

# ISIS FOCUS



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INSTITUTE OF STRATEGIC AND INTERNATIONAL STUDIES (ISIS) MALAYSIA  
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## ABOUT ISIS MALAYSIA

The Institute of Strategic and International Studies (ISIS) Malaysia was established on 8 April 1983, in realization of a decision made by the Malaysian Government to set up an autonomous, not-for-profit research organization that would act as the nation's think-tank. ISIS Malaysia was envisioned to contribute towards sound public policy formulation and discourse.

The research mandate of ISIS therefore spans a wide area. It includes economics, foreign policy and security studies, social policy, and technology, innovation, environment and sustainability.

ISIS Malaysia today fosters dialogue and promotes the exchange of views and opinions at both national and international levels. It undertakes research in collaboration with national and international organizations, in important areas such as national development and international affairs.

ISIS Malaysia also engages actively in Track Two diplomacy, fostering high-level dialogues at national, bilateral and regional levels, through discussions with influential policymakers and thought leaders.

## RESEARCH

### Economics

Research in this area is generally aimed at promoting rapid and sustained economic growth and equitable development in the nation. We study specific (rather than generic) issues that concern the nation's competitiveness, productivity, growth and income. Areas of research include macroeconomic policy, trade and investment, banking and finance, industrial and infrastructure development and human capital and labour market development. The objective of all our research is to develop actionable policies and to spur institutional change.

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The primary aim of this programme is to provide relevant policy analyses on matters pertaining to Malaysia's strategic interests as well as regional and international issues, with a focus on the Asia-Pacific Region. These include security studies, foreign policy, Southeast Asian politics and military affairs.

## Social policy

Demographic and socio-cultural trends are changing Malaysian society and the social policy programme was established to respond to these developments. Research in this area is concerned with effective nation building, and fostering greater national unity. In particular, we look at issues involving the youth, women and underprivileged communities. In conducting its research, ISIS Malaysia networks with non-governmental organizations and civil society groups.

## Technology, Innovation, Environment & Sustainability (TIES)

The TIES programme provides strategic foresight, collaborative research and policy advice to the public sector, businesses and policy audiences, on technology, innovation, environment and sustainable development. Its focus includes green growth as well as energy, water and food security. Towards this end, TIES has been active in organizing dialogues, forums, policy briefs and consultancies.

## HIGHLIGHTS

ISIS Malaysia has, among others, researched and provided concrete policy recommendations for:

- Greater empowerment and revitalization of a national investment promotion agency;
- A strategic plan of action to capitalize on the rapid growth and development of a vibrant Southeast Asian emerging economy;
- A Master Plan to move the Malaysian economy towards knowledge-based sources of output growth;
- The conceptualization of a national vision statement;
- Effective management and right-sizing of the public sector; and
- Strengthening of ASEAN institutions and co-operation processes.

ISIS Malaysia has organized the highly regarded Asia-Pacific Roundtable, an annual conference of high-level security policymakers, implementers and thinkers, since 1986.

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As a member of the Track Two community, ISIS Malaysia participates in the following networks:

- ASEAN-ISIS network of policy research institutes;
- Council for Security and Cooperation in Asia and the Pacific (CSCAP);
- Network of East Asian Think Tanks (NEAT); and
- Pacific Economic Cooperation Council (PECC).

It is also a partner institute of the World Economic Forum (WEF).

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# A Look at the post-March 11 Impact on Japanese Investment Trends in Malaysia

By  
**Zarina Zainuddin**  
*Analyst, ISIS Malaysia*

**A**dd 11 March 2011 to the list of dates to remember in Japan. On that day, an underwater earthquake of magnitude 9 struck the Tohoku coast of Japan, causing a massive tsunami to sweep inland and, tragically, to trigger the meltdown of the nuclear plant in Fukushima. During the three-fold disaster, about 19,000 Japanese lost their lives, nearly 27,000 were injured, and over 1.07 million buildings damaged across the 20 affected prefectures. It was one of the most devastating disasters in Japan's history.

Japanese industries were not spared either; the impact of March 11 was felt through disruption in production, particularly in the

automotive industry. The disaster struck the factories in the area producing parts and components. The massive flooding in Thailand a few months later, which affected the Japanese parts and components factories in the country, made the situation worse. Scarcity in production input affected the global production of some Japanese companies such as Toyota.

