Petaling Jaya, Selangor. It is responsible for

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products are allocated for export and it consists of an electric iron. These exports are for Southeast Asian, the Middle East, and African markets.

<sup>25</sup>See file on "Risalah MAICO: Looking Back, Malaysia, Matsushita Air-Conditioning Group, 1998", p.3.

the sales and services for MELCOM and also imported products. The sixth company was Matsushita Precision Industrial Co (M) Sdn Bhd (MPI), established in September 1978 in Senai Industrial Area, Johor. Its products are facsimile machine, telephone "deck", and magnetic heads for the computer (*ibidem* with footnote 25). The number of workers in four companies only totaled more than 2 thousand person. As a whole, this group is comparable to several non-Japanese business enterprise that are larger in Malaysia.

Matsushita Group of Companies also announced that it will set up a factory worth of RM 10 million in Senai, Johor, for the production of precision electronic components for colour television and the computer (*New Straits Times*, 5/12/1978). At the same time, it also announced plans to increase investment and manufacturing activities in Malaysia by increasing capital investment from RM 80 million to RM 120 million at the beginning of the 1980s. In recognition of the Matsushita Group of Companies efforts in increasing its investment and strengthen trade relations between Japan and Malaysia, the government has given title to the founder of Matsushita Electric Industrial Co Ltd in Japan, Matsushita Konosuke (Anonymous, 1986).

In 1979, Rokko-Misawa Company Ltd has shown interest in the prefabricated houses project in Johor Bahru.<sup>26</sup> Yung Kong Galvanising Industries Berhad was incorporated in Klang, Selangor. Its paid up capital was amounted to RM 108.6 million and total investment amounted to RM 150 million. It is a joint venture between Japanese and locals, with Japan holding interest a total of 26.5 percent. The company was involved in

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<sup>26</sup>See letter entitled "Investment Promotion Mission to Japan, October/November 1978, Dated 23 January 1979" in file on "Lembaga Kemajuan Perindustrian Malaysia (MIDA), No.8000/30-1: Follow Up, Malaysian Investment Mission to Japan 1978 - Malaysian Investment Promotion from 28 November 1978 to 4 January 1979, No Year", pp.1-3.

the steel product and fabrication steel industry through the production of steel types. Its product release was 95 percent for the domestic market and 5 percent for the export market.

Hong Leong Yamaha Motors Sdn Bhd is established in Sungai Buloh, Selangor. Its paid up capital was amounted to RM 25 million. It is a joint venture between Japanese and locals, with Japan holding the interest of 30.6 percent. The company is involved in the transport equipment industry through manufacturing and distribution of motorcycle and its components. Its product release is 99 percent for the domestic market and 1 percent for the export market. Fujitec (M) Sdn Bhd is established in Petaling Jaya, Selangor. It is involved in the machinery and equipment industry by becoming a supplier and contractor for elevator and escalator.<sup>27</sup>

Since 1970, Japanese capital is the largest source of foreign investment in Malaysia with capital amounted to RM 155 million or a total of 30.5 percent from the total of new investments amounted to RM 508.3 million in pioneer companies between 1970 to 1976. The end of 1976 shows Japanese investment in approved production projects from the manufacturing sector amounted to RM 434.7 million, covering a total of 27.4 percent from the total foreign investment in approved manufacturing projects. By the end of June 1978, there were a total of 214 approved Japanese related companies. This makes Japan as the lead investors in the manufacturing sector in Malaysia. In the non-manufacturing sector, there were 40 Japanese joint venture company in the sectors of mining, finance, construction, and other services.<sup>28</sup>

At the end of the 1970s, Japanese investment in Malaysia seen focuses on textile and electronics sectors (Peng Lim & Poh Ping, 1979:19 and 22). Since most of the Japanese firms not involved in heavy industries or using high technology, they are involved in import substitution sector. The textile industry still predecessor in terms of investment amount, followed by electrical and electronics and wood. In terms of projects number, wood industry are leading, followed by electrical and electronics, textile, and chemical product (Ali Hasan, 1996:8).

