

Enhancing Malaysia-Japan Economic Partnership In The Asia Pacific And The World

*This paper was presented by **Tan Sri Zainal Abidin Sulong** in his capacity as Chairman of MIDA at the Seventh Malaysia-Japan Colloquium on 20-21 June 1997, at Genting Highlands, Malaysia*

Many papers have been presented and views expressed in numerous forums and conferences, on the need for close collaborations and co-operation and for smart partnership and synergy among business communities.

We can therefore assume that these objectives are shared by all concerned and it may not therefore be necessary for me to reiterate various arguments already presented and thoroughly discussed. I would like now take the opportunity to carry forward this theme of Malaysia-Japan co-operative endeavours, and examine how they could be realistically implemented.

Perhaps it would be useful to ask simply three specific questions and try to answer them. First, what are the opportunities available in the next few years and into the next century. Second, what would be the challenges, both short term and long term, confronting us. And third, how can both Japan and Malaysia together exploit these opportunities and meet the challenges effectively, and for mutual benefit.

At the outset, allow me to underline the fact that all Malaysians, from the Prime Minister to the ordinary man in the street, can be described to be in a dynamic and optimistic mode, borne out of the successes achieved thus far in the political, economic and social development of the country as a whole. The unique political stability prevailing in the country for so many decades, and which has generated confidence and cohesion among the multiracial community,

allows for a clear vision of the future to be enunciated and shared by all; this has led to detailed socio-economic programmes and plans of action that have determined every step of the country's progress into the foreseeable future and into the next century.

I would also like to emphasise at the outset another fact: that the dynamics of Malaysian geopolitics and geoeconomics and our own experiences until now dictate that we must be globally-oriented and have to be at the forefront of global developments, be it political, economic or social. Malaysians would therefore have to strive to position themselves at the forefront of international competitiveness economically, and to be at the leading edge technologically, while continuing to ensure an environment of peace and stability in the country and in the region as a whole. Within this context, we see opportunities in abundance which we would like to pursue ourselves or to share with our friends.

In Malaysia, economic growth was accelerating at a steady pace; we are now into the 7th Malaysia Plan that is in effect until year 2000, and the 2nd Industrial Master Plan from 1996 to 2005. The economy has reached the crossroads so to speak, and has to move along the value-added chain towards higher value-added activities; it also has to shift the whole value chain to a higher level through productivity-driven growth. How do we achieve these objectives within the specified period?

Enhancing Malaysia-Japan Economic Partnership

Obviously, we cannot do it alone. We will continue to require the inputs of our Japanese and other friends. We would like them to continue to contribute vertically and horizontally to the development of our upstream activities such as R&D product design and material technology, as well our downstream activities and services such as procurement, distribution and marketing.

At the same time, we would like to urge those Japanese companies that are already here and those that are coming, to embark on higher technology utilisation through automation and robotisation, and to increase their Total Factor Productivity (TFP). Japanese companies can take full advantage of the enormous higher valued-added opportunities made available as Malaysia moves into the new momentum of growth.

Another important feature of future industrial growth is the urgent need to deepen and diversify the manufacturing sub-sectors and related services or supporting industries, and to enhance greater linkages among them. The new industrial development approaches will be cluster-based, and the Government has already identified more than 20 such clusters to be promoted.

Again, I believe the role of Japanese industries will be great as we move into the global market and enhance our competitiveness. I would also like to highlight another feature of crucial importance i.e. Human Resource Development -- the ability to generate, advance and renew skills to fulfill the demands of specific sectors, sub sectors or clusters. HE Ambassador Issei Nomura, in his lecture at the University of Malaya on Oct 11, 1996 did dwell on this issue at some length while speaking on the role of both the private and government sectors. I would recommend his speech for your deliberation.

I would like to reinforce the Ambassador's constructive suggestions by underlining the fact that the responsibility for ensuring the availability

of the right skills with the right technology lies not with the government alone. The private sector and industries have a crucial role too. I would like to urge all companies in Malaysia, both foreign and local, to deepen and reinvigorate their respective programmes in this regard. It should also be noted that the Malaysian Government is embarking on a very aggressive education strategy utilising the latest information technology in making this country the centre of excellence in the region, particularly in the field of technological and engineering education.

The private sector is spearheading this move. There is however a glaring omission or gap. While Japan is the biggest investor and the main driving force of Malaysia's industrial growth, we hear of no educational joint ventures with centres of educational excellence from Japan. I believe this gap must be filled.

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Malaysia is now at the cross-roads in other ways as well. While Malaysia is essentially a capital and technology importing country, the small size of its market demands that its businessmen also venture abroad; the country is now rapidly investing abroad in what is described as reverse investment and thus becoming in some measure, a capital exporting country as well. Malaysian outward investment is estimated to have totalled RM23.49 billion from 1992-1996. Malaysian investment overseas in 1996 alone amounted to RM6.6 billion compared to RM1.3 billion in 1992. Such investments have been concentrated in Singapore, USA, United Kingdom and Hong Kong, representing about 57 per cent of

Malaysia's outward investment in 1996. Malaysian investments in developing countries are also growing rapidly.