The economic costs of the damage ranged from US\$200-300 billion, while losses in insured property were estimated to be about US\$35 billion, making the disaster one of the most expensive in recent history. All these highlight the need for diversification in production location. There is a growing trend of Japanese companies

**Projects Approved by Major Country, 2012 and 2011 in Ringgit Malaysia (RM)**

Country	2012		2011	
	No.	Foreign Investment (RM)	No.	Foreign Investment (RM)
Japan	62	2,792,900,107	77	10,101,843,184
Saudi Arabia	2	2,648,021,433	1	2,170,930,000
Singapore	109	2,214,565,561	88	2,477,713,827
China	23	1,977,802,063	20	1,194,224,823
Korea, Rep.	17	1,636,972,599	10	5,185,122,961
France	7	1,436,231,317	5	177,455,180
Norway	2	1,141,520,001	1	7,800,000

Source: MIDA

**Projects Approved by Major Country, 2012 and 2011 in US Dollar (USD)**

Country	2012		2011	
	No.	Foreign Investment (USD)	No.	Foreign Investment (USD)
Japan	62	912,712,453	77	3,186,701,320
Saudi Arabia	2	865,366,481	1	684,835,962
Singapore	109	723,714,236	88	781,613,195
China	23	646,340,543	20	376,727,074
Korea, Rep.	17	534,958,366	10	1,635,685,477
France	7	469,356,640	5	55,979,552
Norway	2	373,045,752	1	2,460,568

2012 : US\$1 = RM3.06

2011 : US\$1 = RM3.17

Source: MIDA

seeking 'low-risk or disaster-free areas' to locate their production bases. 'Disaster-free area' has become an important criterion for foreign direct investments (FDI).

Another result of the disaster was a shortage in energy. Nuclear energy makes up close to 30 per cent of Japan's energy needs. The nuclear plant disaster in Fukushima forced the Japanese government to close the remaining 54 nuclear plants, in stages, for safety inspections. The backlash against the use of nuclear power, coupled with safety checks required by new safety regulations, make it unlikely that nuclear power will regain its importance as a source of energy in Japan. Currently only two nuclear reactors, both located at Fukui prefecture, are fully operational.

Japan looks to natural gas from its traditional suppliers such as Indonesia, Malaysia and Australia, besides new sources, to make up for the shortfall in its energy supply. However, the nature of the natural gas industry is such that it does not allow for a fast and easily available energy supply.

There is a lot of discussion in Japan on how to make up for the shortfall and also particularly, discussion on new alternative sources of energy. Unfortunately at the current level of technology, these alternative power sources are more costly to produce per unit. Japanese industries are especially worried about the prospect of higher priced, potentially unstable sources of energy. The energy shortage has therefore given another impetus to Japanese

companies to relocate production to places with abundant, reliable and cheaper electricity supply.

After a challenging 2011, many Japanese companies are looking to improve profits and gain better returns on investments. Given Japan's lethargic economic growth, the opportunities at home are limited. Western countries are in worse shape; Europe, and to lesser degree the US are still feeling the after-effects of the economic meltdown of 2008. The euro and the US dollar weakened vis a vis the yen, the remaining major international currency. A stonger yen makes it more expensive to produce goods at home. It also makes overseas assets cheaper to purchase and helps in spurring mergers and acquisitions (M&A) activities by Japanese companies.

### **Malaysia's Response**

Malaysia's Ministry of International Trade and Industry (MITI) and the Malaysia Industrial Development Agency (MIDA) were fairly quick to seize the opportunity presented in Japan. MITI and MIDA investment promotion tours visited Japan numerous times in 2011 and 2012. Their aim was to raise Malaysia's profile, to brief potential investors on the opportunities available in Malaysia, as well as highlight desirable features such as a disaster-free location with abundant resources, including energy and water. In 2011, Japanese investments to Malaysia hit a record high RM10.1 billion. However, in 2012 Japanese FDI dropped to RM 2.8 billion, in line with the global trend that year of depressed investment outflows.

As of December 2012, total Japanese FDI in Malaysia reached RM 67.98 billion, invested in 2,451 manufacturing projects, and creating 325,107 jobs, making Japan the largest investor in the country. Listed among the investors are Panasonic Energy, Sony EMCS, Kaneka Paste Polymer and Japan Silicon Malaysia Sdn Bhd. Investments in manufacturing sectors include electronic & electrical products (E&E), non-metallic metals, basic metals, petroleum products, chemicals, and auto vehicles industries. There has

also been an increase in M&A activity by Japanese companies in Malaysia since 2011. The focus of Japanese M&A is no longer E&E but logistics, finance, healthcare, and consumer as well as heavy industries, as Malaysia offers a better deal on energy and logistics costs.

