

# Japan-Malaysia Economic Relations: Official Development Assistance, Look East Policy and Opportunities

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## Abstract

This article investigates the current dynamics of Japan-Malaysia economic relations with a focus on the continuing influence of Japan's Official Development Assistance (ODA) and Malaysia's Look East Policy (LEP). Japan's ODA remains a critical driver in areas such as infrastructure development, disaster resilience, and sustainable growth, aligning with Malaysia's national priorities and its transition to a high-income economy. The LEP, revitalized in recent years, continues to shape Malaysia's socio-economic landscape through knowledge transfer, skill development, and strategic collaboration in sectors like technology and green energy. The study highlights how these frameworks have adapted to contemporary challenges, including digital transformation, climate change, and the shifting global economic order, fostering deeper bilateral cooperation. By examining recent projects, policy adjustments, and collaborative initiatives, the article underscores the mutual benefits and enduring significance of ODA and LEP in enhancing economic ties. It concludes by exploring opportunities for innovation and expansion in the Japan-Malaysia partnership to address shared goals in regional stability and sustainable development.

**Keywords:** Look east policy, Official development assistance, Japan-Malaysia Economic relations, Bilateral relations, Regional stability

## 1. Introduction

The economic relationship between Japan and Malaysia stands as a dynamic example of bilateral cooperation that has evolved over decades, adapting to shifting global and regional contexts. Rooted in historical engagements, including Japan's substantial contributions through ODA and Malaysia's LEP, the partnership has continued to flourish in recent years. These initiatives have laid a strong foundation for collaboration in various sectors, from infrastructure development to human resource enhancement and trade.

Currently, the relationship is defined by mutual efforts to address contemporary challenges such as sustainable development, technological innovation, and economic diversification. Japan remains a key partner in Malaysia's industrial and socio-economic transformation, with ODA contributing significantly to infrastructure projects, environmental conservation, and capacity building. Meanwhile, the revitalized LEP underscores Malaysia's commitment to learning from Japan's developmental successes, focusing on work ethics, advanced technology, and industrial practices.

This article explores the present state of Japan-Malaysia economic relations, highlighting the contributions of ODA and the LEP to their shared economic goals. It examines recent developments in bilateral trade, strategic investments, and collaborative projects in emerging areas such as digital infrastructure, green technology, and healthcare. Additionally, the study analyzes how both nations are leveraging their long-standing partnership to navigate the complexities of a multipolar world and a rapidly evolving global economy. Through an in-depth analysis of these initiatives, the article aims to underscore the continued importance of the Japan-Malaysia relationship in fostering economic growth, regional stability, and shared prosperity. As both nations strive to strengthen their cooperation, this study sheds light on the enduring and adaptive nature of their partnership in addressing the needs and aspirations of a changing world.

The revitalization of the LEP in recent years reflects Malaysia's renewed focus on leveraging Japan's strengths in innovation, discipline, and technological expertise. Initiated by Dr. Mahathir Mohamad in 1982, the LEP has undergone significant evolution to address the modern demands of Malaysia's economic landscape. Today, the policy goes beyond emulating work ethics and industrial practices to include collaboration in emerging sectors such as renewable energy, digitalization, and smart city development. These efforts align with Malaysia's broader goals of achieving sustainable growth and transitioning into a high-income nation, while also reinforcing Japan's role as a strategic partner in this journey.

Japan's ODA, a cornerstone of bilateral cooperation, continues to play a crucial role in Malaysia's development trajectory. Despite Malaysia's transition to an Upper Middle-Income Country (UMIC) status, Japan's ODA remains impactful, focusing on areas such as disaster resilience, environmental conservation, and human capital development. Key initiatives, including infrastructure modernization and technical skill transfers, underscore the

adaptability of ODA in addressing Malaysia's evolving priorities. This sustained engagement illustrates the symbiotic nature of the relationship, where Japan not only supports Malaysia's development but also strengthens its own presence in Southeast Asia, promoting regional stability and mutual prosperity.

## **2. Trade, Investment and Strategic Collaboration Between Japan and Malaysia**

Japan is one of Malaysia's most significant trading partners, with bilateral trade bolstered by the Malaysia-Japan Economic Partnership Agreement (MJEPA) since its implementation in 2006. This agreement has facilitated the liberalization of trade in goods and services, promoting economic growth for both countries. Malaysia's key exports to Japan include electrical and electronic products, liquefied natural gas (LNG), and palm oil, highlighting Malaysia's role as a reliable supplier of both industrial goods and commodities. Conversely, Japan's exports to Malaysia comprise machinery, transport equipment, and chemical products, underscoring Japan's technological and industrial capabilities. This robust trade relationship is a testament to the complementary economic structures of the two nations, fostering mutual growth and interdependence.

