

# The Second Wave of Malaysia's Look East Policy (LEP): Bringing New Continuity, Change, and Challenges\*

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## Abstract

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In 2013, Malaysia announced the second wave of its Look East Policy (LEP 2.0) which focuses on developing strategic sectors with a special emphasis on high technology and high-end service industries. As Malaysia is currently still in the starting phase of LEP 2.0, it is important to review the first phase of LEP to fully understand its limitations and weaknesses existent in it, so as to better understand how certain regional transformations should be incorporated into the new wave successfully. This paper argues that the first wave of LEP showed pro-Japan biasness rather than a relatively balanced approach toward both Japan and Korea. The bilateral ties of Malaysia-Japan outweighed those between Malaysia-Korea, as indeed, the former Prime Minister's pro-Japanese inclination affected the full outcome of LEP. In other words, Mahathir's

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pro-Japanese stance produced a largely neglected attitude toward Korea. Therefore, despite all the achievements and fruitful results of the LEP, the program still had inherent weaknesses. The ongoing changing global scenarios and the importance of Asian regionalism, however, has now pushed Malaysia to announce the LEP 2.0 under Prime Minister Najib's administration.

**Keywords:** Look East Policy, LEP 2.0, Mahathir Mohamad, UMNO, Malaysia, East Asia, regionalism

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## I . Introduction

For the past thirty years, Malaysia has implemented a Look East Policy (LEP), and it has played a significant role in the economic growth of the country. In 1982, former Prime Minister Mahathir Mohamad designated Japan and Korea as the key role models to emulate for the further development of Malaysia, thereby setting a firm basis for its LEP. Apart from being a role model for development and growth, the LEP has had a substantial impact on Malaysia's economic cooperation with the role model countries through the adoption of related work ethics and managerial systems (Furuoka 2007; Yamamoto 2013). The LEP has also been the means to build and maintain closer political and cultural relations with Japan and Korea while acting as a stepping stone in the development of Malaysia and establishing the country as an economically strong industrial nation.

In 2013, Malaysia announced the second wave of its Look East Policy (LEP 2.0) which now focuses on developing strategic sectors with a special emphasis on high technology and high-end service industries. This focus means that the LEP 2.0 should not be only limited to training and education but also become more progressive and focus on priorities and changes in the nation's current economic structure. As Malaysia is currently still in the starting phase of LEP 2.0, it is important to review the first phase of LEP to fully understand its limitations and weaknesses existent in it, so as to better understand how certain regional transformations should be incorporated into the new wave successfully.

This paper argues that the first wave of LEP showed pro-Japan biasness rather than a relatively balanced approach toward both Japan and Korea. The bilateral ties of Malaysia-Japan outweighed those between Malaysia-Korea, as indeed, the former Prime Minister's pro-Japanese inclination affected the full outcome of LEP. In other words, Mahathir's pro-Japanese stance produced a largely neglected attitude toward Korea (Uqbah 2014; Ahmad 2008). Therefore, despite all the achievements and fruitful results of the LEP, the program still had inherent weaknesses (Khadijah 2004). The ongoing changing global scenarios and the importance of Asian regionalism, however, has now pushed Malaysia to announce the LEP 2.0 under Prime Minister Najib's administration.

## II. Why Look East and What to Look For

In the early 1980s, Prime Minister Mahathir introduced the Look East Policy, selecting Japan and Korea as role models to promote the development of strong economic ties between the countries. The introduction of the LEP was followed by the 'Buy British Last' campaign which was interpreted as retaliation by the Mahathir government against the British, which had decided to increase the school fees for all foreign students in universities and tighten some of its investment rules. Essentially, Mahathir wanted to eliminate a former colonial master and reduce Malaysia's reliance on the West. Mahathir's anti-Western leadership style led to a clear focus on East Asian 'models' of development rather than the Western models.

It was also clear that Mahathir, as a Malay nationalist, also struggled in ongoing political battles with the economic domination of Chinese in the country. Mahathir believed that Malays were economically suppressed in their own country and felt insecure. He also observed that Malays were unable to compete with the more business-oriented Chinese when trying to secure lucrative government contracts. For all these reasons and due to the general Chinese dominance over the economics in Malaysia, Mahathir was not willing to uphold or support this situation. In this context, the first phase of LEP became naturally more focused toward developing strong economic and political relations with Japan and Korea. It led to disregarding China in the first phase of LEP and consequently, a lack of economic, political, and industrial relations between Malaysia and China.

In particular, the concept of the first Look East was based on emulating Japanese industrialization, work ethics, and skills. In short, the LEP was Mahathir's first foreign policy endeavor in his premiership, emphasizing the East Asian developmental model and especially the Japanese style. Mahathir stressed that the LEP was aimed at 'dramatically' changing the Malay people toward developing a more positive and constructive attitude. For Mahathir, the LEP meant moving Malaysia toward national betterment by learning new work ethics 'especially' from Japan as summarized below:

Japan is the biggest investor in Malaysia. Our 'Look East' policy is directed not so much at investment from Japan but at acquiring the kind of policies, systems, and work ethics that the Japanese have. We see the Japanese have made headway while the West... appears to be regressing. So in order for Malaysia to progress, we have to learn from the better example... the Japanese example. That is why we want to look East where before we were looking West (*FEER* 1982/06/11).