Trends indicate that Japanese companies are prepared to pay more to gain greater control of Malaysian companies that have had previous dealings and trade with Japan or Japanese companies. Initially, Japanese M&A activities were driven by the high yen which made overseas assets cheaper. M&A activities in the West, concentrate on technology companies, while in Asia the focus is on the need for higher returns, and demand growth. Also, March 11 drove home the point on the need to diversify activities offshore.

### **M&A Activities of Selected Japanese Companies in Malaysia, 2011-13**

Asahi Group Holdings bought Pemanis Sdn Bhd (from CI Holdings) a soft drink company and also bottler for PepsiCo Inc for RM820 million in 2011.

In 2011, Proto Corp bought Malaysian publisher of Motor Trader and Autocar ASEAN for RM 109.7 million.

Mitsui & Co took a 30 per cent stake in Khazanah's Integrated Healthcare for RM3.3 billion in 2011.

In the same year, Oji Paper launched a RM 258 million take over HPI Resources (packaging) and acquired 97 per cent share of HPI .

In 2012, Hitachi took over EBworx Berhad, financial IT Solution Company for RM 173.9 million.

In 2013, JAPEX bought a ten per cent stake in Petronas' Progres Energy, a new subsidiary in Canada engaging in a shale gas project, for C\$1.1 billion.

TOP 10 PARTICIPATING COUNTRIES FROM 2002 - NOVEMBER 2012  
MALAYSIA MY SECOND HOME (MM2H) PROGRAMME

NO.	COUNTRY OF NATIONALITY	YEAR												TOTAL (2002 - NOVEMBER 2012)	SHARE (%)
		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 (JAN-NOV)			
1	People's Republic of China	241	521	488	502	242	90	120	114	154	405	705	3,552	17.6	
2	People's Republic of Bangladesh	0	32	204	852	341	149	68	86	74	278	384	2,456	12.1	
3	Japan	49	89	42	87	157	198	210	169	185	423	781	2,410	11.9	
4	United Kingdom of Great Britain and Northern Ireland	108	159	210	199	209	240	208	162	141	153	124	1,913	9.4	
5	Islamic Republic of Iran	0	2	8	7	9	59	227	212	227	296	201	1,238	6.1	
6	Republic of Singapore	96	143	91	82	94	58	48	61	73	78	78	883	4.3	
7	Taiwan	38	85	140	186	63	31	16	36	49	70	79	803	4.0	
8	Islamic Republic of Pakistan	9	55	82	104	36	31	65	103	77	136	99	797	3.9	
9	Republic of Korea	5	12	66	80	65	152	86	54	49	64	83	696	3.4	
10	Republic of India	45	123	118	80	51	46	32	35	51	50	56	687	3.4	
11	Others	227	404	488	478	462	449	432	546	409	446	534	4,873	24.0	
<b>TOTAL</b>		<b>818</b>	<b>1,645</b>	<b>1,917</b>	<b>2,615</b>	<b>1,729</b>	<b>1,303</b>	<b>1,512</b>	<b>1,578</b>	<b>1,499</b>	<b>2,387</b>	<b>3,125</b>	<b>20,528</b>	<b>100.0</b>	

TOP 10 PARTICIPATING COUNTRIES FROM JANUARY - DECEMBER 2011  
MALAYSIA MY SECOND HOME (MM2H) PROGRAMME

NO.	COUNTRY OF NATIONALITY	MONTH / 2011												TOTAL (JAN - DEC 2011)	SHARE (%)
		JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC		
1	Japan	16	33	14	37	16	25	38	31	64	32	45	72	423	17.7
2	People's Republic of China	15	47	8	22	17	24	38	30	40	40	39	85	405	17.0
3	Islamic Republic of Iran	22	38	20	23	9	16	15	18	17	44	14	40	286	12.0
4	People's Republic of Bangladesh	22	28	11	26	15	14	30	15	29	31	14	41	276	11.6
5	United Kingdom of Great Britain and Northern Ireland	14	24	11	12	2	6	15	8	21	5	8	27	153	6.4
6	Islamic Republic of Pakistan	8	12	4	8	9	4	9	3	12	22	11	34	136	5.7
7	Republic of Singapore	4	5	6	9	5	6	4	4	14	6	4	11	78	3.3
8	Commonwealth of Australia	12	7	2	12	1	4	4	2	8	7	4	11	74	3.1
9	Taiwan	4	3	1	9	1	2	2	7	11	10	12	70	2.9	
10	Republic of Korea	4	6	7	2	2	7	7	3	3	6	5	12	64	2.7
11	Others	34	28	18	48	18	34	27	32	51	35	43	53	422	17.7
<b>TOTAL</b>		<b>167</b>	<b>231</b>	<b>102</b>	<b>209</b>	<b>95</b>	<b>142</b>	<b>189</b>	<b>151</b>	<b>210</b>	<b>236</b>	<b>197</b>	<b>398</b>	<b>2,387</b>	<b>100.0</b>

