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MALEZYA'DA JAPON YATIRIMLARININ GELİŞİMİ

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ÖZET

Japon sermayesinin uluslararasılaşması ve gelişmekte bir ülke olan Malezya'daki yatırımları üç dönem halinde incelendi: 1957-69; 1970-80 ve 1981-86. İlk dönemde, hammadde ve ticarete yönelen Malezya'daki Japon yatırımları, ikinci ve üçüncü dönemlerde, emek-yoğun endüstrilere ve hammadde işlenmesi ve ticarete doğru yönünü değiştirdi.

Ortak yatırım şeklinde olan Japon yatırımları, Malezya hükümetince sağlanan teşviklerden geniş bir biçimde yararlanmıştır. Küçük ve orta ölçekli işletmeler şeklindeki Japon yatırımları, genellikle şehir merkezlerine yakın yerlerde kurulmuş, faaliyetlerinin finansmanında yerel imkanlardan yararlanmışlardır. Transfer fiyatlanması da Japon uluslararası şirketleri için önemli bir motivasyonel faktördür.

THE EVOLUTION OF JAPANESE INVESTMENT IN MALAYSIA

This article will study the general investment trends, patterns and motives of Japanese companies investing in Malaysia over the successive periods: 1957-69, 1970-80 and 1981-86 respectively, i.e. before the full impact of the post-1985 East Asian-led industrial boom was felt in Malaysia. This periodization will enable us to analyse the kinds of industries that Japanese capital invested in as offical Malaysian policy priorities changed over time. The motivations of investment in Malaysia by Japanese companies will also discussed. This paper also studies the types of Japanese investments in Malaysia, the incentives they enjoy, their location, financial sources and market conditions.

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1957-1969

By the end of 1968, there were 48 Japanese compaies, in Malaysia 40 of which were joint-ventures, with four holding pioneer status. By the end of 1969, total Japanese investments in Malaysia with pioneer status amunted to $32.2 million. Japan was lised fifth in 1969 among foreign countries investing in Malaysia. Table 1 sums up Japanese investment in Malaysia between 1957 and 1986. Of the 53 Japanese companies of those established during 1957-69, 32 were in the manufacturing sector of those. There were 7 companies in petroleum and chemicals, 10 companies in steel and other metals, 3 in wood product, 2 in food, 1 in textiles, 3 in electircals and electronics and 3 in transport machinery (see Table 2). The concentration of Japanese investment in steel and other petroleum and chemistry and wood products suggests that they were interested mainly in processing natural resources to supply inputs for Japanese industry at home. The large Japanese investments in Daishowa Pulp Company and Felda Oil Products Sdn. Bhd. are examples of such exploitation of natural resources by Japanese investments. Japanese investment in this period seemed to be quite ad hoc, being determined by the immediate needs of the Japanese economy. (Chee v.d., 1979: 10).

The fact that 15, or 71 per cent, of the 21 companies outside manufacturing were dealing only in foreing trade suggests that their basic interest was in supplying raw materials like timber, iron-ore, etc., required by the Japanese economy.

Table 1
Japanese Investment in Malaya

	Frequency	Percentage	Cumulative Percentage
Manufacturing			
Pre-1957	11	6.0	6.0
1957-69	32	17.4	23.5
1970-80	104	56.5	80.3
1981-86	36	19.6	100.0
Total	184	100.0	
Non-manufacturing			
Pre-1957	32	13.7	13.7
1957-69	21	9.0	22.6
1970-80	70	29.9	52.6
1981-86	111	47.4	100.0
Total	234	100.0	

Source: Unpublished JETRO data, 1987.

Table 2
Japanese Direct In vestment in Malaysian Manufacturing Industries, 1957-87

Year	Food& Beverages	Textiles & prod.	Wood pulp	Petro- chem.	Steel & metals	Electro. pro.	Tpt. Mach.	Other Mfg.	Manuf. Sales	Total
Pre-1957										
Number	0	1	2	2	1	1	0	1	3	11
% of row	-	9.1	18.2	18.2	9.1	9.1	-	9.1	27.3	6.0
% of column	-	7.1	7.7	7.7	4.3	4.3	-	4.3	8.8	-
1957-69										
Number	2	1	3	7	10	3	4	1	2	32
% of row	6.3	3.1	9.4	21.9	31.3	9.4	9.4	3.1	6.3	17.5
% of column	33.3	7.1	23.1	26.9	40.0	13.0	15.8	4.3	5.9	-
1970-1980										
Number	3	11	8	14	10	18	9	14	17	104
% of row	2.9	10.6	7.8	13.5	9.6	17.3	8.7	13.5	16.3	56.8
% of column	50.0	78.6	61.5	53.8	40.0	78.3	47.4	60.9	50.0	-
1981-86										
Number	1	1	0	3	4	1	7	7	13	36
% of row	2.8	2.8	-	8.3	11.1	2.8	19.4	19.4	33.3	19.7
% of column	16.7	7.1	-	11.5	16.0	47.4	36.8	30.4	35.3	-
Total	6	14	13	26	25	23	19	23	34	183
% of row	3.3	7.8	7.1	14.2	13.7	12.6	10.4	12.6	18.6	100.0

Note: Number of missing observations = 1
Source: Calculated from unpublished data, Jetro, 1988

Table 3
Japanese Direct Investment in Malaysian Non-Manufacturing Industries, 1957-87

Year	Agric. & Forest	Fishery & Marine	Mining	Const. & Engineer	Foreign Trade	Finance & Instr.	Services	Trans. & housing	Other ware manuf.	Total
Pre-1957										
Number	0	1	0	2	23	3	2	1	0	32
% of row	-	1.31	-	6.3	71.9	9.9	6.3	3.1	-	13.7
% of column	-	100.0	-	2.9	28.4	9.4	11.1	5.9	-	-
1957-69										
Number	1	1	2	0	15	1	0	1	1	21
% of row	4.8	3.1	9.5	-	71.4	4.8	-	4.8	4.8	9.0
% of column	50.0	7.1	100.0	-	18.5	3.1	-	5.9	8.3	-
1970-1989										
Number	0	0	0	21	19	14	3	7	6	70
% of row	-	-	-	30.0	27.1	20.0	4.3	10.0	8.6	29.9
% of column	-	-	-	30.4	23.5	43.8	16.1	41.2	50.0	-
1981-87										
Number	1	0	0	46	24	14	13	8	5	111
% of row	0.9	-	-	41.4	21.6	12.6	11.7	7.2	4.5	17.4
% of column	50.0	-	-	66.7	29.6	43.8	72.2	47.2	11.7	-
Totsl	2	1	2	69	81	32	18	17	12	231
% of row	0.9	0.4	0.9	29.5	34.6	13.7	7.7	7.3	5.1	100.0

Source: Calculated from unpublished Jetro data, 1988

Japanese investment grew slower in this period (1957-69) than subsequently (Jacinta, 1974:24). The Far Eastern Economic Review has suggested that this slow grow was due to a "wait and see" policy: "Investors in both Britain and Japan have shown a great deal of interest in Malaysia's industrialization although both tend to shelve or sit on their plans, waiting for the tendency towards economic separation to be reversed." (Far Eastern Economic Review, 1966:188). Nonetheless, the Japanese economic presence was consolidating itself, as the Malaysian Prime Minister then admitted: "...with Merdeka, the trade policy had veered more strongly towards Japan. Japanese industries which manufactured electronic and other goods grew in large numbers. Assembly plants were set up to assembly cars and motorcycles for local use and export." (Tunku, 1984:42). There is little doubt that these investments were in response to Malaysia's Import-substitution policy.

1970-1980

Japanese investment was welcomed after Merdeka and ironically, even more conspicuously during the administrations of Then Ubdul Rasak and Tun Hussein Onn, which adopted the pragmatic view that "the more money you have, the faster you can carry out development" (Tun, 1984). By the 1970s, there were plenty of criticisms of Japanese-Malaysian joint-ventures, encouraged by attractive incentives and other infrastructural faclities provided by the Malaysian government (Straits Times: 1972).