Japanese firms investment in the import substitution and export-oriented sector is a reflection of dualistic industrial strategy (Anazawa, 1994:82). The number of Japanese workers in Malaysia's manufacturing sector at the end of 1978 is a total of 216 thousand person. In December 1978, Japanese investment in approved projects in the manufacturing sector amounted to RM 648.8 million, accounted for 25 percent from the total amount (Kok Aun, 1982:36). Japanese financial credit in great numbers to Malaysia also helped to finance development projects in Malaysia at the moment.<sup>29</sup>

Japan's largest partnership was established in Malaysia in 1979, between Malaysian National Petroleum Corporation (PETRONAS), Mitsubishi Corporation, and Shell Gas (the Netherlands), with a paid-up capital of RM 2.25 billion (Peng Lim & Poh Ping, 1979:26). PETRONAS has a 65 percent equity, while the rest is split equally between the two foreign partners. By April 1979, a total of 218 projects with Japanese interests were approved and approximately 146 projects have been commenced operations in Peninsular Malaysia. The principal activities

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<sup>27</sup>Data obtained from the SSIC (Selangor State Investment Centre).

<sup>28</sup>See letter entitled "Japanese Investment in Malaysia" in file on "Lembaga Kemajuan Perindustrian Malaysia (MIDA), No.8000/30, Jld.II: Malaysian Investment Mission to Japan 1978 - Malaysian

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Investment Promotion from 25 October 1978 to 16 January 1979, No Year", pp.2-3.

<sup>29</sup>See news entitled "Malaysian Industrial Development Authority" in *Malaysia Industrial Digest*, 13 (Kuala Lumpur: Malaysian Industrial Development Authority, 1980), p.2.

of Japanese companies was in the production of textile and textile product, transport equipment, electrical and electronics, food manufacturing, basic metal, and others.<sup>30</sup>

By the end of 1979, there were 254 Japanese enterprise in Peninsular Malaysia which involve the industry of manufacturing, mining, trade, finance, insurance, and construction companies, including 20 affiliated companies (Kok Aun, 1982:36). From this 254 enterprises, 146 are classified in manufacturing industries (Loy Mui, 1997/1998:60). In East Malaysia, there are 51 Japanese related companies, with 9 of them engaged in manufacturing industries (Kok Aun, 1982:37). Due to historical factors, Singapore and British have become the most important source of foreign investment for the manufacturing sector in Malaysia. But, Japan's role increased significantly towards the end of 1979, to replace Singapore as the largest investor in Malaysia (Kok Aun, 1982:37). Its total investment valued at RM 243.1 million compared to Singapore with the values of RM 215.9 million (Peng Lim, 1987:115).

In 1980, Fujitsu Component (Malaysia) Sdn Bhd established a factory worth RM 100 million to produce electromagnetic relay, connector, and keyboard computer in Parit Raja, Batu Pahat (Anonymous, 1989:4). Fujitsu has also opened a factory in Shah Alam in the same year with the name Fujitsu Takamisawa Component (Paranisamy, 1998/1999:53). On 15 March 1980, Asian NDK Crystal Sdn Bhd's factory in Sungai Way Free Trade Area was officially opened.<sup>31</sup> On 17 May 1980,

Hitachi Consumer Product (M) Sdn Bhd was established in Bangi Industrial Area, Selangor. The total investment amounted to RM 17.6 million. It is a joint venture between Japanese and locals, with Japan holding the interest of 89.3 percent. The company is involved in the electrical and electronics industry through the production of electrical and electronics components.<sup>32</sup>

The same year also saw Daihatsu (Malaysia) Sdn Bhd established in Shah Alam, Selangor. It is a joint venture between Japanese and locals, with Japan holding a stake of 28.5 percent and *Bumiputera* a total of 71.5 percent. The company is involved in the transport equipment industry by becoming the sole distributor for Daihatsu vehicles and its spare parts. Buncho (M) Sdn Bhd is established in Klang, Selangor. The company was involved in the industry of paper, printing, and publication through the production of poster and watercolour (*ibidem* with footnote 32). By the 1980s, Honda, Yamaha, Toyota, Suzuki, Mazda, Matsushita, Toshiba, Hitachi, Sony, and other Japanese manufacturing giants have set up their plants in Malaysia (Kok Aun, 1982:36).