TOP 10 PARTICIPATING COUNTRIES FROM JANUARY - NOVEMBER 2012  
MALAYSIA MY SECOND HOME (MM2H) PROGRAMME

NO.	COUNTRY OF NATIONALITY	MONTH / 2012												TOTAL (JAN - NOV 2012)	SHARE (%)
		JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC		
1	Japan	42	83	98	49	47	69	65	104	89	84	70	0	781	25.0
2	People's Republic of China	35	33	70	41	56	91	79	70	83	100	47	0	705	22.6
3	People's Republic of Bangladesh	21	52	50	24	34	54	53	37	23	31	5	0	384	12.3
4	Islamic Republic of Iran	28	41	41	11	13	15	16	9	13	13	1	0	201	6.4
5	United Kingdom of Great Britain and Northern Ireland	8	15	20	9	17	7	14	10	17	7	0	0	124	4.0
6	Islamic Republic of Pakistan	4	16	8	3	13	9	10	10	11	14	1	0	99	3.1
7	Commonwealth of Australia	9	7	16	5	10	10	6	12	12	6	2	0	95	3.0
8	Republic of Korea	6	7	11	8	8	7	3	4	13	13	3	0	83	2.7
9	Republic of Singapore	4	7	5	3	8	13	3	10	11	10	5	0	79	2.5
10	Taiwan	5	9	8	3	5	7	4	7	11	13	7	0	79	2.5
11	Others	22	32	73	36	31	64	37	55	58	47	40	0	495	15.8
<b>TOTAL</b>		<b>184</b>	<b>302</b>	<b>401</b>	<b>192</b>	<b>242</b>	<b>346</b>	<b>290</b>	<b>328</b>	<b>321</b>	<b>338</b>	<b>181</b>	<b>0</b>	<b>3,125</b>	<b>99.9</b>

Source: Malaysia My Second Home Programme, Ministry of Tourism, Malaysia

There has been a hike in property investment from the Japanese as well as their increased involvement in real estate development in Malaysia. These are as a direct result of Japanese moving out to live outside Japan. The Malaysia My Second Home (MM2H) programme has seen a jump in the number of Japanese participants, particularly since 2011. Japanese participants ranked number one in the last two years. For many, the weariness due to the March 11 disaster and the prospect of further natural disasters are major reasons for the move. Other reasons include the warm climate and the cheaper cost of living in Malaysia.

Another emerging trend is that of Japanese families and younger Japanese moving to Malaysia and purchasing property here. While safety concerns are ranked as one of the reasons for such a move, these groups also seek better business opportunities, better English education, as well as exposure to a multi-cultural society.

As a result, a number of projects related to real estate development have come on line. Most of these are joint ventures with local companies and are currently at various stages of development. Most notable is the development of a 'little Tokyo' in Johor, which could, upon full completion, see 10,000 Japanese relocate there.

There is also increased investment activity from the Japanese service sectors, while Japanese banks, insurance companies and retailers are also expanding their operations into Malaysia. Aside

*...these groups also seek better business opportunities, better English education, as well as exposure to a multi-cultural society*

*Aside from better business opportunities and growth, Malaysia allows Japanese companies to engage in new market areas such as Islamic finance and halal industries*

from better business opportunities and growth, Malaysia allows Japanese companies to engage in new market areas such as Islamic finance and halal industries. In 2011, two more commercial banks, Sumitomo Mitsui and Mizuho, joined Tokyo Mitsubishi which was hitherto the sole representative of Japanese banks in Malaysia. Japanese retailers and specialty shops such as Muji, Daisho, Unigo, and Kamugi have also begun operating in Malaysia. Such establishments add diversity to the country and increase Malaysia's attractiveness as a destination.