Strating from the early 1970s, Malaysia adopted a policy to woo Japanese investors to Malaysia, participation in the week-long exhibition sponsored by the Southeast Asian Promotion Centre for Trade, Investment and Tourism, with facilities provided by the Japanese External Trade Organization (JETRO). "This exhibition was the first for Malaysia and thte third organized by the Centre for indidual Southeast, Asian countries. The then Deputy Trade and Industry Minister, Musa Hitam, said that he hoped to discuss the possible joint industrial ventures between MAlaysian and Japanese entrepreneurs. He was confident that the "Sell Malaysia" campaing would make Japanese investors aware of the attractive investment climate in the country(The Star, 1973). On July 11, 1972, a Malaysian Investment seminar was held in Osaka to woo more Japanese investors to Malaysia; Malaysian Investment Federal Industrial Development Authority in Tokyo was opened by FIDA, again in, Musa Hitam's enthusiastic presence. (New Straits Times, 1973).

This strong bid woo Japanese ionvestment to Malaysia was explained as flows: "Considering the international competition we are facing from other developing countries in attracting the investment dollar from developed nations, we must step up our efforts in this direction. (New Straits Times: 1974). The actions taken by the Malysian government to attract Japanese investigating teams arriving one after another. In late 1974, a sixteen member Japanese industrial delegation arrived in Malaysia; Deputy leader, Takutaro Nishijima expressed their aim: "All of us want to invest here as quickly as possible, but it is rather difficult at the moment to say when. However, we want this materialise in some from in a year or two." (New Straits Times, 1974). The team's aim was essentially to investigate the climate for Japanese investment in Malaysia. It is noteworthy that its leader felt obliged to urge that anti-Japanese investment in Malaysia. It is noteworthy that its leader felt obliged to urge that anti-Japanese sentiments (a legacy of the war) should not be a decisive factor in determining investment. The real aim of this delegation was relatively cheap skilled labour available to enable the Japanese reduce their costs. As Isamu Sakamoto, the leader of the delegation and Vice-Chairman of the Osaka Foundation of Osaka Science and Technology put it: "Your political stability, infrastructure and human resources are better than in other countries... Many Japanese industrialists are keen to invest in your country. This is because wages have gone up tremendously in many countries. In Japan, wages exceed those in Italy, France and the United Kingdom." (Straits Times, 1974). He also pointed out that "cheap labour is an avaible resource that could be used in labour-intensive industries, which in turn might be used to support other more advanced industries." (New Straits Times, 1974) and that "textile industries and electronic equipment assembly plants can be transplanted to this country." (New Straits Times, 1974)

Malaysia's new policy of encouraging Japanese investment saw the establishment of 124 Japanese firms between 1970 and 1974. In 1973 alone, a total of 40 Japanese firms were set up, either on a joint-venture basis, or totally Japanese-owned. As of 1975, there were over 200 Japanese companies, with a total investment of M$625 million. Of these, 143 were joint-ventures, and 20 wholly Japanese-owned. (Straits Echo, 1974)

However, between 1973 and 1974, there was a sharp drop in Japanese investments. The Japanese invested M$315 million in 1973, dropping to M$120 million in 1974. (Straits Echo, 1974). This was explained by the First Secretary of the Japanese Embassy, S.Wakaboyashi, who claimed that Japanese investors

were generally reluctant to get involved in fresh overseas commitments. He also pointed out that investment regulations in Malaysia were getting stricter, prompting some investment to be diverted or other more attractive countries in ASEAN. Japanese complaints aboutMalysia's investment regulations can be attributed to Malaysia's increased economic nationalism in the mid-1970s as well.

However, K.Senoo, the chief representative of Mitsui United Bank, said that Japanese investors were expected to flock to Malaysia as soon as the economic situation in Japan improved. The world recession after the oil shock, coupled wiht tight finance, were reasons given for the temporary dwindling of overseas investment by Japanese firms. The sharp drop in Japanese investment in Malaysia in the mid-1970s was mainly because the oil crisis was felt so strongly in Japan at that time.

The post-1975 diversification of Japanese investment oversaes provided a new opportunity for Malaysian business, according to Goh Cheng Teik, then parliamentary secretary in the Prime Minister's Department, who saw it as a chance "to tap Japanese capital resources in order to finance the Third Malaysia Plan and to push the Malaysian economy into the take-off stage." (New Straits Times, 1975). He advised that "government statutory bodies and private sector should not lose sight of this end and make use of the situation to grap as much investment as we can." (New Straits Times, 1975). New situation resulted in a number of trade missions to Japan, one of these under then Deputy Prime Minister, Dato Seri Dr. Mahathir Mohamad. he expressed the opinion that since imports from Japan would be getting more expensive as a result of the yen appreciation, the setting up of more supportive industries should be encouraged. (New Straits Times, 1978).

Thus it appears that the Malaysian policy of attracting Japanese investment yielded positive results in the seventies. In fact, 104 new Japanese investments in the manufacturing industry, along with 70 others outside manufacturing, clearly testified to this success (see Tables 2 and 3). There were remarkable increases in Japanese investment, especially in textiles, electrical and electrical and electronic and electrical firms, 11 in textiles, 14 in petrochemicals, 9 in transport machinery, and 10 in steel and other metal industries. Investment aimed at resource exploitation and processing also gained momentum in this period. In general, this period saw more Japanese investments than the earlier period.

Of the 70 Japanese firms outside manufacturing, 30 per cent were in construction, 27 per cent in trading, and 20 per cent in finance and insurance. Japanese finance capital, i.e., banking capital, increased in importance in this period. The growth in construction had much to do with the importance given, in both the Second and Third Malaysia Plans, to projects such as highways, airports, ports, new townships, etc., i.e. infrastructural developments, partly to create an attractive climate for FDI.

1981-1986

The Malaysian government's attitude towards Japanese investment became even more indulgent with the "Look East" policy initiated under the prime ministership of Dr. Mahathir Mohamad from mid-1981. In the 1980-86 period, an interesting new situation developed. As we can see in Table 2 and 3, 36 new firms were established in the manufacturing sector, with 7 in transport machinery, 4 in steel and other metal products, 3 in petrochemicals, 7 in other miscellaneous manufacturing branches, and 12 in product marketing. A singificant decrease was observed in the manufacturing investments in this period compared to the earlier periods, with the number of new non-manufacturing firms going up to 111 firms, or 47 per cent all firms established. 46 new firm were established in construction, 24 in foreign trade, 14 in banking and insurance, 13 in services, 8 in transport, 5 in other non-manufacturing and one in agriculture and forestry. Trading, service, finance and insurance accounted for much of these new investment.

The basic reason for this was the decrease of investment enthusiasm, especially in manufacturing related to in Malatsia and. The rapid growth of profits from the consttruction and real property sectors in Malaysia also contributed to the relatively lower attractiveness of other sectors. The Malaysia construction sector grew fourfold between 1970 and 1984, with its share of national output increasing from 3.9 to 5.4 per cent. In this period, its annual growth rate was 9.3 per cent in real terms, i.e., higher than the GDP growth of 7.9 per cent. During 1976-80, construction grew even faster, at 13.1 per cent per annum, and in 1981-84, this sector's growth reached 13.3 per cent per annum.

The overall pattern of Japanese investment can thus be ranked as follows: steel and other metals, electronics, petro-chemicals, textile products in the manufacturing sector, and foreing trade, construction, finance and insurance, and

services outside manufacturing. Comparing the three periods mentioned above, we see Japanese investments in the first period being generally... raw material acquisition and trade. In the second period, labour-intensive industries employing inexpensive workers as well as raw material processing and trade-related investments became more evident. This reflected economic conditions in Japan after 1970, with Japanese investors seeking opportunities to increase market shares and expoprt competitions offered by Malaysia The subsequent general decline of Japanese manufacturing investment in Southeast Asia was partly compensated for by Malaysian government-sponsored heavy industries, largely financed by offical Japanese firms inroads into construction.

