

Three Decades of Malaysia-Japan Relations (1981-2011): Crossed Interests and Missed Opportunities

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Abstract: *Malaysia-Japan relations – since 1981 – can be broadly characterised by unrequited expectations leading to missed opportunities due to incompatible interests (domestic and external). Thus, it could be argued that bilateral relations have never reached their optimal potential (aka “high water mark”) – despite good intentions and mutual recognition even during the heyday of the Look East Policy (LEP) period. By the 1990s, domestic developments within and external pressure (gaietsu) on Japan and the changing geo-political & geo-economic dynamics matched by Malaysia’s developmental needs have contributed to the stagnation in bilateral relations. The reinvigoration of the Look East Policy (first enunciated by Mahathir Mohamad) under the current administration of Najib Razak (2009-_) signals a renewed commitment by Malaysia to strengthen bilateral cooperation based on a stronger and enhanced economic partnership. A fresh start for both countries to align their national interests much closer together and seize the opportunities presented in a different era.*

Keywords: *Malaysia-Japan bilateral relations, Look East Policy, regional diplomacy, international relations of the Asia Pacific, diplomatic lethargy*

1. Introduction

As the leading Asian country, at least before the rise of China in the current 21st century, Japan has naturally been looked up to as the paragon

and model of economic development particularly in East Asia as well as Southeast Asia, including not least Malaysia. Thus, despite being occupied by the then Empire of Japan for three and a half years during the Second World War, Malaysia has since its independence in 1957 always gravitated towards Japan as an important bilateral partner. Malaysia was one of the countries that benefitted significantly from economic relations with Japan, particularly in the area of investment.

Early post-World War Two economic relations were partly characterised by “semi-reparation” (infamously known as the “blood debt”). This issue became sensitive for the ethnic Chinese community who bore the greatest brunt of Japanese atrocities committed during the Occupation. As for the Malays, some saw the Japanese as liberators from British colonial rule – colonialism was mainly synonymous with Western imperialism. And certainly the Japanese did encourage a limited form of Malay nationalism. Promising young Malays were sent to Japan for further education and were exposed to the Japanese cultural system which left an abiding impression.

Indeed, even those who never had the opportunity to go to Japan were admirers of the country. The Japanese way of life has always been perceived to be characterised by discipline, patriotism and conviction. One such staunch advocate of Japanese cultural values and work ethic was Mahathir Mohamad who became Malaysia’s fourth prime minister on 16 July 1981. On 8 February 1982, Mahathir officially launched the “Look East Policy” (LEP) that was to be one of the defining characteristics of his administration and Malaysia’s bilateral relations with Japan. Khadijah (1999) argued that the LEP marked a “major turning point” in bilateral relations as it meant an explicit recognition and development of a special relationship that had been “peripheral” in the public consciousness.

Since 1981 and the adoption of the LEP the year later, Malaysia-Japan relations have gained greater profile and visibility in the international relations of Southeast Asia, the broader region and beyond. This paper

looks at thirty years of bilateral relations with the LEP as its basis or “starting-point.” As such, the periodisation starts with the inception of the Mahathir administration and ends in 2011. In between, the paper rests on the arguments about the contingency and non-contingency of interests of the two countries and the mutual impact (and inter-relationship – “intermestic”) between foreign and domestic factors.

The structure and argument of the paper are as follows: Part One briefly discusses the early years of the LEP period (1981- *circa* 1990) and the congruency in the two countries’ interests that supported the intense diplomatic courting (particularly on the part of Malaysia). Part Two then proceeds to argue the reasons for the historic lethargy in bilateral relations – how changes particularly in Japanese domestic politics and economics post-1993, the structural constraints such as the strategic dependency on the United States (US) and the continuing legitimacy of the Peace Constitution (*Heiwa Kenpo*) resulted in Japan’s inability to respond to Malaysia’s expectation for it to play a greater role as regional leader in response to the changing external environment.

Part Three argues that the short-term revival of intensive engagement with Southeast Asia under the Liberal Democratic Party (LDP)-dominated government (during the mid-1990s) was to re-establish and renew Japan’s presence in the region post-Cold War period so as to ensure its economic and political prominence (in competition or rivalry with China). In Part Four, a more updated and contemporary analysis of Malaysia-Japan bilateral relations (from 2009 until 2011) is provided. The year 2009 corresponds to when Malaysia’s sixth Prime Minister, Najib Razak, assumed office (April) and the Democratic Party of Japan’s (DPJ) first ever as mandate to form the new government of Japan (September).

2. Part One: The first decade of “looking east”

Background

Mahathir effected a shift in Malaysia’s generally pro-Western foreign policy since independence in 1957 with an orientation towards Northeast

Asia, namely Japan and South Korea *via* the LEP. This served two purposes: a) Firstly, it fitted with his personal iconoclastic idiosyncrasy (which was also pragmatic) that was expressed in a form of anti-Western hegemonic posturing; b) Secondly, inter-related with this was that Japan and South Korea served as good and exemplary Asian models with which Malaysia could emulate (in terms of work ethic and management style) and adopt (in terms of techniques and technology) in the pathway towards a newly industrialising country (NIC) where the *bumiputera* community would be both the contributors and beneficiaries.

As such, the LEP was a reflection of Mahathir's desire to realign Malaysia's diplomatic orbit closer to East Asia – as the emerging centre of global influence and stature. It also aimed at transforming the Malaysian economy on a sustainable path *via* heavy industrialisation whilst simultaneously raising the *bumiputera* economic participation and status. In other words, the LEP, officially announced and launched on 8 February 1982 in conjunction with the Fifth Joint Annual Conference of the Malaysia-Japan Economic Association (MAJECA) and the Japan-Malaysia Economic Conference (JAMECA), conveniently functioned both to intertwine and fulfil Malaysia's foreign and domestic agendas.

The underlying rationale of the LEP could be aptly illustrated by the following prescient quote from the speech Mahathir gave at the conference:

“... Malaysia and Japan are countries of the Pacific Rim. This vast area is predicted to be the growth area of the world, replacing the Atlantic shores. Malaysia and Japan, therefore, share a common economic destiny. Although we differ in terms of ethnicity, language, history, tradition and culture, there is sufficient commonality in terms of political philosophy and economic thrust that cooperation would be easy to achieve.”