However, it must also be noted that although the term 'East' here referred to Japan and Korea as well as Eastern work ethics, the priority was Malaysian development. The government realized that Malaysia is a nation of different races, religions, cultures and different perceptions of life. This policy did not mean total 'Japanization' or 'Koreanization' of the country or a complete break from the Western countries. In essence, implementation of the LEP did not mean to total reliance on the East. As Mahathir indicated, 'Looking East' does not mean begging from the East or shifting the responsibility for developing Malaysia to them. 'Looking East' also does not mean

buying all goods from or granting all contracts to companies of the East, unless their offer is the best (Saravanamuttu 1996).

The LEP started as a government-initiated policy and was a fundamental shift in its attitude toward work and management principles. It was needed to reinvigorate the nation's struggle to achieve the main objectives of the New Economy Policy. The presumed balanced approach of the LEP would guide the development of Malaysia through utilizing the modeling the best of the East and the West. Mahathir accepted that concept and indicated the LEP was calling on all Malaysians to 'look within' as well. The LEP program intended to produce a hard-working generation and have Malays learn the best types of technical, professional and management skills from those who were really the best in their fields. Therefore, in this respect, the LEP policy that was adopted by the government of Malaysia was actually a call to all Malaysians to take a realistic look at themselves, recognize both their strengths and weakness, and thus increase and expand the pace of their country's overall development.

### III. Evaluation of the Look East Policy Focusing on Japan and Korea

#### 1. The Look East Policy Accomplishments with Japan

The Malaysia-Japan diplomatic ties were formed on August 31, 1957, the very same day that Malaysia achieved its independence

from the British. Looking back now at almost 58 years of diplomatic relations between these two countries, it can be deduced that Japan is an important ally of Malaysia's foreign policy. Japan was the first of the Northeast Asian countries to have diplomatic ties with Malaysia. This decision further emphasized Malaysia's acceptance of Japan as a close ally. These bilateral relations later evolved into a 'strategic partnership' by the 1980s when both countries benefited by starting to diversify the economic cooperation with each other under the LEP. The LEP was also inspired by the growing business interest in and economic participation with Malaysia by Japan.

Trade was one of the important components of the Malaysia-Japan economic relations (Furuoka 2007). The reality of these Malaysia-Japan economic trade relations became a catalyst that accelerated the process of Malaysia in becoming an industrialized nation, as Japan emerged as Malaysia's main trading partner in both the electric and electronics sectors. The bilateral trade between Malaysia and Japan in the years between 1989 and 2013 significantly increased, specifically after the LEP. In 1989, the total amount of bilateral trade between the two countries was US\$9,465 million, and by the end of 2014, that amount had increased to US\$43,005 million. In 2013, Japan became the third largest trading partner of Malaysia after Singapore.

<Table 1> Bilateral Trade between Malaysia and Japan (1989–2013, US\$ million)

Year	1989	1991	1993	1995	1997	1999	2001	2003	2005	2007	2009	2011	2013
Exports	4,027	5,394	6,119	9,352	9,796	9,813	11,711	11,186	13,340	16,204	15,462	26,134	25,116
Imports	5,438	9,555	12,542	21,183	17,348	13,632	14,211	14,221	16,579	18,867	15,430	21,346	17,889
Total	9,465	14,949	18,661	30,535	27,144	23,444	25,922	25,407	29,919	35,071	30,893	47,481	43,005

Source: Asia-Pacific Economic Cooperation(2015).

On the other hand, Japanese investment in Malaysia actually started to rise only in the mid-1980s with an increase in the yen value as compared to the U.S. dollar. A wide range of production networks were created by Japanese MNCs in Southeast Asian countries, including Malaysia, in which Japan actively invested to gain a reduction in production costs. Further, no significant Foreign Direct Investment (FDI) inflow was observed during the initial years of LEP. From year 1995 to 2013, the FDI had increased significantly from US\$371 million to US\$1,265 million. As a result of these investments, new factories and offices expanded the Malaysian job market, providing new opportunities to people in the rural areas. Japanese MNCs also demonstrated a long-term commitment to their Malaysian companies. The Japanese MNCs set up outlets and industries in every part of the country, including in the states of Kelantan, Perlis, Sabah, and Sarawak (Furuoka 2007).

<Table 2> Japan's FDI to Malaysia (1995–2013, US\$ million)

Year	1995	1998	2000	2002	2004	2006	2008	2009	2010	2011	2012	2013
FDI	371	445	-4	257	163	294	591	616	1,058	1,441	1,308	1,265

Source: Japan External Trade Organization (JETRO)(2015).

The components of the LEP encouraged young Malaysians to learn the work culture and management practices of the Japanese. The policy also incorporated a twin-pronged program that involved both the preparation and dispatch of Malaysian students to study in Japanese universities and colleges and the sending of Malaysians for industrial training at Japanese industries and training institutes. The

first program that initiated under the LEP was in 1982, and it prepared Malaysian students to study in Japanese universities. Indeed, the Japanese Language Center and compound at University Malaya conducted a two-year preparatory program to that end. The Centre and University Malaya also worked closely with the Public Services Department and Japanese Embassy. The government of Japan funded RM\$4million for the center as an extension of its economic cooperation with Malaysia. Since 1982, Malaysians have been sent to Japan under various educational and training programs for Technical Education, Japanese Language, Industrial and Technical Training, Short-term Training for Malaysian Executives and Business Management Training, and an Attachment Program with Japanese Companies. Through these various programs, the *Bumiputra* have greatly participated in some form of Japanese education or training and experienced living in Japan. A fairly large pool of Japanese-speaking Malaysians was also created. Alumni of the LEP society are Malaysian Japanese university graduates and industrial trainees attached to Japanese companies in Malaysia or Japan. They have played an important role in the continued implementation of the LEP and the promotion of strong Malaysia-Japanese relations (Farouk 2002).

