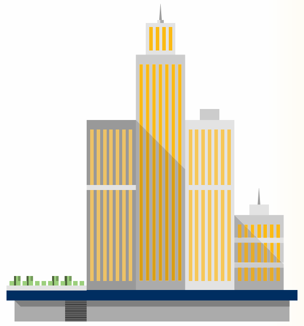
The New Face of Japanese Investments in Malaysia

By Nobuyuki Yakuwa, Director of Japan Desk, Crowe Malaysia PLT

If the uncertainty surrounding Chinese investments put corporate Malaysia on the back foot, the Pakatan Harapan government's message about Japanese investments was clear as day: it was time to Look East again.

Tun Mahathir, in his second stint as Prime Minister, quickly signaled the re-warming of relations with Japan by making the Land of the Rising Sun his first official visit abroad, just one month after PH took Putrajaya.[1]

A year later, and Japanese investments are slowly but surely flowing in again, but the focus of investments are very different from that of the Look East Policy of the 1980s.



Prior to 1960 there were only 15 Japanese firms in Malaysia.

By 1980, that number had increased to nearly **300** firms and the number of Japanese investments in Malaysia amounted to almost US$1 Billion.[2]

Enter the Zaibatsu

Earlier Japanese investments featured Japanese conglomerates, zaibatsu and keiretsu like Daihatsu, Mitsubishi, and Sogo partnering with local GLCs (Perodua, Proton, and Kumpulan PERNAS, respectively) to bring quality brands and products to Malaysia throughout the 1980s and 1990s. Many Japanese brands such as Jusco, Kinokuniya, and Panasonic are mainstays now after decades in Malaysian homes.

Japanese conglomerates were soon followed by Japanese SMEs and subcontractors eager to follow their clients to new markets in ASEAN.[3] Under the Look East Policy, Malaysian engineers and workers were sent to Japan to learn the Japanese production system. Malaysian students were also sent to Japanese universities to study both natural and social sciences to be the human capital necessary for the further development of the nation.

The importance of Japanese and other foreign investors in jumpstarting Malaysia's nascent science and technology disciplines were not lost on the earlier Mahathir administration, leading to the establishment of the Malaysian Industry-Government Group for High Technology (MIGHT) in 1993, reporting directly to the Prime Minister.

MIGHT was instrumental in crafting economic and investment facilitation policies in the automotive, E&E, aerospace, and biotech sectors, among others. Many of these sectors were kickstarted in the early stages by investments from Asia Pacific investors, particularly from Japan. HICOM, for example, partnered over the years with Japanese giants Suzuki, Honda, Yamaha, and Mitsubishi to launch Proton and other Malaysian "firsts" in the heavy industries space.

If the earlier focus of Japanese investments looked to introduce quality retail options while taking advantage of Malaysia's then low-cost base for manufacturing operations in the electrical and electronics (E&E) sector, newer Japanese investments are targeting value-added sectors.

Pivot to Life Sciences

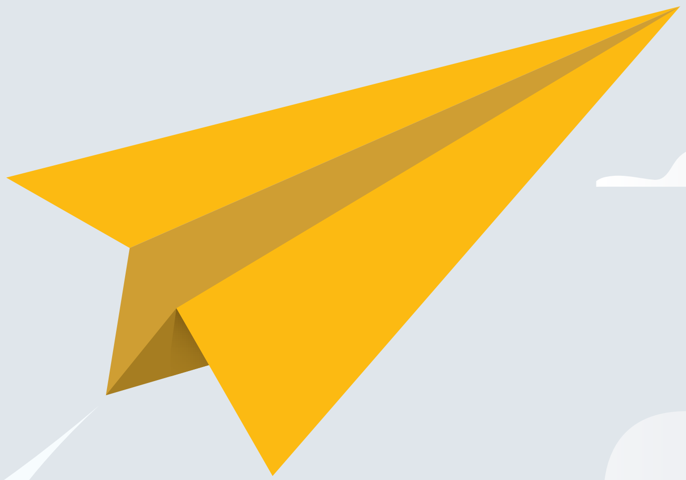
Newer Japanese investments are also building on the foundation blocks that MIGHT laid decades ago. For instance, in February 2018, medical device manufacturer Japan Lifeline chose North Penang Science Park as the site of its first factory outside Japan.[4] This was testament to Penang's positioning as an E&E and medical devices investment destination, as well as Malaysia's pool of skilled talent to manufacture intricate devices for cardiac surgery procedures.

Under the 11th Malaysia Plan, the government identified the medical devices space as a high-growth market in the life sciences sector. The local industry has surpassed expectations, recording exports exceeding RM20 billion as at November 2018.[5]

These figures are also closely linked to Malaysia's niche as a top medical tourism destination, with the Malaysia Healthcare Travel Council[6] expecting revenue from medical tourism to maintain a compound annual growth rate of 30% from 2016 to 2024. At this pace, its valuation is expected to increase from US$425 million in 2016 to US$3.5 billion before 2024 ends.

Aerospace Angle

The Greater Klang Valley alone boasts three aerospace parks in Sepang, Subang, and Serendah, representing 62% of the industry's total aerospace players.[7] Nonetheless, with the exception of a few major projects such as UMW Aerospace's 25-year contract to manufacture fan cases for Rolls Royce aero engines, the parks remain underutilized. The industry needs to cultivate talent and supply chain availability, especially with regards to Tier 3 and Tier 4 SMEs that can supply Tier 1 contractors like UMW Aerospace.



Japanese interest in the aerospace industry in the last year has spiked, driven by Pakatan Harapan's revival of the aerospace MRO (maintenance, repair and overhaul) hub in Subang. It is envisioned that Japanese companies can once again, jumpstart local supply chain and talent resource in this value-added sector, just as they did 30 years ago for Malaysia's heavy industries.

In March 2019, local MNC Sapura Industrial announced an aerospace joint venture with two Japanese aerospace companies, Wada Aircraft Technology Co Ltd and Aero Inc, to build a high-technology facility on a 2.02-hectare site in the Greater Klang Valley.[8] Besides manufacturing and assembly of aerospace components for the global market, Sapura Aerospace Technologies plans to train over 200 staff under specially-designed programs and accreditations.

The aerospace sector is yet another highlighted as a high-growth area. The Malaysian Aerospace Industry Blueprint 2030 targets for Malaysia to be the no. 1 aerospace nation in ASEAN and an integral part of the global market by the year 2030, with an annual revenue of RM55.2 billion and 32,000 high-income jobs.[9]

With the return of Tun Mahathir, ties between both countries are being renewed, and Malaysian SMEs in the supply and value chains of both the aerospace and life sciences sectors are set to benefit from Japanese expertise just as Proton and Pernas did decades ago. The influx of newer partnerships also points to Malaysian SMEs and public listed corporations such as Sapura taking the lead, treading the paths that Malaysian GLCs paved in the 1980s.

With Crowe's expertise in Japan comprising specialized partner firms in audit, tax accounting, management and IT consulting, Crowe Malaysia is well equipped to help Malaysian SMEs explore joint venture opportunities and due diligence synergies, while navigating different management styles across borders.

Malaysia is also one of the six countries globally where Crowe has Japan desks to support Japanese investments into local markets. Japan desks consultants work directly with Crowe Japan to facilitate cross-border investments and deal making between Japanese and local companies. Crowe Malaysia's Japan desk is spearheaded by our consultant Nobuyuki Yakuwa, who can be reached at nobuyuki.yakuwa@crowe.my.

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