Mahathir's anti-Western rhetoric and positioning have to be carefully nuanced and explicated in that there were two distinct albeit inter-related dimensions. At the international dimension, Mahathir's attitude was generally sceptical and cynical about what he regarded as the West's continuing domination of the international political economy – a form of “neo-imperialism.” Domestically, Mahathir was realistic enough about the prospects of any economic dependence on Britain. The changing political situation in the UK brought about by the Thatcher revolution was also an important factor which influenced Mahathir to decisively break away from a pro-Western outlook and look favourably towards Japan (and South Korea).

Thus, Mahathir's antipathy towards the West was no mere idiosyncratic expression of his personal worldview and ethos but rather emanated from a more profound appreciation that the West was in decline despite “obstinately” clinging on to the traditional geo-political structures of dominance. Hence, uplifting the economic status of Asian and other so-called “Third World” countries and reversing Western economic dominance was the next logical step after de-colonisation. In this regard, Japan (and South Korea) stood up as Asian countries that could (counter) balance the West because of their economic and industrial prowess. In short, the LEP was a carefully calculated decision shaped by Mahathir's personal perspective of the external environment and the developmental needs of Malaysia.

The LEP was pursued and implemented at two levels, namely a) External (primarily human capital development) – the flow of technical assistance from Japan to Malaysia was mainly in the form of short-term training, whereas students were sent from Malaysia to Japan for vocational and tertiary education (long-term). The first engineering trainees were dispatched to Japan in 1982, and the government-sponsored students were admitted to Japanese national universities in 1984; and b) Internal – whereby Malaysia would instil/ inculcate and promote the Japanese work ethic and culture in national life (both public and private sector).

Domestic factors

Under the Mahathir administration, Malaysia embarked on an ambitious heavy industrialisation programme designed to enhance the economy's technology capital (as one of the developmental goals) and accelerate the momentum to achieve the aspiration and ambition of being recognised as a NIC. While the LEP is generally associated with Mahathir, it was also precipitated by Japanese businessmen in Malaysia who acted as the "Japan lobby" (Khadijah 2003). The (*Keidanren*) mission was frequently dispatched to Malaysia and the Japanese Chamber of Commerce and Industry Malaysia (JACTIM) was established in 1983. Thus, it could be argued that the LEP was also inspired by the growing business interests of Japan in Malaysia as much as it sought to increase the level of Japanese economic participation in the country.

The launch of the LEP and the deepening business ties coincided with Japan's new diplomatic orientation under Prime Minister Yasuhiro Nakasone (1982-1987). Outwardly, the LEP was also perceived as beneficial by the Japanese government. As a result of the coincidence of the interests of both countries, bilateral relations steadily developed, especially in the area of the economy. Japan's Ministry of Foreign Affairs' (MOFA/*Gaimusho*) Blue Book 1983 manifested the Japanese government's new diplomatic buoyancy both as a member of the developed democracies ("West") and Asia-Pacific community ("East") for the first time. It also expressed Japan's eagerness and confidence in strengthening political cooperation with other countries.

By then Japan also had experienced current account surpluses with the US and thus came under pressure to redress the persistent imbalances. To promote a more distinctive Japanese identity in its foreign policy, Nakasone took the hitherto unprecedented step in making an official or public pilgrimage to the site that commemorates the Japanese war dead – Yasukuni shrine. It reflected his desire for Japan to "re-enter" the world stage with a deep sense of its history and self-respect.

External factors

The abrupt *yen* appreciation (*endaka*) after the Plaza Accord in 1985 became a further push factor for the Japanese companies to move their production sites outside of Japan, subsequently promoting the horizontal division of labour between Japan and Southeast Asia. Japanese FDI increased soon thereafter in the region, alongside relocating some of its high-tech manufacturing operations. The value of Japanese FDI in Malaysia was actually higher than the US – in terms of the number of investments approved which was as much as three and a half times. Thus by the time of the short-lived mid-1980s recession which also impacted Malaysia, the country had already by then a well-established Japanese FDI presence (not to mention US multinational companies). Hence, Malaysia was well-poised for an economic revival when business orders from the wider Asia-Pacific as well the North American markets began to return.

At the geo-political front, Mahathir was busy pushing his agenda on behalf the “Third World” – promoting and strengthening South-South cooperation and collective self-reliance amongst the member countries. It is an interesting observation that although Japan belonged to the same club as the leading Western economies, this did not arouse any ire or suspicion on the part of Malaysia. Japanese official development assistance (ODA) became an important source of external borrowing for Malaysia throughout the 1980s especially in the latter’s heavy infrastructural development projects (as a necessary complement and co-relate of the heavy industrialisation programme) such as the Kelau (Pahang) and Tenom Pangi (Sabah) dams. As such, one could argue that the Japanese FDI boom of the mid-1980s coincided with increased Japanese ODA in the same period. *Both* were to mildly decline in the run-up to the Asian Financial Crisis (1997). In relation to FDI, Malaysia was experiencing fierce competition from its regional neighbours.

Assessment

The LEP was not without its detractors and there were scepticisms and

criticisms about the viability of such a “policy.” Certainly, the envisaged technological transfer from Japan never really materialised. Chandra Muzaffar, one of the most stringent critics of the LEP argued:

“(How) can we choose as a model of emulation a nation whose model of economic imperialism is an established truth? In trade and investments, technology transfer and aid, Japan’s exploitative tendencies are quite apparent.”

At a fundamental level, however, it could be argued that the “potential capacity” for concretising the development of bilateral cooperation did not parallel the mutual sentiments and goodwill. In other words, the rhetoric tended to “outpaced” the action. Government-to-government and people-to-people ties (exchanges) were not as dynamic. In fact, the initial response of both the Japanese government and people were a mixture of surprise, annoyance and cynicism. Moreover, progress in bilateral relations (which only gained momentum in the decade prior to the LEP and aftermath) were and continued to be mainly driven/ motivated by trade and investment, *i.e.* economic diplomacy followed by development assistance, *i.e.* aid diplomacy. Khadijah highlighted that the socio-cultural aspects of bilateral relations in the 1970s through to the LEP period lagged behind the economic dimension.