In 1996, investments in other Asean countries accounted for RM879.9 million or 13.3 per cent of gross Malaysian investments overseas. All these are part and parcel of our export-oriented strategy, and the need to be global and competitive internationally. In this regard, I would like to invite the attention of our Japanese colleagues to various plans that are being put in place in the Asean region itself.

The Asean Free Trade Area (AFTA) will liberalise the flow of goods within Asean, and investors will be able to enjoy access into a market of well over 420 million people in barely six years from now, i.e. by 2003. To complement AFTA, Asean officials are working on liberalisation of the services sector and are also in the process of drafting a Framework Agreement on the Asean Investment Area (AIA). The AIA is aimed at creating a competitive investment region by the year 2010, enhancing the flow of FDI into Asean and further stimulating intra-Asean investments. It is envisaged that AIA will be implemented under three programmes -- the facilitation and co-operation programme, promotion and awareness programme, and liberalisation programme.

It is expected to address a whole range of issues including consultation, cooperation and co-ordination of policies, harmonisation of rules and regulations and administrative procedures, removal of impediments to investments, predictability and transparency of laws and rules, joint promotion programmes, human resources development, etc. As we are aware, Asean countries are already promoting cross-border co-operation in the growth areas or growth triangles, which are actually the beginnings of a larger regional economic co-operative framework within AIA.

The message to Malaysia with regard to these rapid intra-regional developments is quite

clear -- that Malaysian companies, both local and foreign, must be in a position to compete effectively in the forthcoming integrated regional market -- that the Malaysia-Japanese partnership in Asean must begin now, and cannot wait until 2010, since it is important for the groundwork to be laid now in order to be assured of success in the future. The entry of Cambodia, Laos and Myanmar (CLM) into Asean by July this year would certainly open up a wider spectrum of investment opportunities in an enlarged Asean 10.

Apart from playing a complementary and catalytic role from a more advanced industrial base, we may see other investment opportunities such as in infrastructure projects, hotels and tourism, services, as well as agriculture and mining sectors. A number of Malaysian companies have already established investment projects in CLM countries. They have strengthened business linkages with domestic firms in these countries or have secured major contracts or resources. These Malaysian companies could provide vital contacts to Japanese investors seeking joint venture partners in these countries. There can even be tripartite arrangements between investors from Malaysia, Japan and the host countries.

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Japanese companies investing in most Asean countries are also in the best position to take advantage of the various region-wide industrial co-operation schemes Asean has introduced, such as the Asean Brand-to-Brand

Complementation (BBC) Scheme for the Automotive Industry. Indeed they are in a position to spearhead Asean efforts towards regional industrial integration. In fact, Japanese automotive assemblers have already entered into business arrangements with Malaysian and other Asean companies in the production of automotive parts and components for the export market.

I also believe the new Asean Industrial Co-Operation Scheme (AICO), which is not limited to the automotive sector, will be an ideal mechanism to foster a wider Malaysia-Japanese industrial partnership. The objective of the AICO scheme, which was introduced at the end of last year, is to promote joint manufacturing of products by Asean-based companies, through resource sharing, industrial complementation and other industrial co-operation activities. AICO should be attractive to Japanese multinational corporations (MNCs) based in Asean since most of them have already established wide marketing and distribution networks in the region and can therefore take advantage of the region-wide scheme.

We believe this scheme will also enhance industrial linkages between Japanese MNCs and domestic small and medium scale industries (SMI), particularly the ancillary and supporting sector in the electrical and electronics industry, and the automotive and automotive component sector which form an important strategic objective of the Malaysian Government in its industrial linkages and vendor development programme.

In the larger context, Malaysian-Japanese collaborations could be conceived in the APEC framework or even in the ASEM programme of co-operation. However, from the Malaysian perspective, the future in this regard could perhaps be best seen in the dimension which I have touched on earlier i.e. Malaysian reverse investment initiatives, as part of our South-South Co-operation Programme. The South-South programme is being actively championed by the

Prime Minister of Malaysia himself. As a result, Malaysian businessmen have undertaken many projects, big and small, in countries such as South Africa, Namibia, Argentina, Papua New Guinea, China, Mauritius, Madagascar, Bosnia, etc. These vast investment opportunities were opened to Malaysians following the establishment of closer relations with these countries, coupled with the increasing liberalisation of their economies.

With the increasing experience and confidence gained, Malaysian companies investing abroad are already taking an aggressive approach. One such approach is to forge strategic alliances with other countries to maximise the potential of their ventures. I believe joint-collaboration between Malaysian and Japanese businessmen in such ventures will be mutually beneficial. Japanese investors can complement their Malaysian partners by providing the necessary management, know-how, technical expertise and skills needed to successfully implement their joint investments.