The LEP Organization, as set up, has been attached to the Malaysia Public Service Department (PSD). PSD has been implemented through the delivery of programs to public officials and the private sector and sent students to Japan and South Korea. The JPA under the Look East Policy Unit, included a First Degree/Diploma Program, an

Economic Partnership Training Program (EPP), and an Officer Training Program (Young Leaders Program). The Economic Partnership Training Program is one of the projects implemented under the Agreement Malaysia-Japan Economic Cooperation (JMEPA), which was signed jointly by the Government of Malaysia and the Government of Japan in December of 2005. Through the EPP, 1000 trainees were sent to Japan over the last 10 years under joint financing between the Government of Malaysia and the Government of Japan. The Officer Training program is fully funded by the Japanese Government for government officials in the management and professional group. The areas include human resources, economics and investment, information technology, education and social development (Public Service Department 2016).

## 2. The Look East Policy Accomplishments with Korea

Malaysia recognized Korea two days after its independence in August of 1957. Despite a desire by both countries in early 1958 for official links, a delay occurred in opening the links due to domestic political problems occurring in Korea. Diplomatic relations between the two countries thus only began in 1960. In the earlier years of Korea-Malaysia relations during the 1960s and 1970s, political indifference and a lack of economic cooperation characterized the bilateral relationship. The two countries viewed each other as being neither a significant political nor economic entity in the international society (Lee & Hwang 2015). It was 20 years before the relations

between Malaysia and Korea attained a new and significantly higher level of importance.

Following the introduction of the LEP, Korea and Malaysia formalized a number of bilateral agreements, including the Avoidance of Double Taxation Agreement with Korea in 1982, the Visa Abolition Agreement in 1983, the Technology and Science Co-operation Agreement in 1985, and the Investment Guarantee Agreement in 1988. Further, to promote stronger economic and technical cooperation, the Korea-Malaysia Economic Committee was set up in 1984. Since the LEP, Malaysia has become one of the most important trade and investment partners of Korea and vice versa. Both cultural and social exchanges have substantially increased in recent years. Apart from this benefit, both governments have been working closely within regional and international institutions, such as the Association of Southeast Asian Nations (ASEAN), Asia-Pacific Economic Cooperation (APEC), and the East Asia Summit (EAS). Further, the two countries have played important roles in building greater East Asian regionalism together. The 1997 East Asian economic crisis was the beginning of greater regional integration between Southeast Asia and three Northeast Asian countries, i.e., Korea, Japan and China or ASEAN+3 (APT) (Lee & Hwang, 2015)

Trade between Malaysia and Korea in the 1970s and in the years prior to that time was almost negligible. The boom in bilateral trade only began in the early 1980s and especially after the initiation of LEP. Then the volume of bilateral trade substantially increased in the 1990s. With the adoption of the LEP in the 1980s, the substantial

cooperation between the two countries showed a gradual increase in bilateral trade. Malaysia's total trade flow was US\$655 million in 1980 and increased to US\$3,528 million in 1994. The rate of increase has been particularly impressive since 2000 except for 2009 where there was a slight decrease due to the global financial crisis. However, in the following four years, the trade volume increased quite significantly from US\$15,646 million in 2010 to US\$19,684 million in 2013. Malaysia imports a variety of electronics like LCD panels and semiconductors from Korea and exports natural resources, including natural gas, petroleum, energy supplies, and chemicals for the electronic industry to Korea. The trade volume recorded between these two countries in 2013 was the third largest for all the ASEAN member countries.

<Table 3> Bilateral Trade between Malaysia and Korea (1980–2013, US\$ million)

Year	1980	1982	1984	1988	1994	1996	2000	2004	2008	2009	2012	2013
Export	184	234	253	411	1,652	4,333	3,515	4,480	5,794	4,325	7,723	8,587
Import	472	610	1,005	1,331	1,876	3,007	4,878	5,679	9,909	7,574	9,796	11,096
Total	655	843	1,259	1,742	3,528	7,340	8,393	10,159	15,704	11,899	17,520	19,684

Source: Korea International Trade Association (KITA)(2015).

Korea overseas direct investment remained very limited until the introduction of the LEP in the mid-1980s. The first Korean manufacturing investment in Malaysia was made in 1980 and valued as US\$151,000 of total foreign direct investment in Malaysia. From 1987 to 1993, Japan and Taiwan have remained the top five foreign investors in Malaysia, while Korea appeared only in the top five categories in 1991. Before 2007, Korea's FDI trend rose and fell

depending on the number of projects and investments. Surplus FDI was received in 1995, the highest for the period before 2007. After 2007, substantial increases were observed in Korean FDI delivered to Malaysia. Although the growth rate for FDI was not continuous, it did increase drastically compared to the FDIs before 2007. The highest investment amount received by Malaysia through FDI reached approximately US\$483 million in the year 2013.

〈Table 4〉 Korea's FDI sent to Malaysia (1980–2013, US\$ million)

Year	1980	1982	1985	1987	1990	1993	1995	2000	2003	2007	2009	2011	2013
FDI	0.151	0.505	9.759	0.794	17.227	23.896	116.50	33.726	46.302	158.25	173.20	251.73	483.39

Source: Export-Import Bank of Korea(2015).