Smith made the same point in that the “increased Japanese economic presence in Malaysia ... in the wake of the [LEP]” led only to a “predictable lip service paid to ‘cultural exchange’” which was “actually one way flow ...” In terms of typology, there were no exceptional or distinct economic relations (“formal,” *i.e.* institutional/ structural *and* material, *e.g.* transactional) which could lay claim to an underlying “organising principle” despite Malaysia perhaps being virtually the sole country engaging in a highly-profiled pro-Japan orientation with Prime Minister Mahathir Mohamad taking a personal interest. Thus, Malaysia’s pro-Japan

expression which suffered from *systemic* weaknesses is to be distinguished from the overall formal principle of bilateral relations. That is to say, although the LEP was never rescinded or jettisoned, the skewed focus by the Malaysian government (as the promoter) – and lack of sustained enthusiasm from the Malaysian people – together with the mixed and fragmented (*ad hoc*) response by Japan contributed to its eclipse.

In theory, the LEP represented an impressive attempt by the Malaysian government to emulate the industrialisation process and system of Japan, but the realisation fell short in practice because of the state of bilateral relations. In turn, it could be argued that the impact of the LEP on bilateral ties was not as significant as it should be. And thus, by extension, bilateral cooperation between Malaysia and Japan developed *despite* the LEP.

3. Part Two: Whither the Look East Policy? The “Lost Decades” (“*Ushinawareta Jūnen*”) of Japan & Malaysia

The domestic context

In the first part of the 1990s, Malaysia – which had rapidly emerged from the economic doldrums of the 1985-86 global recessions – was on the path of high GDP growth of 8-9 per cent consecutively. The country was fast becoming a new Asian tiger joining the ranks of other regional counterparts which had followed in the lead of Japan (“the flying geese” model) such as Singapore, Taiwan, Hong Kong and South Korea. Malaysia’s economic success seems to have vindicated Mahathir’s developmental agenda which relied heavily on FDI.

Although the 1990 general election saw the National Front (*Barisan Nasional*) coalition led by Mahathir suffering its most serious blow then from a two-prong “assault” by the opposition – “People’s Forces” (*Gagasan Rakyat*) and the “Ummah Unity Front” (*Angkatan Perpaduan Ummah*), the incumbent administration retained its two thirds majority. Thus, characteristic of the Malaysian political system since independence – with the sole exception of the infamous tragedy of May 13, 1969 – political

stability continued to underpin the country's economic fundamentals.

By the beginning of the decade that was to end the 2nd millennium in 2000, the LEP had faded from the consciousness of the public psyche although in reality economic cooperation continued unabated. In other words, whilst the “brand name” was no longer in vogue, the “substance” remained very much in practice, including the popularity and importance of Japanese-style concepts of total quality management (*Kaizen* = “continuous improvement”) in Malaysian factories and manufacturing plants. Obviously, the lacklustre attention to the LEP in concept and form reflected the fact that government enthusiasm had run out of steam quickly in the aftermath of its announcement. However, it was equally truistic that Malaysia's foreign policy orientation and outlook remained in the “(north) eastern direction.”

It comes as no surprise, therefore, that Mahathir – in his visionary focus – would have wanted to broaden the scope of the LEP by further strengthening regional cooperation in the form of the “East Asia Economic Grouping” (EAEG). He made the “unexpected” proposal during the official visit of the then Chinese premier, Li Peng in December 1990. It could well be argued that the EAEG was simply the regional extension of Mahathir's “Look East” vision. However, it has to be cautioned that the EAEG was not simply intended to “replicate the LEP” at the multilateral level or to be more precise, the desire to elevate and entrench the position of Japan within East Asia which then serves to enhance the bargaining and negotiating power of East Asian countries.

The regional context – drive towards regionalism

The early 1990s saw a change in the political, economic and security context that encouraged both countries to reorient their diplomatic policy. The overall international strategic map changed as a result of the end of the Cold War. In the geo-economic front, stalled World Trade Organization (WTO) rounds encouraged East Asia to further commit to regionalism. In

the strategic regional context of Asia, the US withdrawal from the Philippines (in Subic Bay) in 1991 created a power vacuum while the China's naval build-up resulted in increasing concern among Southeast Asian nations over the territorial issues in the South China Sea. The period consequently saw the beginning of increased military expenditure of the Southeast Asian countries, especially of Singapore and Malaysia, and the strategic engagement with US by some countries.

These changes forced Japan to re-examine its diplomatic footing and identity as a member of the West. Protracted trade disputes with US and the trend toward regionalism in the world as exemplified by the North American Free Trade Area (NAFTA) and European Union (EU) prompted Japan to locate itself in the East Asian region. This was where Japan had already been recognised as a rising power (Blue Book, 1990). Expanded trade ties with ASEAN states due to ODA and private investment throughout the 1980s provided a condition for the formation of regional framework.

Regionalism became an issue in the bilateral relations when Mahathir proposed the East Asia Economic Group (EAEG) which was later renamed East Asia Economic Caucus (EAEC) in 1990. However, this proposal was not well received by Japan, which preferred the Asia-Pacific Economic Cooperation (APEC) as the vehicle (for regionalisation – of the Pacific Rim). The official meetings in the early 1990s saw the repeated urge by Malaysia for Japan to go with the idea of EAEC and the persistent explanation that it is not a trading bloc but a forum to provide collective voice on global trade and a common platform in multilateral economic diplomacy.

Mahathir was once again hopeful that Japan would assume the leadership mantle of the Asia-Pacific region which was indeed fast becoming the world's economic centre. His prediction that the broader region was emerging in its own right had proved correct, and by the mid-1990s, Malaysia has been experiencing 8-9 per cent gross domestic product (GDP) growth for nearly a decade, not least thanks to the steady inflow of FDI and its attraction as a renowned FDI destination. Malaysia leveraged

on its strong economic position to continue to enhance South-South cooperation *via* trade, investments, and capacity-building.