By 1980, Japanese total equity stake is the second highest compared to other foreign countries in approved projects in Malaysia. Only Singapore recorded the number of approved projects, employment opportunities, and higher equity capital from Japan (Ariff Hussain, 2011:145). During the period 1971-1980, Japanese joint venture was established in Malaysia in manufacturing, agriculture, fisheries and forestry, banking, trading, construction, mining, warehousing, real estate, services, and transport sectors (Kok Aun, 1982:233-248; and Denker, 1994:55).

<sup>30</sup>File on "Lembaga Kemajuan Perindustrian Malaysia, No.PPJ 534 SK, 47: Malaysia-Japan Economic Association/Japan-Malaysia Economic Association (MAJECA/JAMECA), No Year". For more information about the list of companies in Peninsular Malaysia with Japanese interests by April 1979, kindly see table entitled "Malaysian Companies with Japanese Interests as at April 1979" in *ibidem*, pp.1-27.

<sup>31</sup>See file on "Jabatan Penerangan Malaysia, No.G.16399: Kilang Syarikat Asian Ndk Crystal Sdn

Bhd, Pembukaan, Datuk Seri Dr. Mahathir Mohamad Mendengar Penerangan oleh Pengerusi Syarikat, Kuala Lumpur, 15.3.1980, Photo".

<sup>32</sup>Data obtained from the SSIC (Selangor State Investment Centre).

There are several factors which are seen to contribute to the inclusion of Japanese investment in Malaysia during the period of Tun Abdul Razak and Tun Hussein Onn administration. Since the beginning of the 1970s, government policies have been setting to attract more Japanese investors (Denker, 1990:447). For example, the introduction of Free Trade Zones (FTZs), and special incentives for electronics industry and other labour-intensive industry, have created good conditions for export-oriented firms (Anazawa, 1994:81; and Yusof, 2011:55). In addition the establishment of MAJECA (Malaysia-Japan Economic Association) in Malaysia, cheap labour supply, a more complete infrastructure construction in Malaysia, the benefit of joint venture between Japanese investors and local entrepreneurs as well as the important role of Japanese bank branches and Japanese insurance companies based in Malaysia also helps Japanese investment expansion at this time.

There are also several push factors which are seen to contribute to the inclusion of Japanese investment in Malaysia during the period of Tun Abdul Razak and Tun Hussein Onn administration. Among them are Japanese recognition towards ASEAN (Association of South East Asian Nations) which creates Fukuda Doctrine, the increases problem of production costs in Japan due to salary increases and Japanese Yen increasing value in 1971, the role of Tanaka plan in helping Japanese not important industry to other countries (Wee Meng, 1975:45), the problem of the oil crisis in 1973-1974 that has speed up Japanese investments abroad as its dependence towards other countries for industrial inputs and agricultural commodities, the increasing of land values in Japan, the establishment of JAMECA (Japan-Malaysia Economic Association) in Japan and the establishment of

JOEA (Japan Overseas Enterprises Association) in Japan in 1974.

### **THE CHARACTERISTICS OF JAPANESE INVESTMENT, 1971-1980**

All Japanese full ownership firms are involved in the manufacturing sector. The rest is through a joint venture with local investors. An increase in the formation of Japanese joint venture in Malaysia is expected to grow<sup>33</sup> in the best interests of both parties firms from foreign economic domination and give national features on foreign investment, in line with the policy of the Malaysian economy. Although the government welcomes foreign investment, it has already stated policy to reduce foreign ownership equity in the locally corporate sector. Both of these factors led to the selection of Japanese joint venture compared to full ownership that will continue to be a dominant characteristic of Japanese investment in Malaysia.

