

Identification of the Issues for Successful Collaboration Between Malaysia and Japan: Synergising Defense Manufacturing Capabilities

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Abstract

For several decades, the emphasis of the Malaysia-Japan relationship centred on economic cooperation, but the two countries' ties gradually "expanded to include culture, tourism, education and security". Recent developments at both domestic and international levels could pave the way towards a stronger, deeper and more comprehensive relationship. These changes are observable in the bilateral relations between Malaysia and Japan. While economic ties are still the focus of Malaysia-Japan relations, recent developments — through various initiatives and agreements in the last ten years — suggest that "the two countries are keen not only on reviving and reaffirming their ties but also on expanding cooperation in other areas as well". One of these includes strengthening the capabilities in the defense and security sector in Malaysia. Both countries vowed continued cooperation and commitment to maintaining security in various areas such as the Korean Peninsula, the Middle East, and Southern Philippines; peacebuilding; maritime navigation; and the global fight against terrorism.

This study intends to identify the possible strengths and opportunities of both Malaysia and Japans' defense manufacturing industry and outline necessary strategies for successful collaboration to strengthen the defense manufacturing capabilities for Malaysia. The assessments shown in this study is expected to generate meaningful insights for the defense manufacturing companies, when there are powers competing in the region for military supremacy as well as global economic uncertainties, a closer Malaysia-Japan defense collaboration could produce synergistic impact for both countries. The confidence and the trust that have grown in recent years between the two countries in the overall bilateral relationship "have facilitated the strategic/security partnership in which the defense industry ties would be a key component of the ongoing 'Japan-Malaysia strategic partnership'"

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I. Introduction

Malaysia and Japan have generally enjoyed a cordial relationship since the establishment of formal diplomatic ties six decades ago, with the last three being commonly heralded by scholars and observers alike as a 'special relationship' ^(1, 2) based on 'economic' and more recently, 'strategic' partnership ^(3, 4). Japan as Asia's preponderant power has not only impacted on Malaysia's external behaviour, preferences and orientations, but also most, if not all state actors in the region.

Japan was Malaysia's largest source of foreign investments in 2011, with approved investments of USD3.36 billion spreading across 77 projects ⁽¹⁾. The strategic partnership's economic agenda, nonetheless, will undoubtedly serve as a major impetus/driver of a more sizeable inflow of Japanese capital in the foreseeable future. The volume of Malaysia-Japan bilateral trade, especially in terms of exports, has been "trending upward" since the signing of the Malaysia-Japan Economic Partnership Agreement (MJEPA) in May 2005, and its subsequent implementation a year later ^(5, 6, 1). The MJEPA comprises two parts, namely a free trade agreement (FTA) component, which has a 10-year realisation deadline, and an 'economic cooperation' component, meant to further boost trade and investment ties ⁽⁵⁾.

Malaysia relies heavily on defense imports, owing to local defense companies' lack of technologically advanced manufacturing capabilities. Malaysian defense producers are looking to develop and expand within certain segments, this process will take many years, require substantial investment and depend on foreign partners' willingness to provide technology transfer. Malaysia's dependence on external entities to provide Maintenance, repair and overhaul (MRO) services and parts will reduce gradually; however, as this segment of the local sector is already relatively developed, and continuing to expand through offsets, in line with the government's vision of the country as a regional MRO hub ⁽⁷⁾.

On the other hand, Japan's defense trade is positive and will continue further into more robust positive territory over the coming decade as Japan looks to bolster its defense export capabilities as outlined by Abe's reform plans for the industry and as stipulated by the National Security Council and the Cabinet of the Japanese Government's 'National Security Strategy' and 'National Defense Program Guidelines for FY2014 and Beyond' ⁽⁸⁾.

This article assesses the contemporary trends, strengths and prospects of Malaysia-Japan defense manufacturing capabilities and establishing a future bilateral relationship with an expectation of moving towards strategic partnership and beyond.

II. Malaysia's Defense: An Overview

The government of Malaysia realizes the need "to upgrade the nation's military assets, however, it also highlighted the need for prudent utilization of public funds for best-value spending". With this target, the ministry has presented the country's "first Defense White Paper (DWP)", in Parliament in September 2019. This

is “Malaysia’s first formal document for the defense and security sector to take stock of all its military assets and to chart Malaysia’s defense policies in the next decade”⁽⁹⁾.