### **The Bigger Picture**

While it is commendable for Malaysia to seize opportunities that present themselves, such as the Japan disaster or the recent Japan-China tension, we should expect future FDI from Japanese companies to be more knee-jerk reactions, and many investments to be short-term in nature.

Japan is and has been for years an important contributor of FDI to Malaysia. While Malaysia aspires to be a high-income country with high-tech industries, to Japanese investors and many others, its main attraction lies in its low cost of living and its abundant resources. It is worth taking a closer look at the investment pattern of Japanese companies and Malaysia's industrial policy, so as to identify problems, and to find solutions that will make it a win-win situation for both countries.

## The Fifth Malaysia-Indonesia Strategic Bilateral Colloquium

**T**he Fifth Malaysia-Indonesia Strategic Bilateral Colloquium was convened by ISIS Malaysia and Indonesia's Centre for Strategic and International Studies (CSIS) on 7-8 October 2012 in Putrajaya, Malaysia. The event brought together over 40 opinion leaders, scholars and policymakers from both countries. In their opening remarks, the Chief Executive of ISIS Malaysia, **Dato' Dr Mahani Zainal Abidin** and CSIS Executive Director **Dr Rizal Sukma** underscored the importance of having a Track Two platform to facilitate discourse, harmonize perspectives and formulate policy recommendations on strengthening the bilateral relationship. Report by **Shahriman Lockman**, Senior Analyst, ISIS Malaysia.



(From left) Mahani Zainal Abidin, Muhyiddin Mohd Yassin and Rizal Sukma

### Introduction

In his keynote address to the Colloquium, the Deputy Prime Minister of Malaysia, Tan Sri Dato' Muhyiddin Mohd Yassin, characterized the Malaysia-Indonesia relationship as a special one. He noted that the two nations were deeply entwined by historical ties, a shared cultural heritage and cooperation across multiple spheres. He expressed confidence that, although there were several issues that had periodically affected ties, the two nations were determined to maintain a robust and comprehensive relationship.

The following is a summary of the discussions at the Colloquium.

### The State of Relations: An Overview

Malaysia-Indonesia relations have become increasingly complex since their heydays of the late 1960s. Bilateral ties beginning from the end of *Konfrontasi* in 1966, to the early 1980s, a period often described as the 'golden era of Malaysia-Indonesia relations, were marked by an unparalleled closeness between the two countries. With close personal ties between their

political leadership, the two countries pursued foreign policies that were closely aligned. Nonetheless, managing the bilateral relationship in the past was certainly more straightforward, with fewer political actors and a less challenging media environment to contend with.

Since the 1980s, however, the conduct of Malaysia-Indonesia relations has become more formal and business-like, even as ties have become more multifaceted. Several factors have increased the volatility of the relationship. With rising numbers of Indonesian migrant workers in Malaysia, their welfare has become a major issue in bilateral relations. The salience of this issue was further magnified in the aftermath of the 1997-98 Asian Financial Crisis, following the significant growth in the number of Indonesian migrant workers in Malaysia.

Emotions have also occasionally run high over incidents such as the claims over the supposed origins and ownership of cultural objects such as *batik*. Furthermore, a 2002 decision by the International Court of Justice, which favoured Malaysia in the overlapping claims over the islands of Sipadan and Ligitan resulted in heightened public sensitivity (especially in Indonesia) over territorial disputes.

### **Domestic Developments: Political Change and Impact on Relations**

Changes in the domestic political environments of both countries have had a major impact on bilateral relations. For over thirty years, the relative stability of Indonesian politics under

*with rising numbers of Indonesian migrant workers in Malaysia, their welfare has become a major issue in bilateral relations*

President Suharto led to predictable relations between the two nations. But that ceased to be the case following the collapse of the New Order in May 1998. Democratisation in Indonesia led to a highly contested political environment and a vibrant — some say chaotic — media. Overall, the Indonesian political terrain has become more variegated over the past decade, with multiple actors attempting to influence government policies across various issues. Indonesian foreign policy is no longer the exclusive preserve of the government — it is increasingly being exposed to pressures from multiple directions.

Impinging equally on bilateral relations is the growth of nationalism in Indonesia. Indeed, it is no longer sufficient for Indonesian politicians to appeal to voters just on the basis of bread-and-butter issues — it has become important for them to demonstrate their nationalistic credentials to the voting public. Consequently, there is now greater pressure upon Indonesian politicians to respond visibly to perceived slights to Indonesia's pride and territorial integrity. This pressure applies in the context of relations with Malaysia too.