There are only a few changes in the ownership structure of Japanese firms in Malaysia at this time for accommodating the government's policy to increase *Bumiputera* (sons of the earth or Malay citizen) equity (Peng Lim & Poh Ping, 1979:22). Japanese firms in Malaysia at present is generally small in size, especially in terms of employment (Saravanamuttu, 1988:21). The majority of Japanese firms has a paid-up capital of at least RM (*Ringgit Malaysia*) 1 million, while less than 20% of Japanese firms has a paid-up capital of less than RM 250 thousand (Peng Lim & Poh Ping, 1979:16 and 21).

The majority of Japanese firms with low paid-up capital involved in trading and services activities (Saravanamuttu, 1988:21). Although there is an increase in the size of Japanese firms in Malaysia since 1972, according to the international standard Japanese firms in Malaysia, is still trivial not

<sup>33</sup>Japan is also interested in doing joint venture in other countries. For more information, kindly see L. Siahaan (1978:55).

only in terms of employment but also in terms of paid-up capital.<sup>34</sup> This could be because most of Japanese firms in Malaysia are not involved in heavy industries or using advanced technology. Their involvement in the import substitution industry focused on the electronic and textile sectors (Peng Lim & Poh Ping, 1979:15).

Japanese manufacturing firms in Malaysia usually produce product only for the local market (Hirono, 1974:17). Exports to Japan made by firms in the electrical and electronics, textiles, and wood industries (Peng Lim & Poh Ping, 1979:24). Most of the exports of Japanese firms in Malaysia are to Asian markets and the West, especially the USA (United States of America) and Europe. Japanese manufacturing firms in Malaysia are selling to the domestic market through a local distributor, but then there is a tendency for some major firms to set up their own subsidiaries for this purpose.

In terms of concentration, Japanese firms in Malaysia focused in the electronic and textile sectors.<sup>35</sup> This is because the market demand for these products are quite large, although Malaysia's income levels were low at the time. In addition, the production of Japanese electronic and textile sectors are among the most advanced in the world and can produce cheaper goods from the USA and Europe. The establishment of electronic and textile firms after 1968 also showing that export orientation policy affected Japanese investment in Malaysia (Saravanamuttu, 1988:24).

<sup>34</sup>Japanese overseas small sized firms has been stated in several studies. See, for example, DoS Malaysia (1973:1); K. Yoshihara (1973:13); K. Yoshihara (1976:57); M.Y. Yoshino (1976:68); and Yoshi Tsurumi (1976:78). Although Japanese firms look small in terms of paid-up capital in accordance with international standards, their paid-up capital is great by local standards, where the average investment in the manufacturing sector was RM (*Ringgit Malaysia*) 200 thousand.

<sup>35</sup>See, for further information, K. Yoshihara (1976:53). Japanese firms also focus on these two industries in Singapore.

Japanese firms in the electronics and manufacturing sectors have different motives for investing in Malaysia. Concern over the protection of tariffs, that could exclude them from the local market, has been the main motive for firms in the electrical and electronics industry (Wee Meng, 1975:44). The success of their operations in other countries being the main motive for Japanese manufacturing firms to invest in Malaysia. The upgrading of resource extraction either through the establishment of local branches to export raw materials or resource-based industries that use raw materials are also becomes a motive to invest in Malaysia. In addition to specific motifs, Malaysia's political and economic stability is also considered very important (Peng Lim & Poh Ping, 1979:9-11).

**About the Sogo Shosha Investment, 1971-1980.** All Sogo Shosha involved in Malaysia during this period. In addition to the activities of import and export of various commodities, Mitsubishi is also active in the development of local resources, including oil and gas. Mitsubishi is a partner project of Malaysia's largest liquefied natural gas in Bintulu, Sarawak. Mitsubishi's investment in Malaysia is in the field of printing and packaging, steel and iron manufacturing, mining, musical instruments manufacturing, plywood, electrical products, and wood-based products (Kok Aun, 1982:70). As far as the 1980s, Mitsubishi has the largest number of joint ventures in Malaysia. Its joint-venture companies involved in a variety of areas such as the manufacture of iron and steel, textile, electrical products, the production of vehicles, machinery, agricultural, and chemical products (Kok Aun, 1982:76).