The report "The Future of the Malaysia Defense Industry - Market Attractiveness, Competitive Landscape and Forecasts to 2022" renders insights into “the market opportunities and entry strategies adopted by foreign OEMs (original equipment manufacturers) to gain market share in the Malaysian defense industry”⁽⁹⁾.

However, Malaysia’s defense exports were trifling during 2012-2017 due to “the absence of an advanced and developed domestic defense industry”. The country’s goal is for the domestic market “to gain capabilities through collaborations and technology transfers, thus reducing its reliance on defense imports”.

2.1 Malaysia’s Defense Sector Strengths

Defense companies around the world are courting Malaysia, enabling Kuala Lumpur to negotiate favorable contract terms. The MRO segment of Malaysia's defense sector is relatively well developed and attracting many international customers. Some local companies have developed production capabilities for items such as small arms, light weapons and military vehicles. Cambodia and Vietnam have emerged as important new export markets for Malaysian defense equipment.

2.2 Malaysia’s Defense Sector Opportunities

Currently, the industry lacks the critical mass to encourage diversification of markets and users to support the export initiatives of the defense industry. High capital investments both at the initial and continuing operational stages inhibit ease of entry into the sector. The high risk of setting up a manufacturing or assembly facility without first securing the supply contract for parts or products to the main buyer i.e., the Government of Malaysia.

In order to grow this industry, the government initiated a vendor development program for selected companies with both financially and technological capabilities, either through acquisition or joint-venture, to manufacture either parts or components to offset these risks⁽⁹⁾.

Military products and services of the Malaysian Armed Forces are numerous in types and of varied specifications. The quantity for each product and service does not justify the production capacity of profit margin for local companies. As a result, Malaysia must import such products and services which contributes to the high import of defense products. Malaysia is looking at ways to reduce the balance of payment and to create production capabilities of major parts within the country. Specifically, Malaysia wants to develop its capacity to overhaul and maintain military equipment procured⁽⁹⁾.

The current military hardware and software are depended upon foreign Original Equipment Manufacturers (OEMs). For the long-term, Malaysia is looking to develop an efficient technology management program and to reduce the cost of developing technological capability without compromising on technological superiority.

All branches of the Malaysian Armed Forces had requested additional funding under the 11th Malaysia Plan 2016-2020 for new procurement. However, due to the above-mentioned budget reassessment, many of these requests may be altered, due to budget constraints, and the focus will likely shift to service life extension and upgrade programs, rather than large-scale procurement of new assets⁽⁹⁾.

The government is looking to improve naval and air force capabilities in line with regional security dynamics, creating future opportunities in the maritime and aerospace segments. Malaysia is strategically and geographically well placed to become a regional defense MRO hub. Offsets from new programs will see greater involvement of international defense companies, such as Airbus and Boeing, in the domestic industry. The recently negotiated strategic pact with China could provide opportunities for the Malaysian defense sector, especially within a segment such as missile technology. An ASEAN-wide defense offset policy is being proposed, potentially benefitting defense companies in Malaysia and across the wider region.

III. Japan's Defense: An Overview

Japan's defense sector is technologically sophisticated and well managed. The 2017 defense white paper, along with various documents published over the last few years, such as the Defense Technology Strategy in August 2016, outline clear ambitions to further develop Japan's domestic defense sector. Continued geopolitical pressure will ensure that Japan develops and upgrades its military hardware, particularly in amphibious and naval sectors. Foreign firms will continue to have opportunities in the market, assisted by Japan's relatively transparent and corruption-free procurement procedures.

3.1 Japan's Defense Sector Strengths

Japan has a high level of technological sophistication in all sub-sectors, increased by the number of defense cooperation agreements Japan is developing with allies. It has demonstrated capabilities in the development of complete, advanced platforms. Abe's government is actively encouraging joint defense and co-development agreements with a broad range of foreign states, including the US, the UK, India, Malaysia, Philippines, Australia, Vietnam and Indonesia to name but a few. This should boost indigenous capabilities and increase both defense trade and diplomatic ties. Renewed political stability will ensure continued momentum behind Prime Minister Shinzo Abe's aspirations to develop the domestic sector. There is a transparent and independent procurement procedure along with clear legislation. Parliamentary oversight and public disclosure are strong in Japan. There is a lack of corruption in the Japan Self-Defense Forces (JSDF) and government bodies.