Motivation for Japanese Investment

Japanese componies in electronics and electricals, textiles and other manufacturing activities have different motives for investing in Malaysia. The fear that tariff protection could exclude them from the local market was given as the main reason by companies in the electronic and electrical machinery industry. The proven success of their other overseas operations was reason why textile companies wanted to invested in Malaysia. Lastly, the enhancement of resource extraction-either trough setting up of local offices to import raw materials such as timber, iron ore, copper, and tin, or of resourced-based industries that make use of such raw materials-was also cited as a motive for investing in Malaysia. Other that the specific motives stated above the political and economic stability of the county was apperenty also considered very attractive (Chee, 1979:9-11).

According to Kanoto (Hikoji; 1981:47), 32 per cent of Japanese companies in Malaysia in 1978 were motiveted by resource security (the categories were not considered mutually exclusive). In the manufacturing sector, the companies not dealing in food textiles, chemicals, metals and machinery (54 per cent) were motivated by labour utilazation, whereas the companies in research and development were motiveted by resource-security. Labour utilazation was the main motivation for food (100 per cent) and textile (100 per cent)companies to invest in Malaysia. This motivation, howewer, was only cited by 145 per cent of chemical companies. All the textile companies were motivated by labour utilazation and by market security considerations.

Table 4

Motivation of Japanese Private Direct Investment in Malaysia, May 1978 (Pencentage)

	Total	Total	Food	Textile	Chemicals	Metals	Machinery	Others	Development	Commerce	Others
Resources security	32.0	21.0	-	-	-	8.3	-	53.3	100.0	-	-
Labour utilization	37.3	46.9	100.0	100.0	23.55	33.3	52.2	33.3	8.7	25.0	21.9
Market security	60.6	70.8	50.0	100.0	23.5	66.7	69.7	63.3	17.4	75.0	45.5

Source: Hikoji Katano, Japanese Enterprises in ASEAN countries: Statistical Outlook Kobe: Kobe Universty, 1981.

In the manufacturing sector as a whole 71.8 per cent claimed that market security was the main motivation for investment in Malaysia. If we break this figure down, food (50 per cent), textiles (100 per cent), chemicals (245 per cent), metals (67per cent); machinery (70 per cent) and others (633 per cent) cited market security as a reason for investment in Malaysia. It thus seems that by 1978, the main motivation for Japanese companies investing in Malaysia was market security, followed by labour utilization, and thirtly, to secure resources. A more study claims that Japanese as well as other foreing companies have invested in Malaysia primarily for cheap labour:

> "Foreing capital interests have been able, as import substitution, to take immediate advantage of Malaysia's Export Orientation policy, simply by exploiting Malaysia's so-called comparative advantage (in the from of cheap labour) in producing labour-intensive industrial items such as electronic products."

> "The nature of such offshore production is, import 100 cent of their inputs from the parent company and to export 100 per cent of the output assembled of manufactured in Malaysia back to the parent company for further fabrication and re-export. The domestic value added (economic

contribution) and backward linkages (internal ecconomic integration) are minimal." (Saravanamuttu: 10)

There have been other factors related to the broader needs of the Japanese and Malaysian economies which also explain the drive to invest. In the 1970-80 period, the Japanese goverment was in fact directly responsible for much Japanese investment in countries like Malaysia: "In 1972, Japanese investment was relocated according to the Tanaka plan. This plan encouraged rejected categories of industries to invest aboad, and they were basically land, labour, pollution-intensive industuries and those industries with low skills, like textiles. While they were encouraged to go overseas, Japan encouraged the growth of the high-technology industries at home." (Chua: 10) Another study found that "in the eary 1970s most prestigious business council recommended a strategic resructuring of the Japanese economy through the decade. This called for exporting low value-added and high-pollution manufacturing processes while developing 'clean' and 'high-technology' industries in Japan." (Goley: 235) Furthermore, it can be said that "the oil crisis of 1973-74 accelerated Japanese investment and the business circle of Japan's dependency on the rest of the world, for its industrial inputs an agricultural commodities." (Goley: 236)

Malaysia's political stability seems to have been the most important factor for Japanese companies to invest, followed by other factors for such as investment-promotion measures by the goverment and inexpensive labour. (Denker: 1990: 12-13) While economic stability is often seen as an assurance of profits, political stability is considered absolutely crucial for protecting foreing companies assets, providing guarantees against confiscation and nationalization, as well as labour and other unrest. In Malaysia, the govement's statutory limitations on trade union activities, offial efforts to depress wage leves, and the existence of laws giving the goverment rights to directky intervene in disagreements between employers and employess have rated highly in the decisions of Japanese companies to locate in the country.

Wages

In the internationalization of Japanese capital, a principal reason for expanding into developing countries such as Malaysia has been low wages compared with wages for similar jobs in more developed coutries. Throughout the last two decades, this wage disparity has increased, resulting in a shift of

labour-intensive industries away from the developed world to developing countries. Differences in wage levels among developing countries, have also become increasingly important. For instance, in Singapore, the relatively rapid rise in the wages in the 1970s and 1980s, especially during 1979-81, reduced its previous advantage of offering cheap labour, and some of its industries have had to countries offering cheaper labour. Fong's research on the differences between Japanese firms investing in Malaysia and their mother companies covering Hitachi, Matsushita, Kao Denko and Toshiba found: "On the basis of wages alone, one dollar spent on labour by an average Malaysia electronic firm gives it a value-added (or worth) about douple that of an average Japanese electronics firm." (Fong: 1968: 57). This comparison for it demonstrates that, notwishstanding the higher labour productivity of Japanese electronics firm employees, contributions are about douple that of their Japanese counterparts.

Joint-Ventures, Incentives and Location

Joint-Ventures

Japanese investment in Malaysia are mostly in the from of joint-ventures, as elsewhere in ASEAN. According to Yoshihara, many Japanese investors who locate oversaes do not have adequate funds and their most practical strategy is therefore to set up affiliated companies as joint-vetures. A local partner can be useful for the initial establishment of the company and even after operations begin, because at the beginning, goverment appoval must be obtained, workers must be hired, products must be marketed, and a local partner can supply all these facilities. The experience of Japanese overseas investors has also encouraged joint-ventures. (Yoshihara, 1978: 82). Furthermore:

"Japanese businessmen and offcials in export promotion agencies of the government are more sensitive to theundercurrent of nationalism embodied in the new investment laws of developing countries. Joint-vevture agreement were considered necessary not only to conform to these laws, but also to provide a hedge against political roles. Sharing ownership whit nationals offers an opportunity for national identification, and reduces the appearance of foreigners, and hence the risk of expropriations." (Gregory; Chee:242).

Chee and Lee found that "the reason for selecting joint-ventures varies with the dominant partners involved. The most important reasons for setting up a

joint-venture generally had to the with the Malaysian goverment's requirements in those JJV (Japanese Joint Ventures) where the Japanese are dominant partners" (Gregory; Chee: 242).

Whether a decision to set up a joint-venture was encouraged by the Malaysian government, or was required by the Japanese government, or was for a company's own reasons, it generally proved beneficial for both partners. The Japanese company could use local funds to finance its operations and it secure or improve its market share in the counrty. Furthermore, it could use the import quotas given to Malaysian export, a.g. to the USA. This is especially true of textiles advantage of Malaysia's quotas to export indirectly to the EEC the USA via joint-ventures in Malaysia.

An examination of the distribution of Japanese and local paid-up capital showed that the proportion of local capital was higher during the Tunku Abdul Rahman period (1957-69) than in the Tun Razak and Tuh Hussein Onn periods (1970-80). The companies total paid-up capital amounted to US$ 544.305 million in the period 1970-80. The amount of paid-up capital by Japanese partners amounted to US$165.602 million, whereas the share of local partner amounted to US$378.703 million. In other words, capital put out $2.286 for every dollar of the Japanese partner. The ratio during the Tunku Abdul Rahman period was $4.132 for every dollar of the Japanese partner. (Denker, 1985: 134-136).