Bilateral relations between Malaysia and Korea occurred also in education and training. In 1981 when there were some 40,000 Malaysian students studying overseas, none went to Korea. After the introduction of the LEP, a series of joint Korea-Malaysia meetings were held beginning in July 1983. the purpose was to draw up programs for educational and technical exchanges. Four types of training schedules were agreed upon. They included industrial and technical training; academic and technical studies; short-term courses for Malaysian executives; and exchanges between training, research, and operations institutions as well as between institutions of higher learning. The first group of 53 trainees was sent to Korea in early 1983, and it included 41 professionals trained by Hyundai. By 1993, the Malaysian Government had sent some 294 trainees to Korea for short-term courses, 89 for university studies, 78 to technical colleges,

and nearly 279 executives from both federal and state governments to the Korean Central Officers Training Institute (Lee & Hwang 2015).

Since the inception of the LEP, Malaysia has sent 2,700 students to Korea for industrial and technical training. Most Malaysians took educational courses in Korea and underwent training in various technical courses, including industrial technology and mid-level manager training. Malaysian Government officers were trained by the Central Officials Training Institute of Korea, while Malaysian students pursued tertiary education. Malaysian graduates came back and worked in Korean companies that were investing in Malaysia and served as intermediaries between Korean top management and local Malaysian workers. Besides the Malaysian students' studying in Korea, there were also students who were specializing in Korean studies in local universities. The Korean language is offered as an elective course in higher learning institutions, such as the University of Malaya (UM), the National University of Malaysia (UKM), and the University Institute MARA (UITM). Between 200 and 300 students take language course at each university. The UM now offers Korean Studies as a major course, and students can take a comprehensive course that includes the Korean language, history, politics, economic development, literature, and international relations. Further, students have the opportunity to go to Korea for exchange studies or summer programs with the support of the Korea Foundation, the Korea Research Foundation, and certain Korean companies.

### 3. Evaluation of the Look East Policy Toward Japan and Korea

By the end of the 1980s, Japanese direct investment reached its peak when heavy industries became involved in joint ventures between Malaysian public cooperation and Japanese large multinational corporations. For example, Heavy Industries Corporations of Malaysia (HICOM) formed joint ventures with Mitsubishi Motors Corporation to launch the first Malaysian national automobile maker called Proton. Another Japanese big industrial, Nippon Steel, along with HICOM, established a Malaysian steel mill called Perwaja Steel. Malaysia's pro-Japan orientation opened up 1,199 Japanese firms or joint ventures in Malaysia by 2006. Japanese MNCs had by then set up factories and branches in every part of the country such as Kelantan, Perlis, Sabah and Sarawak. The foreign investment and trade was much higher with Japan than with Korea. The number of joint ventures and project cooperation between Malaysia and Japan was much higher than with Korea. Further still, there were 2,360 projects in Malaysia already supported by Japanese investment for the prior thirty years of LEP.

However, it must also be noted that even though Japanese investment benefitted the development of Malaysia, there were some noticeable failures, and they which further supported the argument that the pro-Japanese stance was not completely beneficial to Malaysia. Perwaja Steel, one of the most ambitious projects of Mahathir, was the most unsuccessful joint venture between Malaysia and Japan. Huge financial losses and bad publicity happened to this project.

By 2000, Perwaja Steel had suffered cumulative losses of approximately RM10 billion (US\$2.7 billion), indeed “Malaysia’s most costly industrial failure and the biggest financial fiasco” (*AWSJ* 2000/06/12). Nippon Steel Corporation, which had formed a joint venture with HICOM for Perwaja Steel, eventually gave up all its shares in Perwaja Steel and simply abandoned the project. Even after a major restructuring, Perwaja Steel still suffered from heavy liabilities. Even worse, at the beginning of 2004, former Perwaja Managing Director, Eric Chia Eng Hock, was arrested by the Anti-Corruption Agency and charged for the dishonest authorization of Perwaja’s payment of RM76.4 million (US\$20.1 million) to a Japanese company, NKK Corporation (Furuoka 2007, 505-519). In August of 2013, the Kemaman plant was forced to close when the steel maker could not pay its gas and energy bills to Petroliam Nasional Bhd and Tenaga Nasional Bhd. In the end, shutting down the plant for a short term was needed since Perwaja had accrued a loss of RM1.21 billion for the 18 months prior to June 2014. In September 2014, its debts ballooned further to RM2.2 billion (US\$0.5 billion).

Another major joint venture project with Japan was the automobile manufacturing company, Proton. The disadvantages when developing a national automobile industry were considerable from the start. The challenging competition from global automobile manufacturers was an obvious fact in the limited Malaysian market. Proton is well aware of its vulnerable position and admits that on the international scale, “it still has a long way to go” (*Bernama* 2005/07/25). Proton’s relations

with its partner company, Mitsubishi Motors, also come to a crisis when at the beginning of 1990s, Mahathir himself was aware of the slow rate of technology transfer from Japanese companies to Malaysia. Eventually, in a move to reduce Proton's technological reliance on Mitsubishi, in 1996, Proton acquired an 80% stake in the British sports car maker, Lotus. At present, Proton is struggling to maintain its position in the domestic market. The company has suffered big financial losses as well. Currently, the stock is held by the DRB-Hicom Group Bhd., a Malaysian conglomerate since 2012, to which Proton was in debt. In 2014, its sales dropped to 17% and further reduced to about 15% the first quarter of 2015.