Japan, on the other hand, persuaded Malaysia to participate in the APEC, which the latter once deferred to take part in 1993. Japan's reluctance regarding the EAEC was due to the fact that it was believed the US, the most important ally of Japan, was excluded. Japanese rejection of EAEC resulted in Kuala Lumpur's irritation was shown by the statement of Mahathir to the effect that Japan prioritised the US interest over that of Asia.

In effect, although Japan maintained a keen interest in and a consistent position on the Southeast Asian region (and was indeed very supportive of ASEAN integration), the country took a different view when it came to considering what was perceived as regionalisation (extending the economic regionalism of ASEAN to the rest of East Asia including Japan). In short, whilst economic diplomacy expressed Japan's *Asian-centric* attitude towards ASEAN; political diplomacy (in this case that of *gaijitsu*) prevailed so that Japan adopted a cautious response to the EAEC. Intriguingly, it could be argued that Mahathir failed to "wean" Japan from its US-centric perspective towards the wider East Asia.

The international context

Another focal point of Malaysia's diplomacy towards Japan was the repeated call for Japan to take a greater role in the regional and world security. Mahathir expressed his support for Japan to be the permanent member of the United Nations Security Council (UNSC), and urged the country to "participate fully in the peacekeeping activities of the United Nations" and dispatch its troops to conflict-torn areas. This call was based on Mahathir's worldview that the UN was skewed toward developed countries of the West.

It also reflected Malaysia's expectation for Japan to play a certain role

in security in Asia to counterbalance China. However, the timing was not right for the proposal. In August 1993, the voters' weariness about the prevailing corruption and protracted political reform brought the end of the long-serving LDP government. What followed was the unstable coalition government consisting of eight parties. Then, from April 1994 to January 1996, Japan was governed by another coalition led by the Socialist Party with LDP as its partner. The Socialist Party upheld the Peace Constitution, to the extent that they had once rejected the US military presence in Japan. Malaysia's push for Japan to be a permanent member of UNSC and dispatch its Self-Defense Force (SDF) was out of question for the party, thus resulting in the passive reaction to the call

The only area where the interest of two countries coincided was economy. The ministerial meetings in the 1990s focused on the issue of Malaysia's trade deficit against Japan due to the rising price of capital and intermediate goods from Japan. Another issue (belated) was on technological transfer. Japan swiftly responded to Malaysia's calls for reducing trade deficit and promoting technological transfer with the Action Plan on Industrial Upgrading at the Japan-ASEAN Economic Ministers' Meeting in 1993. The Plan aimed at developing the local small and medium-sized enterprises (SMEs) as parts supplier for the Japanese makers in ASEAN countries and also at streamlining of the intellectual property regulatory framework.

The Plan was the result of the coincidence of the interests. Malaysia, which just launched the "Vision 2020" to be a fully developed nation in 1991, sought to further industrial advancement to greater heights. The country also tried to retain the competitive edge in the face of the competition posed by China and Vietnam. On the other hand, Japan was still under the US pressure to reduce trade surplus. The country also had to deal with the rising domestic production cost due to the appreciated yen. For Japan, promoting the horizontal division of labour between Japan and ASEAN would result in the decrease of the overall trade surplus, and retaining competitiveness of Japanese products. In addition, the Japanese government promised to expand its domestic consumption and deregulation. Malaysia's trade deficit against Japan continued throughout

the 1990s and this fact added a new dynamics to the bilateral relations.

Towards diplomatic lethargy

In sum, the early 1990s saw the high expectation for Japan on the part of KL in political, economic and security realm, and the redundant reaction of Japan because of its strategic subordination to the US, economic stagnation and the leftist government's strict adherence to the Peace Constitution. The perfect honeymoon for Japan and Malaysia in the 1980s started to ripple along the changes in the international and regional context in early 1990s. The change in the Japanese government seems to have negatively affected the bilateral ties as exemplified by the decreased visits of Japanese Ministers to Malaysia from 1995.

The emerging strategic importance of China

While Japan was unable to entertain Malaysia's diplomatic targets, China appeared to be increasingly an important strategic partner of Kuala Lumpur (KL). China's prompt reaction to the EAEC proposal and its fierce criticism against US for its human rights diplomacy under the Clinton administration made the two countries politically closer. The visits between the two countries intensified as was symbolically shown by the Mahathir's visit to Beijing with a 290-member business delegation in 1993. China could provide Malaysia with an export market, which Japan was "unable" to. Of course, the People's Liberation Army's (PLA) modernisation remained a concern for many of the ASEAN countries. However, Malaysia tried to build trust with China through exchange of military personnel since the early 1990s with the belief that perceiving China as a threat would lead to confrontation. These developments contributed to Malaysia's "full-engagement" with China.

The perfect coincidence of interests of Japan and Malaysia started to crumble in the early 1990s when the former could not positively respond to the latter's high expectation to be a regional balancer and an "Asian" major

economy. Japan's hands were tied by US influence over Japan's diplomatic policy and the Peace Constitution itself. Meanwhile, China offered what Japan lacked: support for EAEC; provision of export market; and challenges against the US human rights diplomacy. When Japan was ready to recognise East Asia as a regional framework, as exemplified by the Hashimoto's proposal for a Japan-ASEAN dialogue and Obuchi's Miyazawa Plan, Malaysia found itself in between China and Japan.

Although the two conservative Japanese governments after 2001 behaved as what Malaysia expected of Japan in the early 1990s, and although two countries saw the swift conclusion of Economic Partnership Agreement (EPA) in 2006, the bilateral diplomatic relations did not reinvigorate because of the increasing influence of China over the ASEAN countries. In hindsight, the early 1990s seemed to have been critical for bilateral relations, as the era saw a new constellation of power and idea about regional institution in Asia. FDI diplomacy seemed to be main driver of bilateral cooperation. The question then was whether bilateral diplomacy could pass beyond the phase of "donor-recipient" relations to a more equal partnership.