During the period 1970-80, 88 companies were established in munufacturing, 16 companies in mining, 2 in warehousing and one company each in real estate, services and transportation. An intersting aspect of these investments is that total paid-up capital in warehousing total came second after manufacturing, with only two companies having a total paid-up capital of US$301.575 million, compared to total paid-up capital in manufacturing of US 988.851 million. Most importantly, most of the capital in these two industries were provided by the Malaysian partners. In manufacturing, the paid-up capital by Malaysian partners amounted to US$138.072 million, whereas paid-up capital by Malaysian partners amounted to US$138.072 million, whereas paid-up capital by Malaysian partners amounted to US$300.851 million.

These comparisons of paid-up Japanese and local partners in joint-vetures reveal that most of the capital invested was concentrated in manufacturing, and most of the capital was provided by local partners. The Japanese share was

concentrated, in order of importance, in textile and textile products, followed by wood and wooden products, electrical machinery and transport equipment. Malaysian paid-up capital was concentrated in chemicals, followed by wood and wooden products, transport equipment, textiles and textile products, and metal and metallic products. (Denker, 1985: 134-136).

Incentives

Table 5 and 6 show the incentives granted to Japanese firms investing in Malaysia. Of the 184 firms established in the manufacturing sector, 87 firms had pioneer certificates, 18 firms had pioneer status, 21 firms had investment tax credit, one firm had labour utilazition relief, 53 firms had no incentives, while the incentive status of the remaining four firms was unknown.

When we look at the industrial breakdown of the incentives granted, we see that textiles and textile products, chemicalindustry non-metallic mineral and basic metal industries have benedfited most from these incentives. 63 per cent of firms in the textile industry, 53 per cent of firms in the chemical industry, as well as 43 per cent and 55 per cent of firm. established in non-metallic mineral products and basic metal industries respectively, have benefited from pioneer status and pioneer status and pioneer certificates.

Location and Size of Firms

From the early seventies until the mid-eighties, Malaysia's development policy was also aimed at promoting more balanced regional development. However, the value of such economic development programmes and projects of rural and lees developed areas depends critically upon the spatial implications of investments. Data on per capita Gross Domestic Product (GDP) in the different states in Malaysia provide some measure of regional inequalities and poverty. (Chee: 11). In 1970, Selangor including the Federal Territory, had a per capita GDP almost 63.0 per cent higher than the average for Malaysia. The per capita GDP in Nagri Sembilan, Penang, Phang and Perak were about average, with those of Sabah, Sarawak and Malacca lower by some 10 to 20 per cent.

Table 5

Japaese Manufacturing Firms in Malaysia Distribution of Incentives by Industry, 1987

Idustry	PC	PS	ITC	LUR	WTI	SU	Total
Food							
No. of firms	3	2	2	-	5	-	12
% with incentives	3.4	11.1	9.5	-	9.4	-	6.5
% in industry	25.0	16.7	16.7	-	41.7	-	100.0
Textiles							
No. of firms	12	2	1	-	3	1	19
% with incentives	13.8	11.1	4.8	-	5.7	25.0	10.3
% in industry	63.2	10.5	5.3	-	15.8	5.3	100.0
Wood Pulp							
No. of firms	4	1	1	1	7	-	14
% with incentives	4.6	5.6	4.8	100.0	13.2	-	7.6
% in industry	28.6	7.1	7.1	7.1	50.0	-	100.0
Paper							
No. of firms	-	-	-	-	3	-	3
% with incentives	-	-	-	-	5.7	-	1.6
% in industry	-	-	-	-	100.0	-	100.0
Chemicaal							
No. of firms	9	1	1	-	6	-	17
% with incentives	10.3	5.6	4.8	-	11.3	-	9.2
% in industry	52.9	5.9	5.9	-	35.3	-	100.0
Petroleum							
No. of firms	-	-	-	-	1	1	2
% with incentives	-	-	-	-	1.9	25.0	1.1
% in industry	-	-	-	-	50.0	50.0	100.0
Rubber							
No. of firms	4	-	1	-	-	1	6
% with incentives	4.6	-	4.8	-	-	25.0	3.3
% in industry	66.7	-	16.7	-	-	16.7	100.0
Plastics							
No. of firms	4	2	-	-	3	-	9
% with incentives	4.6	11.1	-	-	5.7	-	4.9
% in industry	44.4	22.2	-	-	33.3	-	100.0
Non-Metal							
No. of firms	6	2	3	-	3	-	14
% with incentives	6.9	11.1	14.3	-	5.7	-	7.6
% in industry	42.9	14.3	21.4	-	21.4	-	100.0

Table 5 (continued)

	PC	PS	ITC	LUR	WTI	SU	Total
Basic Metal							
No. of firms	6	1	2	-	2	-	11
% with incentives	6.9	5.6	9.5	-	3.9	-	6.0
% in industry	54.5	9.1	18.5	-	18.2	-	100.0
Fabric Metal							
No. of firms	4	1	2	-	4	-	12
% with incentives	4.6	5.6	9.5	-	7.5	-	6.5
% in industry	33.3	8.3	16.7	-	33.3	-	100.0
Machinery							
No. of firms	2	1	3	-	4	-	10
% with incentives	2.3	5.6	14.3	-	7.5	-	5.4
% in industry	20.0	10.0	30.0	-	40.0	-	100.0
Electrical&Electronic							
No. of firms	27	-	1	-	5	-	33
% with incentives	31.0	-	4.8	-	9.4	-	7.9
% in industry	81.8	-	3.0	-	15.25	-	100.0
Tranport							
No. of firms	1	3	3	-	6	-	13
% with incentives	1.1	16.7	14.3	-	11.3	-	7.1
% in industry	7.7	23.1	23.1	-	46.2	-	100.0
SC Measure							
No. of firms	1	-	-	-	-	-	1
% with incentives	1.1	-	-	-	-	-	0.5
% in industry	100.0	-	-	-	-	-	100.0
Miscellaneous							
No. of firms	3	1	1	-	1	-	6
% with incentives	3.4	5.6	4.8	-	1.9	-	3.3
% in industry	50.0	16.7	16.7	-	16.7	-	100.0
Hotel							
No. of firms	1	1	-	-	-	-	2
% with incentives	1.1	5.6	-	-	-	-	1.1
% in industry	50.0	50.0	-	-	-	-	100.0
No. of firms	87	18	21	1	53	4	184
% of firms	47.3	9.8	11.4	0.5	28.8	2.2	100.0

Key: PC - pioneer certificate
PS - pioneer status
ITC - investment tax credit
LUR - labour utilization relie
WTI - without tax incentive
SSU - status unknown

Source: Analysis by author from raw data obtained from Statics Department Manufacturing Section, 1987

Table 6

Japaese Manufacturing Firms in Malaysia in Distribution of Incentives by States, 1987

Idustry	PC	PS	ITC	LUR	WTI	SU	Total
Kuala Lumper							
No. of firms	2	-	-	1	3	-	6
% in state	33.3	-	-	16.7	50.0	-	100.0
% with incentives	2.3	-	-	100.0	5.7	-	3.3
Selangor							
No. of firms	32	4	5	-	21	-	62
% in state	51.6	6.5	8.1	-	33.9	-	100.0
% with incentives	36.8	22.2	23.8	-	39.6	-	33.7
Penang							
No. of firms	23	4	1	-	12	1	41
% state	56.1	9.8	2.4	-	29.3	2.4	100.0
% with incentives	36.8	22.2	4.8	-	22.6	25.0	22.3
Sabah							
No. of firms	1	1	-	-	1	-	3
% state	33.3	33.3	-	-	33.3	-	100.0
% with incentives	1.1	5.6	-	-	1.9	-	1.6
Johor							
No. of firms	11	3	7	-	7	-	28
% state	39.3	10.7	25.0	-	25.0	-	100.0
% with incentives	12.6	16.7	33.3	-	13.2	-	15.2
Sarawak							
No. of firms	-	1	1	-	3	1	6
% state	-	16.7	16.7	-	50.0	16.7	100.0
% with incentives	-	5..6	4.8	-	5.7	25.0	3.3
Perak							
No. of firms	10	1	3	-	2	-	17
% state	58.8	5.9	17.6	-	11.8	-	100.0
% with incentives	11.5	5.6	14.3	-	3.8	-	9.2
Trengganu							
No. of firms	-	-	-	-	1	-	1
% state	-	-	-	-	100.0	-	100.0
% with incentives	-	-	-	-	1.9	-	0.5
Kedah							
No. of firms	4	-	3	-	-	1	8
% state	50.0	-	14.3	-	-	12.5	100.0
% with incentives	4.6	-	21.4	-	-	25.0	4.3