In addition to the disastrous or often merely lackluster performance of some of the high profile Malaysia-Japan joint ventures, accusations regarding being the 'exporter of pollution' further tarnished the reputation of Japanese companies in Malaysia. In the mid-1980s, residents of Bukit Merah in Perak State accused Asian Rare Earth (ARE), a joint-venture company of Mitsubishi Chemical Corporation and Malaysian partners, of dumping radioactive waste near its factory. A campaign was carried out where more than 4 million signatures were collected to pressure Mitsubishi Chemical to shut down the plant in Bukit Merah. In January 1994, ARE finally ceased operations (Furuoka 2005). This lack of success and also the negative publicity regarding a number of Malaysia-Japan joint ventures, plus the dashed hopes for successful cutting-edge technology transfer have created considerable Malaysian disappointment with Japanese multinationals, even within the Mahathir administration. As Vogel

commented, “[a]fter two or three bad experiences dealing with Japanese businesses in Malaysia’s auto and steel sectors, the Malaysian leadership grew a little wary of Japanese businesses.” (Vogel 2000, 50).

Japanese ODA increased at the same time as the boom in Japanese direct investment in Malaysia in the mid-1980s. The amount of Japanese loans and grants from 1971-1980 to Malaysia was US\$83.9 million and US\$5.7 million, respectively. Following the implementation of the LEP in 1982, Japanese loans increased to US\$2.57 billion from 1981-1990 and another US\$3.3 billion in the next 10 years. Malaysia has become one of the biggest recipients of Japanese ODA in Asia. Even after developing close relations with Malaysia under the ‘pro-Japanese LEP’, Japan kept assisting Malaysia by giving it additional ODA loans instead of providing ODA grants. The amounts of ODA loans were also far higher than the ODA grants. The ODA grants that Japan provided to Malaysia from 1971-2010 only amounted to US\$0.11 billion, while the ODA loans for the same period amounted to US\$7.6 billion. By 2013, Malaysian total Japanese ODA loans had reached US\$985.27 million, nine times higher than total grant disbursements of only US\$101.44 million. This difference meant that the amount of money Malaysia had to repay to Japan exceeded the total amount of grant aid it had received from Japan. These repayment amounts of the bilateral loans from Japan and the high interest rates of Japanese loans became a financial burden for Malaysia.

Although Japan gave foreign aid to Malaysia to assist its economic development, Japan’s ODA program appeared to be designed to

protect its own economic interests in Malaysia and other Southeast Asian countries. It has been argued that Japan extended the aid to Malaysia primarily to promote its own commercial and industrial interests there (Aslam and Piei 1994). Consequently, Malaysia must now diversify its relationships in order to further advance its own economy interests in today's changing global economy. In this same context, there were also growing concerns that Malaysia's pro-Japanese orientation in the first decade of 'Looking East' did not formally transform their bilateral relations. Instead, Japan tended to view Malaysia and other Southeast Asian countries as only resource-rich, low-cost, and geographic strategic opportunities for Japan.

In the first decade of the LEP, Malaysia's stance was considered pro-Japan, which resulted in Malaysia's giving Korea less attention until the 1990s. Although from the 1950s to 1970s, there was economic cooperation between Malaysia and Korea, it was considerably lower than that with Japan. At the beginning of Malaysia's LEP in the 1980s, Korea and Malaysia had a rather passive developmental relationship compared to that of Malaysia with Japan. In the 1980s, a huge gap could be seen between the amount of total trade and foreign direct investment between Japan-Malaysia and Korea-Malaysia, primarily due to Mahathir's pro-Japan policy.

Not until Japan and Malaysia experienced the 'lost decades' in their bilateral relations, has there been a significant growth in economic ties between Malaysia and Korea. By 1990, Korea had gradually become the fourth largest market for Malaysia's exports,

after Singapore, the United States, and Japan. Korea only imported Malaysia's natural resources, buying mineral fuels and crude petroleum. Later, Korea became the eighth major exporter among the top ten investors in Malaysia and eventually occupied the third spot (Lee 1997). In 1994, the ten biggest Korean multinationals had at least one investment project in Malaysia. At that time, there were 14 trading firms, 12 construction companies, and 119 manufacturing concerns operating in Malaysia (Lee 1997). Korean companies continued to be among the major investors in Malaysia in 2013. Korea was the second largest investor with approved investments amounting to US\$1.67 billion invested in 13 manufacturing projects. From January to September 2014, Korea remained among the top 10 foreign investors in Malaysia with approved investments amounting to US\$472 million in electronics and electrical products, wood products, basic metal products, and plastic products.

Under Najib's government, bilateral relations with Korea were good and much progress was achieved in various sectors, particularly in trade and investments. Unlike Mahathir's administration, which focused more on Japan, the current administration is progressing toward establishing strong relations with Korea. This in turn will help reduce Malaysia's reliance on Japan. The two-way trade between Malaysia and Korea has grown by 4.5 percent a year since 2011 and amounted to US\$18 billion in 2014. In addition to the traditional bilateral channels, the new era has witnessed Malaysia-Korea interactions at the regional multilateral level and regional forums like the ASEAN Regional Forum (ARF), ASEAN Plus Three (APT) and

the East Asia Summit (EAS). Moreover, the two countries have signed to set up a bilateral currency swap facility which is expected to enhance bilateral trade. Beyond these inter-governmental domains, Malaysian-Korean relations have progressed vigorously in other areas as well including education, tourism, and socio-cultural exchanges.

While Mahathir tried to employ his political will to turn Malaysia to the 'East', Japan's government declined to look solely on Asia and prioritized maintaining its own good relations with the United States. Furthermore, the Japanese rejection of Mahathir's East Asia Economic Group (EAEG), later renamed the East Asia Economic Caucus (EAEC) in 1990, resulted in his displeasure to the extent that Japan prioritized its US interest over those in Asia. This rejection led to conflicts of interest between the two countries and led to losing their customary harmony momentarily.