As we all know, Japan has always been a major source of FDI in the Asia-Pacific region, and in Asean. However, it is observed that Japanese investments in Africa, and Central and Eastern Europe (CEE), are a complete contrast. According to the 1996 World Investment Report, Africa and Central and Eastern Europe accounted for only 0.2 per cent of Japan's FDI stock world-wide as of March 1996, and 0.1 per cent and 0.3 per cent respectively of Japan total FDI outflows during the period 1990 -1994. This figure is well below that of other major investing countries such as France, UK, and USA. In the same manner, the pattern of Japanese exports to Africa and CEE parallels their outward FDI pattern.

Apart from the small size of their populations, the low purchasing power, and the fact that the cost-productivity factor may be more attractive elsewhere (e.g. in Asia), a number of more specific factors have been identified to account for the exceptionally small FDI flow from Japan into Africa and CEE. These include the small

Japanese support services network, characterised by the small representation of Japanese trading companies (sogo shosha) and Japanese banking affiliates, which have played a vital role in initiating and organising Japanese FDI abroad. Another factor is weak trade relations between Japan and Africa/CEE, wherein Africa accounted for an average of only 1.2 per cent and CEE only 0.7 per cent of Japanese exports during the period 1990 to 1994. Weak linkages between official development assistance and FDI have also been cited as a factor for the small Japanese FDI into these regions.

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There is also what is described as Japan's 'psychological distance' from Africa/CEE because of unfamiliarity with these markets. While some of these factors are clearly 'barriers' to investments, I would like to suggest that the so-called 'psychological distance' between Japan and Africa/CEE countries could be overcome through business collaborations between Japanese investors, and investors from countries such as Malaysia, which have established strong political linkages with these African and CEE countries.

I would like to suggest further that Malaysian and Japanese investors can establish business networks in the Muslim world as well. This is in view of Malaysia's strong ties with Islamic countries; there exists tremendous scope to further enhance co-operation between Malaysia and other Muslim nations. For example, Prime Minister Mahathir has just attended the D-8 inaugural Summit Conference in Turkey, followed by an official visit to Lebanon. Japanese

investors should explore joint-collaboration opportunities with Malaysian businessmen to tap the vast market potentials in these Islamic countries by capitalising on the experiences of Malaysian-established businesses which are based on Islamic concepts and principles, and which have proven to be successful and practicable in this country. We have successfully implemented Islamic banking, insurance and other Islamic financial products as well as other business activities based on practical Islamic principles, to complement existing secular systems. The scope for expanding such activities is enormous.

As part of our efforts to promote strategic alliances in third countries, Malaysia has signed a Memorandum of Understanding (MOU) with Singapore to establish a Malaysia-Singapore Third Country Investment Feasibility Fund. The objective of the Fund is to encourage the private sectors of Malaysia and Singapore, particularly SMEs, to jointly explore business opportunities in Asean and in other third countries. The fund is to be used for seeking new investment opportunities abroad or for conducting studies pertaining to the viability of specific projects. The Fund is being administered by MIDA and the Economic Development Board (EDB) of Singapore. I am sure similar arrangements could be made between Japan and Malaysia.

I would like to conclude by emphasising that multi-racial/multi-religion/multi-lingual Malaysia is a huge asset by itself, especially in promoting business throughout Asia. Also, Malaysia is still a developing country, and as such the development of Malaysia's economy is still very much FDI-driven. Hence Malaysia will continue to require Japanese investments and assistance to achieve its developmental objectives, such as productivity enhancement, industrial linkages, technological development and upgrading of skills. We welcome the collaboration between Malaysians and the Japanese in these areas and in other areas of investment.

I believe the Japanese presence in Malaysia through these investments can lead to increased interaction between Malaysians and Japanese businessmen, and that it will increase their mutual confidence and trust, leading to the cementing of ties between them. This would then help pave the way for them to venture beyond the shores of Malaysia in search of opportunities for joint investments and mutual benefits.

I have tried to cover what I see as the opportunities available and some of the various measures that could be undertaken to strengthen Malaysia/Japan partnership for mutual benefits. Basically, within the shrinking global environment and rapidly changing technology, both Japan and Malaysia need a paradigm shift. Our two countries require a deeper understanding of each other's views, a common perception of the future, and our respective roles in the years ahead.

As Prime Minister Ryutaro Hashimoto said in Singapore on Jan 14, 1997, our region of Southeast Asia and the entire Asia Pacific is now embarking on a new era. He said *'...the world economy has become more integrated than ever before, with capital, labour and technology freely moving beyond national borders, stimulated by advanced information technologies and economic liberalisation.'*

Prime Minister Mahathir has often said, in the same vein, that we must embark on a 'prosperity neighbour approach' and therefore together we will all prosper. We must be convinced that both the Malaysian and Japanese Governments and their respective business communities can provide the necessary mechanisms or networks, as well as the synergy to move forward with greater momentum and efficiency into the next century.

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Tan Sri Zainal Abidin Sulong Over The Years