Table 6 (continued)

	PC	PS	ITC	LUR	WTI	SU	Total
Negri Sembilan							
No. of firms	2	1	-	-	1	-	4
% state	50.0	25.0	-	-	25.0	-	100.0
% with incentives	2.3	5.6	-	-	1.9	-	2.2
Melaka							
No. of firms	2	2	1	-	-	-	5
% state	40.0	40.0	20.0	-	-	-	100.0
% with incentives	2.3	11.1	4.8	-	-	-	2.7
Pahang						-	
No. of firms	-	-	-	-	1	-	1
% state	-	-	-	-	100.0	-	100.0
% with incentives	-	-	-	-	1.9		0.5
Perlis						-	
No. of firms	-	1	-	-	1	-	2
% state	-	50.0	-	-	50.0	-	100.0
% with incentives	-	5.6	-	-	1.9		1.1
No. of firms	87	18	21	1	53	4	184
% of firms	47.3	9.8	11.4	0.5	28.8	2.2	100.0

Key: PC - pioneer certificate
ITC - investment tax credit
WTI - without tax incentive
PS - pioneer status
LUR - labour utilization relie
SSU - status unknown

Source: Analysis by author from raw data obtained from Statics Department Manufacturing Section, 1987

Table 7

Japaese Manufacturing Firms in Malaysia: State Location by Paid-up Capital, 1987

State	Paid-up Capital (thousand ringgit) <250	250-499	500-999	1.000-2.999	3.000-4.999	5.000-9.999	>10.000	Total
Kuala Lumpur								
No. of firms	130	13	7	13	1	10	6	180
% in states	72.2	7.2	3.9	7.2	0.6	5.6	3.3	100.0
% by capital-size	12.7	31.6	32.0	26.4	50.0	27.8	37.5	43.2
Selangor								
No. of firms	28	6	8	14	10	10	15	93
% in states	30.1	6.5	896	15.1	12.9	10.8	16.1	100.0
% by capital-size	12.7	31.6	32.0	26.4	50.0	27.8	37.5	22.3
Penang								
No. of firms	4	-	6	7	6	6	7	36
% in states	11.1	-	16.7	19.4	16.7	16.7	19.4	100.0
% by capital-size	1.8	-	24.0	13.2	25.0	16.7	17.5	8.6
Sabah								
No. of firms	27	-	1	1	-	1	1	31
% in states	87.1	-	3.2	3.2	-	3.2	3.2	100.0
% by capital-size	12.3	-	4.0	1.9	-	2.8	2.5	7.4
Johor								
No. of firms	2	-	3	3	1	4	5	18
% in states	11.1	-	16.7	16.7	5.6	22.2	27.8	100.0
% by capital-size	0.9	-	12.0	5.7	4.2	11.1	12.5	4.3
Sarawak								
No. of firms	21	-	-	3	-	-	-	24
% in states	87.5	-	-	12.5	-	-	-	100.0
% by capital-size	9.5	-	-	5.7	-	-	-	5.8
Perak								
No. of firms	3	-	-	4	1	3	2	13
% in states	23.1	-	-	30.8	7.7	23.1	15.4	100.0
% by capital-size	1.4	-	-	7.5	4.2	8.3	5.0	3.1
Trengganu								
No. of firms	1	-	-	-	-	-	1	2
% in states	50.0	-	-	-	-	-	50.0	100.0
% by capital-size	0.5	-	-	-	-	-	2.5	0.5
Kedah								
No. of firms	-	-	-	4	1	1	1	10
% in states	-	-	-	40.0	10.0	10.0	10.0	100.0
% by capital-size	-	-	-	7.5	2.8	2.8	2.5	2.4

Table 7 (continued)
Paid-up Capital (thousand)

	<250	250-499	500-999	1.000-2.999	3.000-4.999	5.000-9.999	>10.000	Total
Negri Sembilan								
No. of firms	-	-	-	2	-	1	-	3
% state	-	-	-	66.7	-	33.3	-	100.0
% with incentives	-	-	-	3.8	-	2.8	-	0.7
Melaka								
No. of firms	2	-	-	1	-	-	1	4
% state	50.0	-	-	25.0	-	-	25.0	100.0
% with incentives	0.9	-	-	1.9	-	-	2.5	1.0
Pahang								
No. of firms	-	-	-	1	-	-	-	1
% state	-	-	-	100.0	-	-	-	100.0
% with incentives	-	-	-	1.9	-	-	-	0.2
Perlis								
No. of firms	-	-	-	-	-	-	1	1
% state	-	-	-	-	-	-	100.0	100.0
% with incentives	-	-	-	-	-	-	2.5	0.2
No. of firms	220	19	25	53	24	36	40	417
% of firms	52.8	4.6	6.0	12.7	5.8	8.6	9.6	100.0

Source: Analysis by author from raw data obtained from Statics Department Manufacturing Section, 1987

Table 8

Japaese Manufacturing Firms in Malaysia: State Location by Labour Employed

State	No. of employees <25	25-49	50-74	75-99	100-249	250-499	500-999	>1.000	Total
Kuala Lumpur									
No. of firms	128	12	19	6	10	3	1	1	180
% in states	71.1	6.7	10.6	3.3	5.6	1.7	0.6	0.6	100.0
% by firm-size	55.2	44.4	59.4	31.6	20.0	13.6	4.5	7.7	43.2
Selangor									
No. of firms	35	7	3	8	16	11	8	5	93
% in states	37.6	7.5	3.2	8.6	17.2	11.8	8.6	5.4	100.0
% by firm-size	15.1	25.9	9.4	42.1	32.0	50.0	7.7	38.5	22.3
Penang									
No. of firms	13	2	2	1	7	2	4	5	36
% in states	36.1	5.6	5.6	2.8	19.4	5.6	11.1	13.9	100.0
% by firm-size	5.6	7.4	6.3	5.3	14.0	9.1	18.2	38.5	8.6
Sabah									
No. of firms	23	2	1	1	1	-	3	-	31
% in states	74.2	6.5	3.2	3.2	3.2	-	9.7	-	100.0
% by firm-size	9.9	7.4	3.1	5.3	2.0	-	13.6	-	7.4
Johor									
No. of firms	3	1	1	1	7	1	3	1	18
% in states	16.7	5.6	5.6	5.6	38.9	5.6	16.7	5.6	100.0
% by firm-size	1.3	3.7	3.1	5.3	14.0	4.5	13.6	7.7	4.3
Trengganu									
No. of firms	1	-	-	-	-	-	1	-	2
% in states	50.0	-	-	-	-	-	50.0	-	100.0
% by firm-size	0.4	-	-	-	-	-	4.5	-	0.5
Kedah									
No. of firms	2	1	2	-	2	2	1	-	10
% in states	20.0	10.0	20.0	-	20.0	20.0	10.0	-	100.0
% by firm-size	0.9	3.7	6.3	-	4.0	9.1	4.5	-	2.4

Table 8 (continued)

State	No. of employees <25	25-49	50-74	75-99	100-249	250-499	500-999	>1.000	Total
Negri Sembilan									
No. of firms	-	-	-	1	1	1	-	-	3
% in states	-	-	-	33.3	33.3	33.3	-	-	100.0
% by firm-size	-	-	-	5.3	2.0	4.5	-	-	0.7
Melaka									
No. of firms	1	-	-	-	1	2	-	-	4
% in states	25.0	-	-	-	25.0	50.0	-	-	100.0
% by firm-size	0.4	-	-	-	2.0	9.1	-	-	1.0
Pahang									
No. of firms	-	-	-	1	-	-	-	-	1
% in states	-	-	-	100.0	-	-	-	-	100.0
% by firm-size	-	-	-	5.3	-	-	-	-	0.2
Perlis									
No. of firms	1	-	-	-	-	-	-	-	1
% in states	100.0	-	-	-	-	-	-	-	100.0
% by firm-size	0.4	-	-	-	-	-	-	-	0.2
No. of firms	232	27	32	19	50	22	22	13	417
% of firms	55.6	5.6	7.7	4.6	12.0	5.3	5.3	3.1	100.0

Source: Analysis by author from raw data obtained from Statics Department Manufacturing Section, 1987

Amoung the poorest regions, Kedah, Perlis, Trengganu and Kelantan had per capita GDPs of about two-thirds the Malaysian avarage. Together with Kelantan, the avarage per capita GDP of these regions was less than half the national avarage. Therefore, in order to reduce regional differences and order income differences, the Malaysian goverment granted various incentives to encourage foreing investors in these regions.