4. Part Three: Diplomatic Re-engagement by Japan

Active Asian diplomacy under the LDP-led governments in the context of big power geo-politics & regional security

In November 1996, the LDP under the Prime Minister Ryutaro Hashimoto once again became the government on its own. The Hashimoto administration and the successor government of Keizo Obuchi pursued a vigorous Asia-oriented diplomacy that intended to deepen Japan's relations with ASEAN countries in addition to China. In Malaysia, Mahathir had emerged from a strong mandate from the electorate at the 1995 general election which was a clear endorsement and approval of his administration's performance in managing the economy. Ties between KL and Beijing continued to strengthen, particularly in bilateral trade.

In 1997, Prime Minister Hashimoto made an official visit to Malaysia,

as a part of the ASEAN tour. In the visit, he proposed the formation of a top level forum between Japan and ASEAN involving the leaders of Malaysia, Singapore, Vietnam and Brunei. Hashimoto promised Malaysia technological transfer *via* educational institutions and increasing the number of Malaysian students to Japan both of which had been requested by Mahathir in the early 1990s. KL's response to the proposed Japan-ASEAN summit meeting was somewhat cautious. Hashimoto's proposal was understood to be motivated by the desire to regain the initiative from China. It was argued that strengthening the institutionalisation of the relationship with Japan might have jeopardised Malaysia's ties with China.

Consequently, the Malaysian government's response was that it preferred a summit meeting between ASEAN with Japan, Korea and China together, or with the three as individual countries. The development of Malaysia-China relations that started in the early 1990s had already made it impractical for Malaysia to have an exceptional relationship with Japan. Another important initiative taken under the Hashimoto administration was the Asian Monetary Fund (AMF) that was proposed by the Ministry of Finance (MOF), Japan. This proposal was aimed at boosting the *yen* as the regional currency by making it a settlement (payment) currency (after the "hard" currencies of USD and *euro*). This, however, was met with opposition from the US, the International Monetary Fund (IMF) and China, and eventually resulted in Hashimoto's laid-back reaction to Mahathir's suggestion to have an Asian Monetary Fund (AMF) soon after the Asian Financial Crisis. This was another occasion where Japan could not respond to the Kuala Lumpur's expectation due to the pressure (*gaietsu*) from US.

The Japanese government in 1998 which was then led by Prime Minister Keizo Obuchi made a determined effort to renew and rejuvenate the East Asian economies (particularly those worst affected by the Asian Financial Crisis) and doubled its contribution to the Asian Development Bank (ADB). At the ASEAN Plus Three Summit on 16 December 1998 held at Hanoi, Prime Minister Obuchi was to reaffirm Japan's continuing financial contribution to the beleaguered Southeast Asian economies in the

form of the “Miyazawa Initiative” (which was in effect the resurrected AMF in a more “acceptable” guise to the US and IMF) amounting to USD30 billion. The “Miyazawa Initiative” aimed at assisting the ailing economies to restructure bad debts (caused by the firm’s non-performing loans/ NPLs) and enhance stimulus measures.

The Miyazawa Plan was well-received by ASEAN countries including Malaysia that described Japan as a “precious friend at a hard time.” Appreciating the Japanese role in the financial crisis, Mahathir later expressed his wish to revive the AMF proposal, and called for China to examine the possibility of AMF with Japanese leadership. However, this proposal never materialised as a result of the Japan-China rivalry that started to define the regional relations.

Belated orientation towards an East Asian Community (EAC) and “normal country” – the Koizumi and Abe administrations

Under Prime Ministers Junichiro Koizumi and (his successor) Shinzo Abe, the years from 2001 to 2007 saw bilateral relations with the following new thrusts: (1) the inclusion of political and security issues in the region and the world; (2) shifting emphasis from the Asia Pacific to the EAC; and (3) the conclusion of the Japan-Malaysia Economic Partnership Agreement (EPA). In relation to political and security issues, the summit meetings within this period covered a range of security and political issues: Joint opposition to terrorism, weapons of mass destruction (WMD), cross border issues such as piracy and narcotic trafficking, and the significance of economic development in tackling these issues.

Koizumi’s diplomatic policy clearly identified Japan as a close ally of the US in the war against terrorism. With this identity, Japan enacted the Anti-Terrorism Special Measures Law in 2001 to dispatch the Maritime Self-Defense Force’s supply ships to the Indian Ocean as a part of the US “AfPak” (Afghanistan and Pakistan) strategy. Koizumi’s diplomatic policy had two implications in the regional context. Firstly, his emphasis on the global war on terror was not well shared by the Asian nations. For example, his proposal to issue an anti-terrorism statement in the ASEAN+3 Summit

Meeting in 2001 was not accepted by other members. Secondly, his decision to dispatch the Self-Defense Force (SDF/ *Jietai*) to Afghanistan meant that Japan had begun to take steps to transcend the limitations imposed by the Peace Constitution.

Indeed, Koizumi had pushed for a constitutional amendment of Article 9 of the Constitution that will allow for a clearer and more defined role for the SDF. Although, the proposed modification(s) never materialised, the trend continued into the Abe government under which the Japan Defense Agency (JDA) was upgraded to the Ministry of Defense (*Boei-sho*). The agenda for constitutional revision became an issue with the legislation of the National Voting Law in 2007. In other words, Japan was moving toward becoming a “normal country.” Aside from the security issue, promoting regionalism was also Koizumi’s priority area as a response to the China-ASEAN FTA negotiations alongside China’s accession to the Treaty of Amity and Cooperation in 2002.

To counterbalance the weight and dilute the significance of a closer China-ASEAN relation, and position Japan for a fresh leadership role in East Asia, Koizumi reiterated the need for stronger regional cooperation in a speech on 14 January 2002 in Singapore. He called for both Japan and ASEAN to “act together -- advance together” or what can be termed as a “lockstep contribution” and cooperation for the greater good of East Asia. He outlined five initiatives, namely (a) education and human resource development, (b) a Japan-ASEAN Exchange year in 2003, (c) Japan-ASEAN Comprehensive Economic Partnership, (d) Initiative of Development in East Asia, and (e) regional security cooperation, including trans-border terrorism. Under Koizumi, the Japanese government emphasised an *intra*-Asian regional framework amongst the Northeast and Southeast Asian countries. Following this, a joint declaration on the Japan-ASEAN EPA was issued in November 2002. Subsequently in 2003, Japan hosted the ASEAN-Japan Commemorative Summit which saw Koizumi’s principle “act together, advance together” concretised in more detail. And the year later (2004), Japan acceded to ASEAN’s Treaty of Amity and

Cooperation (TAC).