In terms of the political aspects, a decline was observed between the activities between the two countries in the latter half of the 1990s. A decrease could also be observed in the Malaysian ministers' visits to Japan after 1995 except for 1997 and 2001. The average annual visits to Japan by the Malaysian Prime Minister was 1.3 and 1.57 for the first and second cluster, and it decreased to 1.0 after the Asian financial crisis, and then further to 0.72 after Abdullah Badawi took over the premiership. Other ministers' visits were most frequent during the period from the LEP to Vision 2020, which totaled 4.6 times per year, decreased slightly after the Vision 2020 to 4 times a year, then to 0.833 and finally 0.18 in the following period (Khadijah 2015, 73).

In a recent interview in 2013, Mahathir personally expressed his

pro-Japanese stance. He said the country must no longer look toward Japan in its 'Look East' policy, but instead, it must study a prosperous Korea. Mahathir admitted that the world's third largest national economy was no longer the force it used to be. He further commented that Japan was becoming pro-American and holds Washington in high esteem despite its downfalls, and recommended that Malaysia stop copying Japan. He stressed that the country must now look toward Korea because it has the fastest growing technological industry in the world, rather than continuing to focus on Japan as role model for future industrial development and higher economic growth (Asrul 2013).

Achievements over the second half of the twentieth century and an emphasis on regional and global interdependence has demonstrated Korea's economic importance, and many countries now regard Korea as a role model for developing countries or at least acknowledge it as an important trading partner. After the Korean War, no one thought that Korea would emerge as a great economy, and so this economic growth represents a remarkable achievement, and it has warranted widespread interest in its process (Olsen 2005, 150).

#### IV. Looking Toward the Second Wave of Look East Policy in the 2000s

##### 1. The Changing East Asian Regional Environment

At the 32nd Japan-Malaysia Economic Association and Malaysia-

Japan Economic Association Joint Conference held on 13 December 2013, Najib outlined six key areas for the second wave of Look East Policy: The development of cutting-edge technologies, high-tech skills, high-end services, management of eco-systems with safe, reliable, and renewable energies, modernization of small and medium-sized enterprises, and benefits for senior citizens. Through a strengthened cooperation with Korea and Japan, Malaysia began implementing strategies to sophisticate its industry structures, mainly in future growth industries, especially including high-tech and high-value-added industries.

Furthermore, the private sector is assumed to play a more important role in strengthening business ties, which will then contribute to the success of the LEP 2.0. There were six forms of cooperation intended: Knowledge and technology sharing and practice; project collaboration; meetings and conferences; exhibition and showcases; business linkages and joint ventures; and joint funding. The first phase of the LEP focused on training and human resource development and obtaining needed foreign direct investment, mostly from Japan. The LEP 2.0 focused on trade and industrial cooperation, particularly in Green technology, information and communications technology, and biotechnology.

In the LEP 2.0, Malaysia and Japan agreed to expedite cooperation in areas that included advanced industrial technologies, services, and managerial skills. The Japanese Prime Minister, Abe, said he would initiate a new cost-sharing training program under the LEP 2.0. Another key area is infrastructure development, with both sides

agreeing to base their cooperation on what the Abe administration has called ‘quality infrastructure.’ While a number of areas were mentioned, including power plants, water, and information and communication technology, the major area of interest for Japan was participating in building a high-speed railway project between Malaysia and Singapore.

As an important regional and the LEP partner, Korea also has had an extensive role to play in the LEP 2.0. In the first phase, Korea has proven itself to be a beneficial constituent of LEP. Korea successfully completed the Penang Bridge and the Petronas Twin Towers. Korea is an important partner for Malaysia, as Korea has knowledge-based industries and cutting-edge technologies. These two areas are key focuses of LEP 2.0. Given this recognition, Korea and Malaysia agreed to implement 17 pilot projects, wherein 13 projects were proposed by Malaysia, including green industry, new and renewable energy, information and communications, automobiles, LNG terminals, medical devices, and biotechnology. Korea offered 4 projects, namely, healthcare, railway, Eastern medicine, and e-government. Malaysia is particularly interested in cooperating with Korea in technology and communications and is welcoming the introduction of Korean technologies in its green industries, including new and renewable energy and sewage treatment.

Further still, the two nations have expanded their bilateral cooperation wherein Korea participated in the US\$13 billion Malaysia-Singapore high-speed railway project, and in 4 of the 25 packages’ comprising the US\$20 billion RAPID (Refinery and

Petrochemicals Integrated Development) project. In 2016, Korea and Malaysia expected contracts for the construction of two commercial nuclear power plants by 2025. Through the implementation of LEP 2.0, both the Malaysian and the Korean governments will be able to influence the existing cooperative channels for bilateral industrial cooperation in trade and investment, automotive, communications technology, electrical and electronics/information technology, and new areas of collaboration.

It also should be noted that the changing global scenarios and the importance of East Asian regionalism pushed Malaysia to announce its LEP 2.0. The 1997 East Asian economic crisis marked the new beginning of regional integration between Southeast Asia and three Northeast Asian countries - Korea, Japan and China. At the 1997 ASEAN summit in Kuala Lumpur, Mahathir organized the first informal ASEAN+3 (APT) meetings to discuss key measures to face their common crisis in the East Asian region. In 1998, the second set of APT meetings in Hanoi, Vietnam, decided that the APT meetings should be held frequently. In 1998, Korea proposed the East Asia Vision Group (EAVG) as a way to explore the ways and means to expand cooperation among those East Asian countries that were affected from common economic crisis. Since then, successive summits of the APT countries have taken place during the ASEAN summit. As a result, regional cooperation in East Asia has developed progressively. Korea and Malaysia have also been strong supporters of the further strengthening of East Asian regional cooperation.