The Japanese companies studied (Table 7 and 8) concentrated in the developed areas of Kuala Lumpur, Selangor, Panang and Jahor. Of the 318 Japanese firms, 180 (or 43 per cent) were in Kuala Lumpur, 93 (or 22 per cent) in Selangor, 36 (or 9 per cent) in Penang and 18 (or 6 per cent) in Johor. The total number of firms in these four men developed status areas thus companies located in Malaysia.

In Trengganu, Kedah, Perlis and Kelantan, which have been defined as underdeveloped regions in Peninsular Malaysia, there were 14 Japanese companies, with two active in Trengganu, 10 in Kedah, one in Perlis and in Kelantan. As can be seen in Table 8, 232 Japanese firms (or 53 per cent of the total) employed less than 25 persons each, and 128 firms (or 55 per cent of the total) were in Kuala Lumpur, 35 in Selangor, 23 in Sabah, 20 in Sarawak and 13 in Penang. Firms employing more than 1.000 workers each were concentrated in Penang and Selangor, with fivesuch firms in each state.

Looking at the medium-sized firms, the number of firms employing 100-249 workers was 50 (i.e. 12 per cent of the total), while the number employing 50-74 workers each was 32. Twenty-seven firms employed 25-49 workers, and 19 employed 75-99 workers each.In other words, very large firms (employing more than 1,000 workers) constituted 3 per cent of all firms, medium-large firms (100-249 workers each) made up 12 per cent of the total, small-medium firms with 50-74 workers and 75-99 workers each made up 7 per cent and 5 per cent respectively white small firms (25-49 workers each) made up 7 per cent.

These statics suggest that the Japanese firms located in Malaysia were, generally, of medium and small size, and have preferred to be situated in developed regons such as, Kuala Lumpur, Selangor, Penang and Johor. By thus concentrating jop creation in already developed regions to the relative neglect of less developed ones, these firms have not fulfilled one of major social and economic expectations of DFI in Malaysia.

Table 9

Japaese Manufacturing Firms in Malaysia Paid-up Capital by Labaur Employed

No. of employees	Paid up Capital (thousand ringgit) <250	250-499	500-999	1.000-2.999	3.000-4.999	5.000-9.999	>10.000	Total
<25								
No. of firms	185	11	12	16	3	2	3	232
%by firm- size	79.7	4.7	5.2	6.9	1.3	0.9	1.3	100.0
%by capital- size	84.1	57.9	48.0	30.2	12.5	5.6	7.3	55.5
25 to 49								
No. of firms	11	2	5	4	2	2	1	27
%by firm-size	40.7	4.7	18.5	14.8	7.4	7.4	3.7	100.0
%by capital- size	5.0	10.5	20.0	7.5	8.3	5.6	2.4	6.5
50 to 74								
No. of firms	9	3	3	9	3	4	1	32
%by firm- size	28.1	9.1	9.4	28.1	9.4	12.5	3.1	100.0
%by capital- size	4.1	15.8	12.0	17.0	12.5	11.1	2.4	7.7
75 to 99								
No. of firms	6	1	2	6	-	3	1	19
%by firm- size	31.6	5.3	10.5	31.6	-	15.8	5.3	100.0
%by capital- size	2.7	5.3	8.0	11.3	-	8.3	2.4	4.5
100 to 249								
No. of firms	5	2	2	12	7	13	9	50
%by firm- size	10.0	4.0	4.0	24.0	14.0	26.0	18.0	100.0
%by capital- size	2.3	10.5	8.0	22.6	29.2	36.1	22.0	5.3
250 to 499								
No. of firms	2	-	1	5	5	3	6	22
%by firm- size	9.1	-	4.5	22.7	22.7	13.6	27.3	100.0
%by capital-size	0.9		4.0	9.4	20.8	8.3	14.6	5.3
500 to 999								
No.of firms	2	-	-	1	3	6	10	22
%by firm- size	9.1	-	-	4.5	13.6	27.3	45.5	100.0
%by capital-size size	0.9	-	-	1.9	12.5	16.7	24.4	3.3
>1.000								
No. of firms	-	-	-	-	1	3	10	14
%by firms-size	-	-	-	-	7.1	21.4	71.4	100.0
%by capital-size	-		-		4.2	8.3	24.4	3.3
No. of firms	220	19	25	53	24	36	41	418
% of firms	52.6	4.5	6.0	12.7	5.7	18.6	9.8	100.0

Source:Analysis by autor from raw data obtained from Statistics Departmant, Manufacturing Section

Tablo 10
Japanese Manufacturing Firms in Malaysia Lalour Employed by Location
No.of employees

Firms Location	<25	25-49	50-74	75-99	100-249	250-499	500-999	>1.000	Total
Outside FTZs/IES									
No. of firms	21.3	21	25	11	25	6	7	3	311
%of all firms	68.5	6.8	8.0	3.5	8.6	1.9	2.3	1.0	100.0
%of employees in column	91.8	77.8	78.1	57.9	50.0	27.3	31.8	23.0	74.6
Free Trade Zone(FTZ)									
No.of firms	2	-	-	1	2	6	7	6	24
% of all firms	8.3	-	-	4.2	8.3	25.0	29.2	25.0	100.0
%of employees in column	0.9	-	-	5.3	4.0	27.3	31.8	46.2	5.8
Inustrial Estates(IEs)									
No. of firms	17	6	7	7	7	10	8	4	82
% of employees	20.7	7.3	8.5	8.5	8.5	12.2	9.8	4.9	100.0
in column	7.3	22.2	21.9	36.8	36.8	45.5	36.4	36.4	19.7
Total no. of firms	232	27	32	19		22	22	13	417
%of all firma	55.6	6.5	7.7	4.6	19	5.3	5.3	3.1	100.0
					4.6				

Sourse: Analysis by author from raw data obtained from Statistics Department, Manufacturing Section 1987.

As shown in Table 8, for 220 of the japanes firmas, or 53 per cent of their total, paid-up capital was less than M$250.000 each. A further 19 companies had paid- up capital of more than M$250.000 each, 25 had M$500.000 up to M$1 million,53 companies have paid-up capital of M$1 to 3 million, 24 companies of M$3 to 5 million,and 36 companies with M$ to 10 million.These data complement the data in Table 7 to confirm that the Japanese companies in terms of both capital and labour tend tobe of small and medium size while capital -intensive investments are also found in the very same developed regions i.a. Kuala Lumpur, Selangor and Penang.

As Table 9 suggests, there seems to be exist a direct relationship between capital intensity and the number of workers employed, with the larger the paid-up capital of a company, the larger the workforce. Atotal of 185 Japanese firms had paid- up capitals of M$250.000 or less and employed less than 25 workers, while these same companies constituted 80 per cent of the firms with workforc of less than 25 workers. They also constituded 84 per cent of the companies with paid-up capitals of up to M$250.000 all of w hich suggests that Japanese companies in Malaysia tend to be of medium small size.