Periodic bouts of bilateral tensions over the years have evidently had a negative impact on how Malaysians and Indonesians perceive each other. Unfortunately, opinion leaders and policymakers in both countries appear not to be immune to believing crude stereotypes of each other's societies. Certainly, these images have been amplified on the internet; extreme voices from both countries have used social media platforms to incite mutual hatred amid tensions. This development is particularly worrisome, as it could shape negatively the dominant images that the younger generations have of each other.

### **Migrant Workers: From Recruitment to Employment to Repatriation**

The treatment of Indonesian migrant workers in Malaysia is one of the most important factors in determining the state of bilateral relations. Nonetheless, migrant rights' advocates note that

both countries have not demonstrated sufficient resolve on this issue. Instead of seeking a comprehensive solution to the issue of the protection of migrant workers, the two countries have continued to adopt a piecemeal approach. Criminalizing undocumented workers is unlikely to resolve the situation. Instead, improvements are required at every stage of the employment cycle. The protection of migrant workers should begin at the point of recruitment. Indeed, both countries should place greater scrutiny on recruitment agencies, which are regarded as a key source of exploitation and abuse.

The scope for improving the welfare of Indonesian migrant workers in Malaysia remains substantial. Gradual progress, however, is being made. For example, in order to ensure that wages are paid to migrant workers, the 1955 Employment Act has been amended to compel employers to transfer their employees' monthly wages directly to the latter's bank accounts. Furthermore, all migrant workers and their employers are required to conclude a written contract at the outset of employment. Also, the Ministry of Human Resources has been tasked as a key agency with enforcing the 2007 Anti-Trafficking in Persons and Anti-Smuggling of Migrants Act. Finally, a review of the laws and regulations pertaining to recruitment agencies is also being carried out.

### **Economic Relations: Opportunities and Prospects**

Economic relations represent one of the strongest pillars in Malaysia-Indonesia relations, as total trade between the two countries climbed to over US\$18 billion in 2011. There remains, however, a



*(From left) Jusuf Wanandi, Syed Hamid Albar and Idrus F. Shahab*

sizable imbalance in bilateral investments. In 2011, the value of Malaysian investments in Indonesia was more than US\$2 billion, while Indonesian investments in Malaysia stood at about US\$600 million.

While Malaysian investments in Indonesia are expected to see continued growth, doubts remain over foreign-investor protection in Indonesia. Indeed, sudden and populist-inspired changes in regulations over recent years have affected Indonesia's reputation as an investment destination. It was suggested that the regulatory shifts mirrored the generally ambivalent attitudes of many Indonesians (including some of their politicians) towards foreign investment.

Although opportunities have emerged across multiple industries in Indonesia, Malaysian investments have largely been concentrated in the commodity and banking sectors. This is despite the rapid growth of Indonesia's manufacturing sector, which has attracted significant foreign direct investment in recent years. It was noted, however, that in order to support Indonesia's vibrant manufacturing industry, major investments are needed to improve infrastructure. Securing long-term finance for infrastructure



*Participants at the colloquium*

projects also remained cumbersome in Indonesia. Therefore, there is clearly significant scope for collaboration in infrastructure development between the two countries.

### **Media Matters: Perceptions, Portrayals and Impact on Relations**

The media has often been accused of stoking emotions during times of difficult relations between the two nations. The reality, however, is more complicated. Much as the media does shape public opinion, it also mirrors the sentiments of its audience.

The many instances of abuse of Indonesian migrant workers have left a negative imprint on Indonesian public opinion of Malaysia. Certain kinds of news — such as the abuse of domestic helpers — are given prominent coverage because they help boost audience numbers. However, negative sentiments towards Malaysia are not solely the result of news coverage; indeed, they have been perpetuated and normalized in Indonesian popular culture in television comedy programmes, for instance.

The new-media environment poses a major challenge for the bilateral relationship.

Indeed, the influence of social media should not be underestimated. Although traditional media outlets are generally guided as well as constrained by journalism ethics and standards, most users of social media are not.

For instance, in March 2012, the Malaysian authorities were accused, in the Indonesian social media, of harvesting the organs of three

Indonesian nationals who had been killed after they apparently tried to attack police officers. Although the organ-harvesting claims were later proven to be untrue, they had already taken root on the internet. Clearly, reversing negative sentiments has become a lot harder in the new-media era.