In tandem with the new impetus towards an East Asian Community, Japan-Malaysian relations further deepened with the process of negotiating the EPA. The two governments agreed to kick-start EPA process in February 2003 with the setting up of the Joint Study Group. Negotiation commenced in January 2004 which completed in October 2005, and the agreement was signed on 13 December 2005 between Abdullah Badawi and Junichiro Koizumi. The EPA took effect on 13 July 2006, and represented the third bilateral FTA signed by Japan (in addition to Singapore in 2002 and Mexico in 2005). Although the liberalisation of completely built units (CBUs) for automotive, and iron and steel imports to Malaysia and import of plywood to Japan were issues of contention, the two countries achieved the conclusion of the EPA rather smoothly. It was agreed that the liberalisation of those imports to Malaysia should be achieved within 10 years from the signing of the EPA. At the same time, Japan acquiesced in the liberalisation of imports of plywood and reaffirmed its cooperation in the technology and human resource development of Malaysia's automobile industry.

The smooth conclusion of the EPA was facilitated by the convergence of interests of the two countries. Malaysia had developed wariness over massive inflow of Chinese products such as plastic products that could marginalise domestic producers. Thus, it started to search for ways to avoid being dominated by China. On the other hand, Japan needed to advance economic integration with Asia as a means to overcome the stagnating and ageing Japanese economy. As a result of the conclusion of the EPA, bilateral trade and investment between Malaysia and Japan increased dramatically in the following year

In 2007, Koizumi's successor, Shinzo Abe, celebrated the 50th anniversary of Japan-Malaysia diplomatic relationship with his counterpart, Abdullah Badawi, who had succeeded Mahathir in November 2003. The two premiers held summit meetings and discussed wide range of issues: continuation of the LEP, East Asian cooperation, bio-fuel, energy and environment, human resource development, Malaysia's regional

development (the then Iskandar Development Region), maritime security, anti-terrorism, Middle East affairs, peace building in Mindanao, North Korea, and cooperation in development aid in Africa. However, neither the conclusion of the EPA nor the 50th anniversary of diplomatic ties brought about vigorous Malaysia-Japan relations (in contradistinction with trade and investment – economic ties). This was exemplified by the downward trend in the visits by ministers.

There are roughly two reasons for the lethargic diplomatic relations. Firstly, Malaysia and other ASEAN countries were more oriented towards China by then. This was demonstrated by the failed Japanese bid to be a permanent member of the United Nations Security Council (UNSC). Malaysia's support for Japan's permanent membership in the UNSC had been an important issue in the summit meetings. Now that the Japanese government was ready to be a "normal country" and ready to carry the burden of dispatching its troops overseas, unlike in the 1990s, the momentum should have been regained. However, Japan's bid failed as all the ASEAN countries including Malaysia did not support Japan's proposal for UNSC reforms in 2005. It is a well-known fact that China actively lobbied for other countries to go against the proposal. The entangled Japan-China relations as a result of Koizumi's official visit to the Yasukuni Shrine to keep the campaign pledge in the LDP presidential election might have put ASEAN countries in a difficult situation and caused their non-support for Japan.

Secondly, KL's diplomacy changed after Abdullah took over as a Prime Minister. Under the Abdullah administration, Malaysia's relations with Middle Eastern countries dramatically increased. For example, the breakdown of the counterpart of the summit meetings from 2005 to March 2009 is 15% for Southeast Asia, 16% for East Asia, and 26% for Middle East. Aside from it, the Abdullah administration hosted a number of international conferences for Muslim nations, concluded FTAs with Pakistan, Bangladesh, Iran, Egypt and other seven Muslim countries. This trend was led by the KL's intention to promote Malaysia as a moderate

Islamic country with the idea of “Islam Hadhari,” and also to open up export markets. As the diplomatic orientation changed, Japan was not necessarily a priority for Malaysia. Consequently, visits to Japan by Malaysian ministers stagnated, with a few that were merely a carry-over from the previous administration such as the necessity to discuss the details of the EPA, or institutionalised visits under the framework of ASEAN+3.

Japan’s commitment to East Asia and its drive toward a “normal country” should have given a new impetus to Japan-Malaysia relations, given the fact that the lack of these two qualities had resulted in the disappointment on the part of Malaysia in the 1990s. The constraints posed by the US also seemed minimum as Japan-US relations were closer than ever. However, it could be hereby argued that the timing of Japan’s change was not right because (1) the new Malaysian government looked somewhere else than Japan, and (2) Japan’s rapid ideological change toward a “normal country” in the context of the rise of China, which already became an important strategic partner for ASEAN, put Malaysia in a rather difficult position.

Furthermore, the frequency of the visits decreased due to the institutionalisation of ASEAN+3 Ministerial Meetings. However, the record of other ASEAN countries such as Thailand and Indonesia indicate otherwise. The Japanese media discussed the possible setback of the bilateral relations when Mahathir, the advocate of the LEP, resigned as the Prime Minister in 2003. However, the downward trend had already started in the latter half of the 1990s. Likewise, the economic stagnation of Japan does not necessarily explain the trend, as even after the prolonged stagnation started in 1991, Mahathir continued to underscore the significance of Japanese economic and financial power. Besides, the bilateral relations remained quite intense till the mid-1990s.

It is often argued that China’s military and economic rise pushed the country to the stature of the foremost important partner for Malaysia. This argument sounds plausible given Abdullah’s visits to three Northeast Asian countries, namely Japan, Korea and China. During his premiership, the Malaysian prime minister and foreign minister had meetings with China

seven times, with four times *vis-à-vis* Korea and Japan respectively. As such, KL's unenthusiastic response to Japan's engagement due to consideration for China as a new "strategic" partner should not be underestimated or overlooked.