AsTable 10 shows, of the 417 Japanes e firms investing in Malaysia, 106 were established in Free Trade Zones(FTZs)and industrial estates, while 311 firms or 75 per cent were located outside them. The number of firms with less than 25 workers was 232, and 92 per cent of them were in the latter category. İn short, Japanese firms strongly tended to concentrate in developed regions and where already was well developed infrastructure, and by so doing, they do id not serve to reduce regional differences and locational poverty. Thus, the overall contribution of Japanese companies to Malaysia's own socio- economic goals may be questioned, as also suggested by Chee and Lee (1979) and Saravanamuttu(1983)

Transfer Prıncing

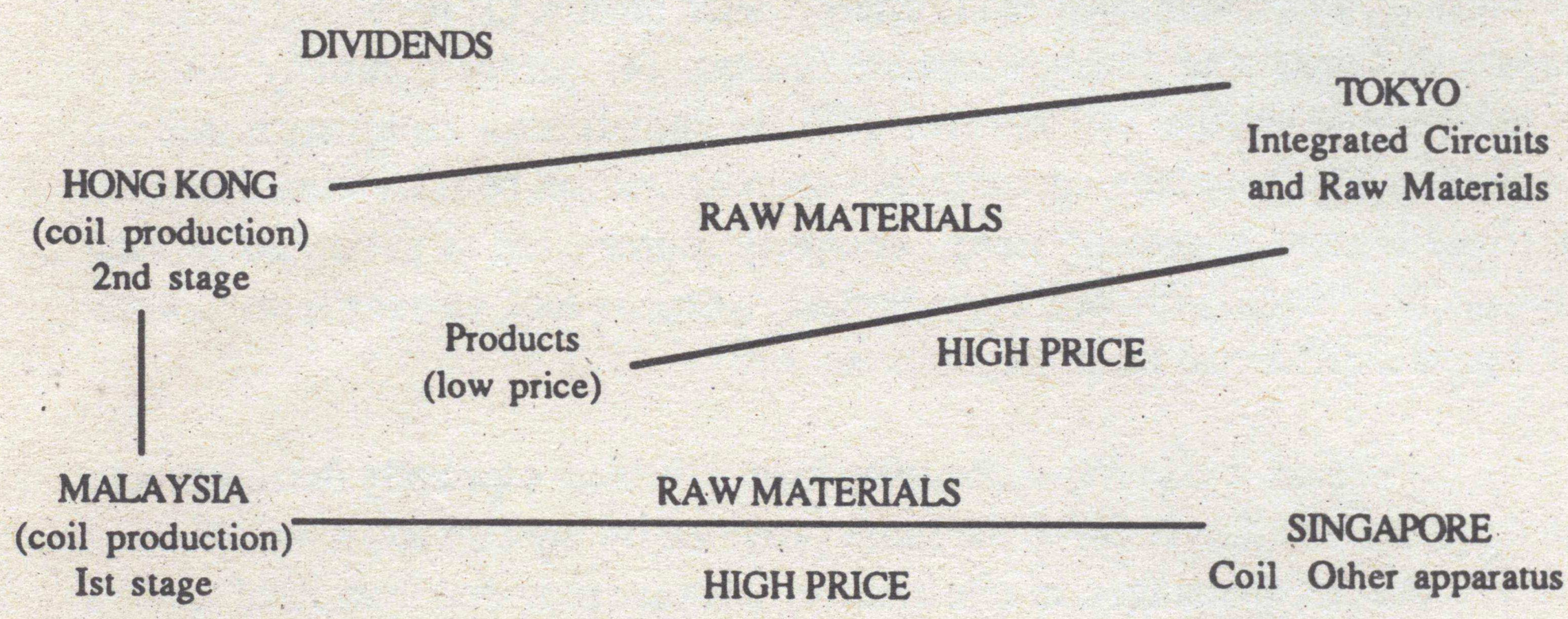
Transfer pricing is an accounting method used by multinational companies to maximize their post-tax retained profits. İnternationalization and intra- firm trading between the branches of a multinational company, a.g. between the head office and its subsidiaries, often involve selling, importing or exporting goods at prices different from tnheir arms- length international prices, thus transferring profits or proceeds to or from the countries cconcerned. İn a sense, the lucrative

possibilities from transfer pricing have been an important motivational factor for transnationalization.

Many Japanese transnational corporations overprice sales to their subsidiaries situated in tax havens and under-price purchases from them to liability. This transfer of princes, and hence profits, occurs within the sametransnational corporatiom , Such internal transfer of profits often emerge as "loses"some headquarters or subsidiaries official accounts, which can be ofset against tax liabilities, with the tax havens showing huge profit s as a result. The fact that many tax havens permit the repatriation of any amount of capital without restriction, including exemptions from all forms of customs dutios and taxes, means that Japanese and othher transnational corporations can extract profits without giving much in goverment fiscal systemms. The importance of transfer pricing emphasised: "İt was argued that the possibilities for international profit transfer through intra corporate pricing manipulation to the Asian low tax zones was as important as the cheap labour factor in the choice of location by Texas İnstruments"(Sciberos). Her is a possibl scenario for Japanese transnationals involving Toko İncorporation, an electronics company with its head office in Tokyo and subsidiaries uin Korea, Taiwan.Hong Kong, Singapore, Malaysia, Europe and Latin America (see Figure 1). The Malaycia n branch imports raw materials from the main Toko plant in Japan, the Toko branch in Singapore and another(non Toko) Japanese company locatede in a Taiwanese Free Trade Zone. After assembling, Toko Malaysia exports semi- finished coils that have been through the first stage of processing to a Tokyo factory in Hong Kong, Singapore, Malaysia, Europe and Latin America (see Figure 1). The Malaysian branch imports raw materials from the main Toko plant in Japan, the Toko branch in Singapore and another (non-Toko) Japanese company located ina Taiwanese Free Trade Zone. After assembling, Toko Malaysia export semi-finished coils that have been thnrough the first stage of processing to a Toko factory in Hong Kong, where they are finally processed and thence are sold on the world market. Within this entire example, the profit level of the Malaycian branch are artifically inflated by ower -charging for imported inputs into Malaysia and under- pricing the exported coils from Malaysia to Hong Kong. The tax-free profits are then sent to Japan. The director of the Toko branch in Malaysia offers this candid admission:

"İn this area, Malaysia and Hong Kong factories are one group. Therefore, when we export semi-finished products from our Malaysian factory to the Hong Kong factory, there is no 342 need to add up the profits here. We are successful as long as a large profit is left in Hong Kong when the finished products are exported to the worlde market because these profits are sent straight to the Toko head office in Tokyo as dividends. When exporting semi- finished products from Malaysia to Hang Kong, they are cheaper than the market price, although we cannot engage in those tooo extensively, as it is unwise to do it openly"

Figure 1
Trade and Transfer between Branches of Toko Corporation



Source: Khor Kok Peng, The Malaysian Economy Structures and. Dependence Maricans Kuala Lumpur,1983

Sources of Finance of Japanese Affiliates in Malaysia

The response tothe question"How do Japanese companies investing in Malaycia finance their activites and expansion." is important for several reasons. The answer to this question might help answer the question: "why are these companies investing in Malaycia."and "What are their contributions to Malaysia's capital stock." Table 12 shows that Japanese local and parent companies as well as financial institutions play important role in financing the activities and expancion o2f Japanese companies in Japan, but sources created in Malaysia by these companies. İn other words, after some initial support, there is a self-supporting process dependent upon local sources. 59 per cent of the Japanese companies relations of at least 10 years with financing institutions in Malaysia.

Table 12
Japanese Manufacturing Firms in Malaysia: Sources of Finance

Proportion of finance	1-24%	25-49%	50-74%	75-100%
(a) Local financial institutions	8	3	7	14
(b) Japanese financial institutions	11	7	4	10
(c) Patent company	14	1	3	14

Source: Question Maire survey.

The four basic sources for financing Japanese companies activities and expansion can be identified as:(1) undistributed profits; (2) revolving funds, (3) Japanese banks and foreign finance houses, (4) parent company sources. Undistributed profits and revolving funds constitute a company's internal sources, while the others are external sources. As can be seen from Table 12, external sources, especially parent company sources, are as important as local sources in providing finance. Nevertheless, when we look closer the importance of Japanese and Local banks becomes clearer.

