

COMPLETION REPORT

Research Summary

Malaysia's bilateral relations with Japan and China have undergone significant changes in the period since 1957 and 1974, respectively. Japan had already emerged as a key investor in Malaysia before the Look East Policy (1981/ 82). However, Mahathir sought to align the country much closer to Japan and at the same time, move away from the pro-West alignment of previous Prime Ministers. For the first time, Japan was seen as the "mentor" of Malaysia – a "substitute" for British paternalism (as a hangover of colonialism). Political legitimacy (as epitomised by Malay nationalism) played a critical role as much as the emergence of Japan as a co-equal of the West (in relation to the international political economy) in Malaysia's external outlook under Mahathir. The Mahathir administration was committed to pursuing a more balanced foreign relations and diplomacy in the quest to attain the goal of industrialisation for Malaysia.

There has been, thus, continuity and discontinuity in Malaysia's foreign policy and diplomacy *vis-à-vis* Japan and China coupled with the evolving shape of bilateral relations over the last three decades. It is important to emphasise that the continuity/ discontinuity in Malaysia's diplomacy towards Japan and China had influenced bilateral relations as much as vice-versa (*viz.* the "co-efficient" and reciprocal impact of the bilateral dynamic on policy outlook and direction). And the greatest and most tangible gains have consistently been economic-driven. In short, Malaysia's foreign relations and diplomacy became an important and vital tool to fulfil the domestic agenda of the country.

Malaysia's economic relations with Japan evolved rapidly from primary resource-based towards a more secondary resource-based involving cluster-type extensive and intensive foreign direct investment (FDI). Intriguingly, production network integration *preceded* trade integration as seen in the implementation of the economic partnership agreement (EPA) in 2006. A new level in bilateral relations would be reached if the Look East Policy (is turned inside out and) becomes a business opportunity for

inflow of Malaysian funds into Japan.

Likewise, bilateral trade and investment define Malaysia's ties with China. Fierce regional competition for FDI means that Chinese investments are increasingly sought after – here private investment and sovereign wealth funds from China *followed* trade exchanges. We also see here a “broadening” of the Look East Policy to include also China under the current administration of Najib Razak. It was widely believed that close diplomatic relations plays a crucial role in securing electoral support from the Malaysian Chinese (beginning with Malaysia's second Prime Minister, Abdul Razak Hussein).

It may be the case that within a decade, Chinese investments would not only match the trade volume but also catch up with Japanese and Taiwanese FDI in Malaysia. Chinese investments in Malaysia have mainly been in infrastructure (through joint ventures, for example, with local construction companies to build the Second Penang Bridge, the Gemas Electrified Rail Double-Tracking, *etc.*) and real estate (such as in Iskandar Malaysia, Johor).

By way of conclusion, Malaysia's growing relations with the People's Republic of China (PRC) has been largely determined by Najib whose political legitimacy and regime stability have been much linked to sustaining economic growth and development for the people. However, pragmatism calls for Malaysia to continue to maintain close economic ties with its “mentor” Japan while expanding partnership with other major economic powers like India. Japan is now middle geo-political power and remains a big economic power, and will therefore exercise influence in the wider region of East Asia. Hence, Japan rightly continues to be a key partner in Malaysia's foreign relations and diplomacy as both can work towards the peace and prosperity of East Asia together with China.