In 2000, following the proposed EAVG, the President of South

Korea, Kim Dae-Jung, offered to set up the East Asia Study Group (EASG) to implement specific action plans for regional cooperation. In 2002, the ASEAN+3 summit adopted its final report of the EASG, that included 17 short-term measures and 9 mid-to long-term measures with high priority, along with details about them. Since then, progress toward a renewal of East Asian regionalism through using the APT scheme has been rapidly evolving. For the last decade, Korea and Malaysia have played a vital role as intermediaries for more dialogue between the major powers in the region, including Japan, China and the US. In the ongoing China-Japan rivalry, Korea has played a central role in the East Asian regional network, while Malaysia is a leading figure for initiating East Asian regionalism among the ASEAN countries. Korea and Malaysia have been regarded as the middle powers in East Asia, and in fact, the leaders of these two countries have greatly contributed to stimulating East Asian regionalism through the APT scheme (Bae 2007, 141-151). Korea became a good partner in term of managing East Asian regionalism. This good relationship has further deepened bilateral relations between the two countries, and Korea and Malaysia have grown an interdependent relationship through the LEP. This regionalism resulted in close relations between Malaysia and Korea as Japan showed a greater long-term decline in its economy and society.

## 2. The Rise of China as a New Partner

In the new era of the LEP, it is important to consider how the

relationships of Malaysia with Japan and Korea should shift and how these countries should respond to meet the expectations of Malaysia and remain the role models for Malaysia. However, the situation has more recently changed. Since 2008, China has become the biggest trading partner of Malaysia and of the ASEAN countries as a whole. It is frequently reported that China has overtaken Japan, which has fallen to be the No. 3 world economy according to its GDP in 2010. However, it can also be perceived from the announcement and activities of the LEP 2.0 that Malaysia is repeating the same pattern of negligence that exists during the first LEP. China was not considered for inclusion in the LEP in the early 1980s. When the first LEP was initiated, China was not that developed and struggling in the international market. Now, China has emerged as an economic giant, and yet, the continuing ignorant response of Malaysia toward China in the LEP 2.0 remains distinct and very perceivable.

China also views Malaysia as being politically useful. As one of the founding countries of ASEAN, Malaysia has provided much of influence for ASEAN. During the 2013 Asia-Pacific Economic Cooperation Summit, the Chinese President Xi Jinping announced the beginning of a new 'diamond decade' in the relationship between China and Southeast Asia. After the Cold War, the beginning of the Asia-Pacific Economic Cooperation (APEC) in 1989, the ASEAN Regional Forum (ARF) in 1994, the ASEAN-China Senior Officials Consultation in 1995, and the ASEAN Plus Three (APT) in 1997 set the stage for higher institutionalized relations between China and Malaysia and the other regional countries. Together with bilateral

visits at the leader and minister levels, these regional multilateral meetings have provided important platforms for Malaysia (and its ASEAN partners) to engage positively and successfully with the rising regional power that is China in an era of strategic uncertainty. Malaysia's trust in China's regional role also increased significantly during the 1997-98 Asian financial crisis, when China decided not to devalue the Renminbi (Chinese Currency). That decision was praised by Mahathir as responsible conduct (Chang 2013).

Even under former Malaysian Prime Minister, Abdullah Badawi, many different initiatives occurred, including the strengthening of bilateral cooperation on key foreign policy issues, encouraging state-linked corporations to invest in China, uplifting the Malaysia-China Business Council, securing a loan from China to build the Second Penang Bridge, revitalizing and promoting people-to-people contacts and educational exchanges. These all pushed their bilateral ties to a higher level. Such a partnership was manifested in and substantiated by the closer bilateral cooperation in a wide range of policy areas, including the economy, foreign policy, education, transport, and defense. The maturing bilateral relationship during the Abdullah years was further evidenced by the signing of two joint communiques in 2004 and 2005. In the final two years of Abdullah's term, the two sides made joint efforts to work on an 'action plan' for their continued strategic cooperation. Their bilateral relations were regarded by both sides as their best in history (Kuik 2012).

Najib followed his predecessor's path and chose China as the first country to visit outside ASEAN. During his visits, he witnessed the

signing of the “Joint Action Plan on Strategic Cooperation”, which provided a framework for future bilateral cooperation in 13 key areas. In his key policy speech at the 7th Heads of Mission Conference on 22 June 2009, Najib stressed that his trip to China was made because the relationship with China was fundamental to both national interests, and many mutual lessons could be learned and shared between both countries (Kuik 2012). During Najib's tenure, Malaysia's commercial links with China have grown even faster and wider, in part due to the ASEAN-China FTA that became operationally effective on 1 January 2010. Since 2009, China has become Malaysia's largest trading partner, overtaking Singapore, Japan, and even the United States. In 2011, their bilateral trade reached a new high of US\$90 billion, with Malaysia enjoying a large surplus of US\$30 billion. That same year, China displaced Singapore as Malaysia's biggest export market (Kuik 2012).