Local bank mediation in obtaining loan- finance- especially from Japanese banks in such relations. Since the funds provided by foreign loans are obtained with local bank quarantees, in effect, these funds are provided from local sources and reduce the actual transfer of capital from Japan. Thus, the basic source of finance is not funds transferred from headquarters , but provided from local sources. Indeed the contribution of Japanese companies own finance to capital stocks in Malaysia is not especially large compared with local finance . Thus,81 per cent of the Japanese firms in the electronics industry depended upon local banks, while the remaining 19 per cent utilized parent company sources. Inthe textile industry, 27 per cent the Japanese firms utilized foreign sources, whereas 73 per cent utilized local banks.

Funds held within a company, mainly from undistributed profits and depreciation allowances, constituted the most important internal source of funds. Both field research and interviews lead us to the conclusion that these two types of funds from a very large potion of2 most companies financial resources and constitute the basic sources financing the company's activities. To illustrate this, it can be noted that the undistributed profits of the semi- conductor producer, Hitachi Semi-Conductor Sdn. Bhd. active in the Malaysian electronics industry

since 1971, amounted to M$73, 162 million as of 1987.Undistributed profits of the Japanese textile giants, Pen Fabric Sdn. Bhd., Pen Fibre Sdn. Bhd., and Woodard Textile Mill Sdn. funds held by these firms from depreciation allowances amounted to M$5.4 million for Pen Fabric, M$72.9 million for Pen Fibre and M$4.5 million for Woodard. The total undistributed profits and depreciated allowances for these four companies amounted to M$377 255 million, representing nearly 17 per cent of total Japanese investments in Malaycia!

Factors Affecting Financial Policies of Japanese Companies

The main financial sources for Japanese firms in Malaysia are their profits, funds provided from parent firms or headquarters as capital or loans, funds obtained from local and foreign banks, and, less importantly , funds from the sale of stock in Japan and Malaysia. How much these firms utilize these sources for their activities and interviews show that these companies tend to hold a substantial portion of their incomes within the company in the from of undistributed profits and depreciation allowances, and utilize these funds to finance the company's activities and expansion.

Dividends from Japanese-Malaysian companies to shareholders are generally very low. One reason appears to be the rapid growth rates of and consequently, the larger investment funds needed by these companies. Another is the desire to avoid tax payment by re-orienting profits for investment, instead of distributing them to shareholders. This works because minimal tax is payable on profits held for reistventment, wheras profits transferred to the parent country or distributed to shareholders are subject to several corporate and other taxes. One tactic used by Japanese companies in Malaycia is to accumulate undistributed profits as depreciation allowances, which are non-taxable. Their declared and taxable profits thus appear as less than their actual profits.

An importandt source of loans for these firms is the local credit market. As can be seen from Table 12, 75-100 per cemt of the funds of 14 firms and 50-74 per cent of the funds of seven firms are provided by funds from the credit market in Malaysia. Japanese firms choose to borrow substantially from local sources, not only to secure invesstment funds, but also to keep their capital commitments and debts in the same currency as a precaution against possible devaluation of the local currency, which would reduce the yen value of their assets. They can also thus take advantage of fluctuations in exchange rates. The KMalaysian ringgit's

depreciation against the Japanese yen by more than 50 per cent in the period 1983-87 thus means that these companies probably obtained substantial addiational earnings from foreign exchange developments, Similarly, high inflation in the Malaycian economy would encourage such companies to secure local loans. Another factor is the fact that interest payments on local loans are tax-deductible.

A substantial portion of the funds used by Japanese firms to finance international expansion and activities is made up of intra-firm loans granted by the parent company to subsidiary or affiliated companies . The importance of such funds provided by the parent company can be seen in Table 12. Intra -firm loans have several different function in the opperations of transnational companies . Affiliated companies may easily transfer surplus funds to their parent companies in the guise of debt and/or interest payments. The transfer of a company's earnings to its headquarters in this guise, rather than as a transfer or declared profits, enables it to evade taxes. The practice has the furnther advantage of enabling the company to claim loan-repayment status for such funds, which can then be offset against tax liabilities.

Other considerations which enter into the financial policies of Japanese (and other international) companies in Malaysia include company size, technological level, ownership and profitability of the Malaysian investment. In genaral , large companies transfer more funds than small companies to their headquarters Firms established with entirely Japanese capital utilize more funds and intra-firm loans from headxquarters than joint-ventures. Capital-intensive firms borrow more locally than labour-intensive ones, while companies tend to borrow from local banks, whereas large ones tend to obtain loans from both domestic and international capital markets.

Markets

Two oft -cited motives Japanese companies to invest in Malaysia to manufacture goods are "to expand the market " and "to benefit from the advantages offered by the host countries" (inexpensive and abundant labour, materials and investment incentives.)

If a companiy's motivation for locating is simply to expand its market, or secure a market share, then it is likely to emphasize local sales, and exports to

(third) countries and regions are likely to be of only secondary importance in short, the basic motivation of these companiese seems to be to "sell where you produce." However, the general trend of Japanese electronics and textile firms in Malaysia suggests that this is not their main motive . Of the textile firms surveyed, Pentley exported 9.50 per cent of its prnoduction , Woodard 99.0 per cent, Pen Fabric 87.7 per cent and Pen Fibre 38.1 per cent.

Companies are expanding abroad to reduce their manufacturing costs by taking advantage of inexpansive laboure, raw material and energy as well as investment incentives for export to Japan and other markets, their basic aim is to produce where costs are lower and to sell to the world from there. As may be deduced from Table 13. some of the Japanese companies studies sell, primarily within the Malaysian market, while other use Malaysia as a springboard for export to foreign markets, especially to Japan, the USA and EEC.

The situation of the electronics industry is similar to that of the textile sector, with production aimed almost completely at foreign markets. For example, Hitachi's production is exclusively for export, with Japan taking 87.0 percent of1 its total output, Singapore 3.0 percent, Hong Kong 8.0percent and the USA 2.0- percent. Although the entire output of the Naito electronic firm is for export and itsmanufactured products qualify as finished products, it serves NEC as a sub- contracting manufacturer, with 97.0 per cent of its production to NEM Malaysia and other countries. While the Asahi electronic firm exports all of its production to Singapore, the Matsushita room air conditioner manufacture exports 93 per cent of its production, with 40 per cent to they going USA, 20 er cent to Hong Kong, 1 per cent to Singapore, 37 per cent to other countries and 7 per cent to the Malaysian market.

Table 13
Japanese Textile Firms in Malaysia: Export to Foreign Markets

	Pently	Woodard		Pen Fabric	Pen Fibre
		Fabric	Yarn		
Singapore	10.0	-	1.5	7.7	0.6
Hong Kong	15.0	-	10.0	12.5	17.0-
Taiwan	20.0	-	-	3.7	-
ECC	29.0	26.0	75.0	13.3	0.0
Japan	0.0	0.0	0.0	0.0	0.4
USA	20.0	59.0	2.0	9.3	49.0
Other countries	10.0	15.0	5.2	35.3	

Source: Questionnaire Survey.

Local sales for firms production foodstuffs, rubber and chemicals are higher than those of firms involved in textiles and electronics. NGK Spark Plugs (M) Sdn. Bhd. sells 90 per cent of its production to the Malaysian market, while Tokai Cigar Litein sells 85 per cent, Yung Kong Galvanising Ind. Bhd. 100 per cent and Dipsol Chemical (M) Sdn. Bhd. 20 per cent. It can be seen that Japanese manufacturing investments display a dualist character, with electronic and textile firms exporting to international markets, while other industries produce mainly for the domestic market.

SUMMARY

Internationalization of Japanese capital a principal reason for expanding into developing co intry such as Malaysia was examined over the successive periods: 1957-69; 1970-80; 1981-86 respectively. In the firrrst period, Japanese investment in Malaysia being generally raw material acquisition and trade, changed its shift towards labour-intensive industries, as well as raw material processing and trade in the second and third period.

Japanese investment in the form of joint ventures, enable the Japanese capital to exploit the incentives provided by Malaysian Goverment . It also found that Japanese firms being, small and medium size were located generally in developed regions and use local funds to finance their operations. The lucrative possibilities froom transfer pricing have been an important motivational factor for Japanese transnationals.

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