C. Itoh is involved actively in the trade sector and promote joint venture in the manufacturing sector (Kok Aun, 1982:80). Marubeni is also involved in a joint venture of manufacturing and agriculture sectors (Kok Aun,

1982:83). Sumimoto participates in the development and promotion of local manufacturing industries involving wood, rubber, and other agro-based industries (Kok Aun, 1982:86). Nissho Iwai is involved in the trading sector in Malaysia. With four of its offices in East Malaysia, it was involved in the export of timber. Toyo Menka is involved in a joint venture of Malaysian Sheet Glass Sdn Bhd (*Sendirian Berhad*), which is the largest glass manufacturer in Malaysia (Kok Aun, 1982:88). Nichimen's affiliated companies in Malaysia until the 1980s involved in the manufacture of PVC resin, PVC pipe, wooden furniture, diesel engine, and agricultural equipment (Kok Aun, 1982:92). Kanematsu-Gosho is involved in a joint venture of manufacturing and timber sectors (Kok Aun, 1982:91).

To facilitate Japanese firms and Sogo Shosha investment activities, Japanese banks that have offices in Malaysia are Bank of Tokyo, Mitsui Bank, Sanwa Bank, Industrial Bank of Japan, Dai-ichi Kangyo Bank, and Tokai Bank. Japan also has an equity stake in local banks, Amanah-Chase Merchant Bank Ltd (Mitsubishi Bank holding 9 percent); ASEAN-Bankers Malaysia Bhd (Dai-ichi Kangyo Bank holding 5.5 percent); Asian International Merchant Bankers Bhd (Fuji Bank holding 15 percent); *Bumiputra* Merchant Bankers Bhd (Bank of Tokyo holding 7.5 percent); D & C Nomura Merchant Bank Bhd (Nomura Securities Co Ltd holding 30 percent, Mitsui Ltd Bank holding 10 percent); UDA Merchant Bank Bhd (Industrial Bank of Japan holding 10 percent); and Pertanian Baring Sanwa Multinational Berhad (Bank Sanwa Bank holding 16 percent).

In order to reduce business risks, Japan also holds interests in insurance companies in Malaysia. Insurance companies with Japanese holdings in Malaysia are Jerneh Insurance Corp Sdn Bhd; Malaysia & Nippon Insurance Bhd; Sumimoto Marine & Fire Insurance

Co Ltd; Taisho Marine & Fire Insurance (M) Sdn Bhd; The Tokio Marine & Fire Insurance Co Ltd; and Yasuda Fire & Marine Insurance Co Ltd (Kok Aun, 1982:114-116; and Yoke Sun, 1990).

## **CONCLUSION**

After 1970, Japanese investors start investing through a joint venture with the government organizations such as PERNAS (*Perbadanan Nasional*) Bhd (*Berhad*); MARA (*Majlis Amanah Rakyat*), and FELDA (the Federal Land Development Authority). This is in line the NEP (New Economic Policy) that emphasizes the involvement of *Bumiputera* (sons of the earth or Malay citizen). These agencies represent the *Bumiputera* participation. Japanese investment during this period was in the labour-intensive industry that takes cheap labour, processing of raw materials, and trade-related investment. Since most of Japanese firms not involved in heavy industries or using high technology, they are involved in the import substitution sector.

By the end of 1979, there were 254 Japanese enterprises in Peninsular Malaysia which involve the industry of manufacturing, mining, trade, finance, insurance, and construction companies, including 20 affiliated companies. From this 254 enterprises, 146 are classified in manufacturing industries. In East Malaysia, there are 51 Japanese related companies, with 9 of them engaged in manufacturing industries. During the period 1970-1980, Japanese joint ventures was established in Malaysia in the manufacturing, agriculture, fisheries and forestry, banking, trading, construction, mining, warehousing, real estate, services, and transport sectors.

