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

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Add 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 acqusitions (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 2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012 (JAN-NOV)	TOTAL (2002 - NOVEMBER 2012)	SHARE (%)
1	People's Republic of China	241	521	468	502	242	90	120	114	154	405	705	3,562	17.5
2	People's Republic of Bangladesh	0	32	204	852	341	149	68	86	74	276	384	2,466	12.1
3	Japan	49	99	42	87	157	198	210	169	195	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	286	201	1,238	6.1
6	Republic of Singapore	96	143	91	62	94	58	48	61	73	78	79	883	4.3
7	Taiwan	38	95	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	60	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	476	462	449	432	546	409	446	534	4,873	24.0
	TOTAL	818	1,645	1,917	2,615	1,729	1,503	1,512	1,578	1,499	2,387	3,125	20,328	100.0

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

NO.	COUNTRY OF NATIONALITY	MONTH / 2011 JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC	TOTAL (JAN - DEC 2011)	SHARE (%)
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	34	38	20	23	9	16	15	16	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	8	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	49	18	34	27	32	51	35	43	53	422	17.7
	TOTAL	167	231	102	209	95	142	189	151	270	236	197	398	2,387	100.0

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

NO.	COUNTRY OF NATIONALITY	MONTH / 2012 JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC	TOTAL (JAN - NOV 2012)	SHARE (%)
1	Japan	42	83	99	49	47	69	65	104	69	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
	TOTAL	184	302	401	192	242	346	290	328	321	338	181	0	3.125	99.9

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 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.

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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.