3.2 Japan's Defense Sector Opportunities

Japan has aspirations of playing a more proactive role in international peacekeeping and security. It has significant competence in the technology, electronics and heavy engineering sectors that have dual-use applications. In October 2015, the Ministry of Defense launched the Acquisition, Technology & Logistics Agency with outlined intentions to develop local defense capabilities via collaboration and international sales. The 2017 defense white paper revealed a renewed commitment to developing the domestic industry. The increasing multilateral focus of the country's defense matrix will foster defense trade ties.

IV. Malaysia-Japan Relations Continuation of the Mahathir Era: Towards A Strategic Partnership

Malaysia-Japan ties have by and large continued to progress, even after the retirement of Prime Minister Mahathir, the ‘chief protagonist’ of the LEP, in 2003 until today. The efforts continued reaffirming the ‘special nature’ of the bilateral relationship to elevate it to the level of “enhanced partnership” (in 2010), and later on, “strategic partnership”, via the proposed revisiting or more specifically, upgrading of the LEP, popularly known as the “Second Wave of LEP” or “LEP 2.0”^(11, 3). The strategic partnership that the two countries inked back in 2015 contained a heavy security focus as well, which included not only an increased focus on engagements like exercises but also Japan helping boost Malaysia’s capabilities through more advanced transfers of defense equipment and technology and other forms of knowledge sharing and capacity building⁽¹²⁾. The pattern of strengthening defense collaboration as part of wider bilateral ties has continued into 2018 as well, with developments such as the signing of a new agreement on the transfer of defense and technology back in April 2018. The new government in Malaysia that took power earlier this year, which saw the return of Mahathir to the helm, has also shown a commitment to continue boosting Malaysia-Japan relations, which had been a major focus for Mahathir during his previous tenure as prime minister under the banner of the so-called Look East Policy.

On September 11, in another example of the ongoing activity within the bilateral defense relationship, both countries signed an agreement as part of their ongoing security ties. During a visit by Malaysia Defense Minister Mohamad Sabu to Japan, which included several engagements including a defense meeting chaired by him and his Japanese counterpart Itsuri Onodera, both countries inked a memorandum of understanding on defense cooperation⁽¹²⁾.

The pronouncement of the strategic partnership heralds yet another chapter in Malaysia-Japan ties, highlighting the robustness and significance of the bilateral relationship to both countries. What was perhaps ground-breaking regarding the upgraded partnership was their pledge to advance defense and maritime cooperation, where Malaysia and Japan agreed to initiate negotiations on a possible framework for the transfer of defense equipment and technology, a first for Japan with any ASEAN member-state^(13, 3). Additional areas of security cooperation spelt out include maritime safety (i.e. assistance to Malaysia’s coast guard agency, the MMEA) and humanitarian assistance and disaster relief (HA/DR)⁽¹³⁾. Indeed, the ‘highly visible’ outcome of Abe’s 2013 visit was that the Japanese premier and his Malaysian counterpart agreement to strengthen cooperation on maritime security and revitalizing their defense exchanges, with a view of having a defense memorandum prepared in the near future to establish the areas of cooperation.

V. Conclusion

Malaysia-Japan relations have generally enjoyed a sustained period of warm, cordial and mutually beneficial interaction, at both bilateral as well as multilateral stages. The recent upgrading of their special relationship to the level of strategic partnership clearly indicates the continuing importance placed by both countries on their bilateral ties, after more than five-and-a-half decades since they first established official diplomatic relations. To be sure, there were a number of domestic and external dynamics, such as the idiosyncrasies of key actors i.e. Mahathir, mutual complementarities and interests, and congruence of strategic thought and interests between the two governments, which paved the way for the dawning of a special relationship under the ambit of the Look East Policy (LEP).

However, the recent enhancement of the decades-old relationship to include more comprehensive and substantive enhancement in both traditional and 'newer' areas of cooperation suggest the continued prevalence of strategic congruence, which augurs well for the future of Malaysia-Japan relations, in an increasingly fluid, challenging and interdependent global order.

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