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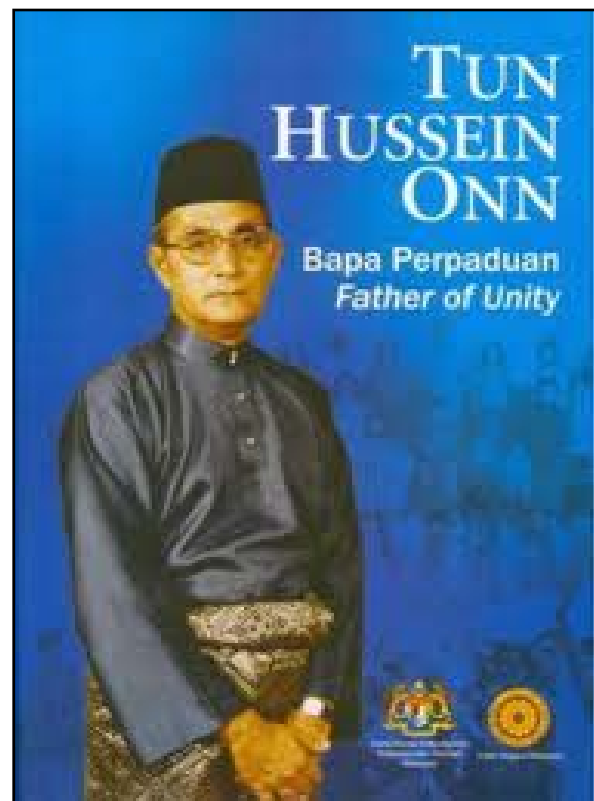
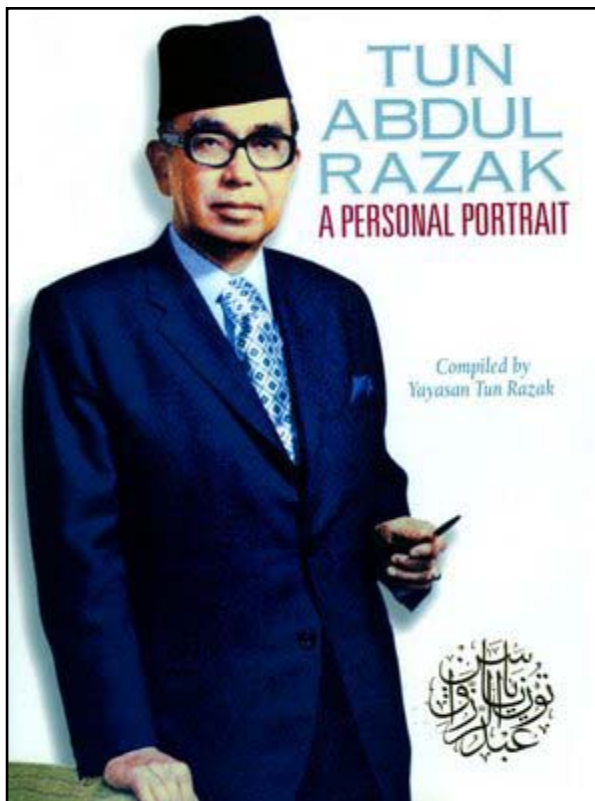
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**Tun Abdul Razak and Tun Hussein Onn: The Prime Ministers of Malaysia**

(Source: [www.google.com](http://www.google.com), 31/8/2014)

There are several factors which are seen to contribute to the inclusion of Japanese investment in Malaysia during the period of Tun Abdul Razak and Tun Hussein Onn administration. Since the beginning of the 1970s, government policies have been setting to attract more Japanese investors. For example, the introduction of Free Trade Zones (FTZs), and special incentives for electronics industry and other labour-intensive industry, have created good conditions for export-oriented firms.