However, China's power does not necessarily mean the significance of Japan-Malaysian relationship should reduce, because economic relations with the two countries are different with Japan as a leading investor in Malaysia, particularly in the manufacturing sector and China as an export market. Indeed, Japanese investments under the Najib administration display signs of continuity and strong expectations for the future. On the diplomatic front, however, engagements between the two countries have shown the downward trend since the latter half of the 1990s. Clustering the visits by major events into (a) introduction of LEP in 1981, (b) introduction of Vision 2020 in 1991, (c) the Asian Financial Crisis in 1997/98, (d) inauguration of Abdullah Badawi as prime minister in 2003 and (e) succession by Najib in 2009 have pointed to a downward trend of the ministerial visits to Japan.

5. Part Four: The Look East Policy Revived? Bilateral Relations under the Najib Administration

The New Economic Model (NEM)

The New Economic Model (NEM) formulated under the Najib administration – which would have Northeast/ East Asia in view including Japan – should be an opportunity for redeveloping bilateral relations. Soon after Najib became prime minister in April 2009, he set up the National Economic Advisory Council (NEAC). The NEAC included members from the National Economic Action Council (NEAC) that had been tasked by Mahathir to undertake measures to initiate Malaysia's recovery from the Asian Financial Crisis. The revival of a prime ministerial council of economic advisers but with a broadened outlook and composition to

formulate the NEM points to the rapidly changing global conditions Malaysia is in and expected to brace in the coming years.

The NEM had been touted to position the Malaysian economy onto a sustainable pathway in the next stage of knowledge-intensive growth. The NEM aimed at transforming the structural framework and priorities of the Malaysian economy and advance its production networks towards a focus on high and green technologies. Hence, to ensure the realisation of the NEM, Najib intensified Malaysia's diplomacy toward Northeast Asia with the expectation of attracting investment in the key strategic industries such as information and communication technology, bio-technology and green technology.

Najib's historic visit to China on 2-5 June 2009 was meant to underscore and reaffirm Malaysia's quest to renew its receptiveness/openness as a destination for FDIs, particularly from East Asia. After a period of an annual change of prime ministers beginning and ending their term in September, 1) Shinzo Abe; 2) Yasuo Fukuda; and 3) Taro Aso), the Democratic Party of Japan (DPJ) consisting mainly of the former centre-left Liberal (not to be confused with the LDP) and Socialist members, took over the reins of government at the general election of August 2009. Yukio Hatoyama became the prime minister in September, and announced his diplomatic policy with a call for an "East Asia community" (EAC) concomitant with a "Green Asia," and (traditional and non-traditional) human security issues. Although the emphasis was on safety of maritime navigation and environmental security, one could unambiguously detect the continuation of Japan's foreign policy approach of a soft geo-strategy (anchored in its alliance with the US). Indeed, the DPJ Prime Minister had openly acknowledged Japan's continuing reliance on the US as a pivot for regional security and stability.

In April 2010, Najib officially visited Japan for the first time since he took office, with the expectation of attracting Japanese investments into high and green technology. After the meeting, Hatoyama and Najib issued a joint-statement entitled, "Enhanced Partnership for a New Frontier." The statement confirmed that the bilateral relationship was entering a new stage

of enhanced partnership as a result of the strong bilateral relations in the past decades, and acknowledged the importance of bilateral cooperation in the areas such as (a) peace and security; (b) competitiveness and sustainable growth; (c) environmental and energy security; and (d) human resource development and people-to-people exchanges.

Najib's visit was a sequel to the one made by his deputy, Muhyiddin Yassin in December of 2009. During the visit, Muhyiddin stressed the importance of elevating trade and investment ties at a time of global economic challenges just as when the effects of the "credit crunch" (emanating from the US) had begun to ease. Muhyiddin also urged Malaysian companies to (think out of the box and) invest in Japan, and acquire stakes especially in the high-technology sector to promote technological transfer. The visits reflected the continuing importance Malaysia attached to Japanese investments particularly under the Najib administration which was keen to make up for the "lost decades" (paralleling Japan's own *Ushinawareta Jūnen*) and renew the drive towards economic transformation to achieve the status of developed nation by 2020. The relevance of the LEP did not diminish under the Najib administration but remain the implicit basis for the strategic partnership between Malaysia and Japan (at least on the part of the former), and therefore has acquired an updated outlook albeit that the emphasis was now more on exploring and enhancing new areas of economic cooperation rather than human capital development.

Both Najib and Hatoyama also issued the "Japan-Malaysia Cooperation Initiative for Environment and Energy" to further advance cooperation between the two countries in areas such as environment and energy conservation and renewable energy. It was also decided that both governments should work for the establishment of the Japan International Industrial University (later renamed as Malaysia-Japan International Institute of Technology, MJIIT), based at Universiti Teknologi MARA (MARA Technology University) which materialised in August 2010.

Less than a week after the earthquake and tsunami hit northeastern Japan in March 2011, the Malaysian Parliament passed a special motion tabled by the Prime Minister Najib Razak to express condolence and sympathy to the government and people of Japan. The motion states “The people of Malaysia view Japan as a country that has provided an abundance of assistance to Malaysia in achieving development and it is appropriate for the people of this country to provide humanitarian assistance to the people of Japan.” Following this motion was the dispatch of a Malaysian humanitarian assistance team to Japan and pouring of donation to the victims from all walks of Malaysians. This episode re-expressed the “special position of Japan in Malaysia’s foreign policy” since 1957.

Although it was premature to make a conclusion about the current development, it is an undisputable fact that the ministerial visits remain lacklustre. After the April 2010 meeting, Najib’s visited Japan to participate in an international symposium in May 2011, but was only received by a courtesy call by the foreign minister. This marked a stark contrast with the Malaysia-Korea relationship that celebrated its 50th anniversary in December 2010 in Malaysia, which was soon followed by visits of four Malaysian ministers and Najib to Korea in April 2011.

In his preoccupation with Japan-US relations over the relocation of the US naval base in Okinawa, Hatoyama seems to have overlooked the opportunities Japanese private sector could have enjoyed under the NEM. With the following administrations being naturally preoccupied with the recovery of domestic economy after the earthquake in March 2011, the opportunity seems to have been missed. However, it has been argued by certain quarters that relations, namely in the realm of economic between Malaysia and Japan, have continued to expand during the 2008 onwards. The then ongoing domestic political crisis in Thailand and the most recent flooding during the monsoon season (July until December) seemed to have “benefited” Malaysia.