Managing perceptions in Malaysia-Indonesia relations also calls for careful attention towards labels and symbols. Accordingly, Malaysian media organizations have eschewed terms that Indonesians regard as derogatory. These include 'Indon,' which is no longer used, and 'pendatang haram,' which has been replaced by 'pendatang asing tanpa izin.' There has been fruitful dialogue between the Malaysian and Indonesian press under the auspices of the Malaysia-Indonesia Journalists Friendship Alliance (ISWAMI).

### **Maritime Cooperation: Building Confidence, Enhancing Security**

Although maritime cooperation between Malaysia and Indonesia has yielded positive results, emerging challenges will require both countries to consolidate their joint efforts. They have established good cooperation in countering

transnational crime at sea, and this has been bolstered by the fact that they share many similar concerns in the maritime domain. Nonetheless, armed robbery incidents have recently been on the rise in the South China Sea, particularly in waters off the Anambas and Natuna Islands. Cooperation between the two countries is therefore vital for this trend to be reversed.

The two countries should also take steps to reduce the potential for escalation in disputed waters. The March 2005 incident between Malaysian and Indonesian naval vessels in the Sulawesi Sea shows that there is clearly a need for both sides to adhere to the 2001 Malindo Prevention of Sea Incidents Cooperative Guidelines. It was suggested that Malaysia and Indonesia consider holding coordinated patrols in the disputed waters, which can be done without prejudicing the claims of each country. Furthermore, with a view to preventing tactical miscalculations, it is important that both naval forces maintain direct and effective communication links between commanders operating near disputed waters and their respective navy chiefs.

Resolving the overlapping territorial claims between Malaysia and Indonesia should also be encouraged. With crisis management mechanisms in place, the two countries should move towards dispute resolution. Nonetheless, recognising that delimitation talks tend to go on over an extended period of time, the two countries should consider the possibility of

*...with crisis management mechanisms in place, the two countries should move towards dispute resolution*

*... an important step would be to dispel stereotypes among the youth and emphasise the common heritage that the two nations share*

engaging in joint development in the disputed areas of the Sulawesi Sea.

### **Ways Forward: Towards a Strong and Mutually Beneficial Relationship**

Improving the relationship between Malaysia and Indonesia is not only desirable but also crucial. The two nations are indispensable partners and are irreversibly interdependent. Addressing the key irritants in the bilateral relationship should therefore be a matter of urgency.

The protection of Indonesian migrant workers in Malaysia is evidently the most pressing issue in the bilateral relationship. Several participants reiterated that migrant-worker protection measures should begin in Indonesia, and urged the Malaysian authorities to enforce the law equally on workers and their employers. It was also recommended that the Malaysian government seeks to expedite the legal process in cases of migrant-worker abuse, a justified measure given the potential implications for foreign relations. As in a previous session, it was stressed that recruitment agencies needed to be better regulated.

Numerous participants voiced their support for measures to improve people-to-people relations. An important step would be to dispel stereotypes among the youth and emphasise the common heritage that the two nations share. It was suggested that this could be achieved by revising the history curricula of

## *The Fifth Malaysia-Indonesia Strategic Bilateral Colloquium*

Indonesia and Malaysia in ways that foster mutual understanding amongst the younger generation. Commonalities between Bahasa Indonesia and Bahasa Malaysia should also be enhanced through greater coordination by the language authorities of the two countries. It was noted that the languages have diverged so greatly that it has become increasingly difficult for Indonesians and Malaysians to communicate with each other in their native tongues.

Malaysia-Indonesia relations should not be viewed only through the narrow prism of bilateral relations. A participant pointed out that while both sides should pay close attention to the various issues in the bilateral relationship, it is also important to be mindful of the broader strategic environment. Malaysia and Indonesia are key members of Asean. Without a strong relationship between the two, the strength of Asean as a whole would be affected.



*Participants of the Fifth Malaysia-Indonesia Strategic Bilateral Colloquium*



**Towards a Green Economy: In Search of Sustainable Energy Policies for the Future**

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In thirteen chapters, this book documents the vagaries of problem framing and policy responses by nine countries, all of which are guided by recurrent themes of energy transition, policy choices and green economy. The book's analytical scope goes well beyond the commonly addressed structural issue in energy policy to encompass innovation in processes, institutions and new policy instruments for sustainable energy systems.

*NOTES*



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