### 3. Changing Malaysia's Domestic Political Environment

The years following 1997 saw a crucial change in Malaysian politics. The severe factional conflict within the ruling party, the United Malays National Organization (UMNO), and the downfall of Deputy Prime Minister Anwar Ibrahim in 1998 affected Malaysians on very different levels of the society. One of the most important impacts of the Anwar upheaval was the resurrection of the Malaysian civil society from 'de-politicization' to become 're-politicization' (Hwang 2003). Anwar caused a political awakening among the young

generation and anti-Mahathir sentiment became widespread within UMNO and indeed the entire Malay community. The 1999 general election demonstrated a major shift in voting patterns in the rural Malay heartland. UMNO suffered serious losses in most of Malay-dominated constituencies. The other significant change in Malaysia's politics came after the late 1990s with the emergence of a new politics that demonstrated greater multi-ethnic awareness in Malaysian civil society.

The years after 1990 have also demonstrated the dramatic increase in inter-ethnic tolerance in Malaysia society, largely due to the Mahathir's government choosing to introduce accommodative policies aimed at the non-Malay communities via 'cultural liberalization.' Because of a growing economy beginning at the end of the 1980s, UMNO leaders and members demonstrated more flexibility towards the non-Malay communities. This changing political scenario created a soft edge for non-Malays in the Malay nationalist environment and thus decreased apprehension toward Chinese dominance in Malaysia which had existed in the early 1980s. Hence, it paved a way for wider approach for the LEP 2.0 by encompassing China and broadening the favorable aspects that had been suppressed due to racial sentiments during the first wave. As China continues to rise as an economic giant in global markets, it is important to develop ever strong economic and political ties with China, and this will be possible by including that nation in the LEP 2.0.

Economic pragmatism had been the key pillar of Najib's China policy from the very beginning and indeed its goal has been to

increase China's investment in Malaysia while enhancing already strong bilateral trade ties. Various measures were undertaken by the new administration to pursue these dual goals. They were also expected to help boost the new leader's key domestic initiative, the Economic Transformation Program (ETP). Beyond trade and investment, Malaysia and China have also made progress in their people-to-people contacts, especially in tourism and education. As the regional situation and importance of APT continues to change, it is crucial to propose that China nominated and included in the LEP 2.0. The inclusion of China in the LEP 2.0 will help Malaysia-China relations move forward positively and achieve even deeper bilateral ties.

## V. Conclusion

It has been stated that the LEP has been unsuccessful in having Malaysians adopt the Japanese values of work ethics of regularity, harmony, and faithfulness. For Malaysians, the Japanese model appeared too difficult to be easily implemented. Even though Japanese investment benefitted the development of Malaysia in general, there were some very noticeable disasters, which further supported the argument that a pro-Japanese stance was not completely beneficial for Malaysia. Malaysia has also not been able to get the full benefits from Korea's rapid development and growth. In one way or another, Malaysia-Japan bilateral relations are far superior to Malaysia-Korea

relations in terms of trade, foreign direct investments, socio-cultural exchange, joint ventures, and cooperation. Evaluation of the bilateral relations between Japan and Korea also depicts their unequal stance. Therefore, it is necessary to provide equal opportunity to both partners of the LEP rather than continuing to support a stronger stance toward Japan.

In contrast with the first phase of the LEP, which was based on Mahathir's ideological stance, more recently changing global scenarios and the importance of East Asian regionalism have pushed Malaysia to announce the LEP 2.0. Until recently, the situation of China was not of such importance that its change could have led to its inclusion in the first LEP. By the early 21st century, however, China's economy had expanded enormously and emerged as the giant that Malaysia will have to contend with in the future. The activities of a rising China in the Asian region and its increased cooperation with the ASEAN countries makes it more important for Malaysia to look toward China, focusing evermore toward increased economic and bilateral ties with that nation. Inclusion of China in the LEP 2.0 should be considered different than the first LEP, as that inclusion will pave the way for unprecedented bilateral growth and indeed aid Malaysia to achieve new economic, industrial and technological advancements. Malaysia should stop viewing Japan as the sole role model for the country's development. Japan has lost its attractiveness and is declining politically and economically today, compared to other East Asian countries. It is time for Malaysia to learn from the weaknesses of the first phase of the LEP, as they hindered the

expansion and exploration of the broader aspects necessary for Malaysian progress. Malaysia now need to and move forward with a new and more extensive approach toward a strong partnership with today's East Asian countries and economies.

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요약

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## 말레이시아 제2차 동방정책:

### 지속과 변화 그리고 새로운 도전

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1982년 마하티르 모하마드 말레이시아 총리에 의해 도입된 동방정책(Look East Policy)은 지난 30여년간 말레이시아의 경제성장에 있어서 중요한 역할을 담당했다. 말레이시아는 2013년을 기점으로 제2차 동방정책을 추진하고 있다. 이런 맥락에서 제1차 동방정책의 과실을 분석하는 것은 매우 의미 있는 일이다. 이 연구는 제1차 동방정책에 대한 분석을 통하여 기존의 정책이 말레이시아의 발전 모델로서 한국과 일본에 동등한 비중으로 받아들여지기 보다는 지나치게 일본지향적인 성향을 띠고 있다고 주장한다. 이를 마하티르 자신의 친일본 성향을 반영하기도 하지만 지나치게 일본에 편중되었던 동방정책은 그 성과에 못지않게 한계를 드러냈다고 할 수 있다. 이런 맥락에서 이 연구는 제2차 동방정책의 지향점은 지나치게 일본 지향적인 한계를 벗어나서 한국은 물론 중국을 비롯한 동아시아 국가들이 적절하게 고려되는 포괄적인 방향으로 추진될 필요가 있음을 주장하고 있다.

**주제어:** 동방정책, 제2차 동방정책, 마하티르 모하마드, 통일말레이국민기구, 말레이시아, 동아시아, 지역주의