Japan was Malaysia’s second largest investor in 2010. Although Malaysia always ranked second (in many aspects – for example, the second important trading partner of Japan in ASEAN), the country emerged as

having a cumulative strength/added advantage over its neighbours, thus remaining attractive to Japanese investors. Malaysia-Japan ties have matured and economic relations have moved on to other areas such as Islamic banking and finance, *etc.* Interestingly, this scenario was not envisaged in the early “Look East” period.

Despite the lost decades of the 1990s, outward direct investment (ODI)/FDI from Japan continued to increase in Malaysia. From 2000-2010, Japanese FDI in Malaysia totalled RM18.6 billion. This represents an average or median investment of RM1.7 billion. In 2010, Japan was the second largest investor to Malaysia after the US, third largest export market after Singapore and China, and the largest exporter to Malaysia. From 2011-2012, Japanese investors pledged to invest RM3.8 billion – an average of RM1.9 billion which is roughly about a 10% increase. Since 2011, Japan has been the number one investor in Malaysia. There has been a pattern of Japanese investments in existing Malaysian firms or companies (*i.e.* acquiring a stake). Examples include:

- Beverage firm Asahi Group Holdings Ltd, took over CI Holdings Bhd's Permanis Sdn Bhd, a soft drinks company that is also the bottler for PepsiCo Inc in Malaysia, for RM820 million.
- Proto Corp bought the Malaysian publisher of Motor Trader and Autocar ASEAN magazines for RM109.7 million.
- Mitsui & Co Ltd took a 30 per cent stake in Khazanah Nasional Bhd's Integrated Healthcare Holdings Bhd, a Malaysian healthcare firm with a regional presence, for RM3.3 billion.

The trend continued well into the second quarter of 2012 and was not confined to the Peninsula alone. Japanese investors were also attracted to the Sarawak Corridor of Renewable Energy's (SCORE) diversified range of sector offerings such as farming and breeding, food processing, logistics, shipping (and related support services), cosmetics, healthcare products and palm oil products. In addition, SCORE is also accommodating the new growth industries represented by the life sciences, biotechnology and pharmaceuticals where Japanese firms can make a pivotal contribution.

Not only do newer Japanese players express interest in the Malaysian economic environment, long-standing companies based in Malaysia have not lost enthusiasm for the local market. When French hypermarket giant, Carrefour, finally decided to pull out its operations from Malaysia, the Japanese-owned counterpart, Aeon Co. made a subsequent announcement of a (direct) takeover in the third quarter of 2012. In the automotive sector, Honda Malaysia rolled out its expansion plan for positioning as the country's first non-national manufacturer of hybrid vehicles. The three-year transition plan is worth some RM1 billion to augment the productions lines and enhance dealer networks.

In summary, under the Najib administration, Malaysia's diplomatic relations with Japan were expressed in a convergence of interests partly motivated by the confluence of external events that were echoed in high-level statements. The shared sentiments however only resulted in missed follow-ups and lack of concrete measures in terms of implementation. This perhaps reflects continuity with previous administrations where political relations between the two countries tend to "blow hot and cold" – subject to the vagaries of external determinants (more so in the case of Japan). Ironically, despite the "pegging" of economic ties to political diplomacy, the former has developed despite of the latter.

If one does not consider bilateral relations in the context of the LEP (as an expression of official diplomacy), it could therefore be strongly argued that the private sector of Japan continues to play a vital role in strengthening bilateral ties – doing a form of "quiet diplomacy" (which is, ironically, where the strongest bilateral gains and most tangible manifestation of diplomatic continuity continue to lie).

6. Conclusion

Bilateral relations between Malaysia and Japan seems to have been rather "undulating" in shape. Indeed, such a shape in bilateral relations can find intriguing analogous comparison with the direction of a wavelength. In colloquial jargon, the term "wavelength" can be applied (in a non-scientific

context) to mean a relational state such as expectations, understanding and attitude between people and by extension countries. For example, when two persons have fallen out of each other, both could be described as not being “on the same wavelength.” Likewise, developments in the past thirty years have shown that Malaysia-Japan have had crossed interests and missed opportunities which could be attributed to different “wavelength(s).”

It could be strongly argued that the LEP did not *formally* transform Malaysia-Japan bilateral relations although material advantages were generated that perhaps would not have otherwise been the case. Nonetheless, the material gains for *both* sides were limited and constrained. Whilst Malaysia was accustomed to revive and renew the LEP periodically, there was no fundamental change in the outlook of the Japanese. This is perhaps reflective of Japan’s attitude towards the region of Southeast Asia as a whole – resource-rich, low-cost labour and geographical proximity. Arguably, the resource exporting function of many countries in the region have become subsumed under development assistance (ODA) even as they play host to increasing Japanese FDI. But the basic hinge and pattern of resource exploitation and market penetration by Japan remains a critical motivation and fulcrum in bilateral relations with many Southeast Asian countries, including fast-developing Malaysia.

Hence, whilst Malaysia looks to Japan as a key economic and industrial model with the expectation that such admiration would be corresponded by a deep partnership and recognisable leadership, such a response was not forthcoming in extent as expected. Japan never actually took on the mantle of master and mentor to Malaysia – as the “novice.” Ironically, in a sense, where Malaysia – *via* the LEP – sought for an “unequal” relationship with Japan in the hope of learning from the *guru* of industrialisation and economic development, the latter was more modest and coy. To reiterate, the different expectations between the countries were to form the basis for the crossed interests and missed opportunities at the *broader* level in bilateral relations.

Although it is difficult at this stage to ascertain if the LEP had come full circle since its inception under the Mahathir administration in 1982, it is clear that, at least in economic cooperation, there is a recognition especially on the part of Japan for the need to renew the momentum of outward direct investment in the region, including re-shifting its focus to Malaysia. This is particularly relevant in the context of the efforts by the Malaysian government to re-conceptualise the country as a FDI destination such as the existence of the Iskandar Malaysia economic growth corridor. It is also inconceivable that Japan, a long-standing FDI partner of Malaysia, would not want to capitalise on the growing economic relations between ASEAN and China.

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