Japan's investments in Malaysia have been instrumental in shaping the latter's industrial landscape, particularly in manufacturing, electronics, and the automotive sectors. Over the decades, Japanese corporations such as Toyota, Sony, and Panasonic have established significant operations in Malaysia, contributing to job creation, technology transfer, and economic diversification. In recent years, Japan's interest has expanded to emerging sectors such as Malaysia's digital economy and renewable energy. Initiatives supported by organizations like the Malaysian Investment Development Authority (MIDA) indicate Japan's optimism about further strengthening economic ties. The diversification of Japanese investments aligns with Malaysia's national priorities, including its ambition to transition into a knowledge-based and sustainable economy.

Collaboration in technology and innovation has emerged as a focal point in the Japan-Malaysia relationship. Japanese firms are increasingly investing in Malaysia's technology sector, with significant advancements in artificial intelligence (AI), robotics, and sustainable technologies. These collaborations extend to infrastructure development, a critical area where Japan's expertise is highly valued. Japanese corporations are involved in transformative projects in Malaysia, including transportation systems and urban development, enhancing connectivity and supporting Malaysia's urbanization goals. The shared focus on technology highlights the forward-looking nature of the partnership, positioning both nations as leaders in the digital and green economy.

In addition to trade, investment, and technological collaboration, Japan and Malaysia have also strengthened their strategic partnership through various cultural and people-to-people exchanges. Educational programs, scholarships, and collaborative research initiatives have fostered closer ties between the two nations, allowing for the exchange of knowledge and expertise in various fields. The Japan-Malaysia relationship has also been enriched by tourism, with an increasing number of Malaysian tourists visiting Japan and vice versa. These cultural exchanges not only contribute to a deeper understanding between the two societies

but also support the broader economic relationship by enhancing soft power and building long-term diplomatic ties. As both nations continue to embrace globalization, their strategic collaboration is set to evolve, with a particular focus on regional security, climate change, and multilateral initiatives in the Asia-Pacific region. This growing partnership demonstrates the dynamic nature of the Japan-Malaysia relationship, extending beyond economics to encompass a wide range of sectors.

### **3. The Role of the Look East Policy (LEP) in Economic Relations**

The formalization of the LEP in 1982 under Dr. Mahathir Mohamad marked a strategic shift in Malaysia's development policy. Dr. Mahathir sought to emulate Japan's work ethic, discipline, and industrial practices to transform Malaysia into a developed nation. The policy also aimed to shift the country's economic focus from agriculture and mining to industrialization. Beyond economic aspirations, the LEP emphasized the importance of moral and ethical values, inspired by Japanese and Islamic principles, in fostering a progressive and responsible Malaysian society.

Central to the LEP was human capital development, achieved through education, skill-building, and knowledge transfer. Japanese ODA played a significant role in this process, facilitating technical training and technology transfer. These efforts helped Malaysia build a skilled workforce capable of driving industrialization and economic growth. The civil service and public sector institutions were restructured to adopt efficient Japanese management techniques, laying the foundation for privatization and competitiveness. Landmark transformations included the rebranding of key institutions like Jabatan Telekom and Lembaga Letrik Negara, which became Syarikat Telekom Malaysia Berhad and Tenaga Nasional Berhad, respectively.

The LEP also reflected Dr. Mahathir's vision of reducing dependence on Western models of development, instead focusing on Eastern philosophies and practices. Japan's rapid post-war industrialization served as an inspiration, while South Korea's industrious workforce complemented Malaysia's aspirations. The policy encouraged Malaysians to selectively adopt principles from Japan and Korea, recognizing the cultural and political differences between the nations. However, the policy faced resistance from those who associated Japan with its wartime actions during the occupation of Malaya.

From its inception, the LEP significantly influenced Malaysia-Japan relations, fostering long-term collaboration in areas such as industrialization, human resource development, and technology transfer. The policy's initial phase (1982–2012) achieved substantial progress despite challenges. Japanese production systems became central to Malaysia's industrial landscape, helping the country catch up technologically. However, as other Asian nations advanced and Japan's regional dominance waned, the dynamic evolved into a more balanced partnership.

In 2012, the second phase of the LEP, introduced by Prime Minister Najib Razak, sought to expand the scope of the policy to address contemporary challenges. This phase emphasized sustainability, digital innovation, and diversified cooperation. While Malaysia increasingly

engaged with China during this period, its commitment to the LEP remained strong, recognizing Japan's contributions to its socio-economic development.

The LEP's adaptability to Malaysia's changing needs has ensured its relevance over four decades, spanning six prime ministers. The policy remains a cornerstone of Malaysia-Japan relations, promoting mutual growth and collaboration in emerging areas such as renewable energy, smart city development, and green technology. As the Asian region transitions into a multipolar economic landscape, the LEP continues to play a vital role in strengthening Malaysia's position as a competitive industrial hub and a significant partner in Japan's regional strategy. Through its focus on ethical governance, industrial efficiency, and sustainable development, the LEP exemplifies Malaysia's ambition to achieve developed-nation status while fostering enduring ties with Japan. The policy's success lies in its ability to balance tradition and innovation, ensuring long-term socio-economic benefits for both nations.

The LEP has also been instrumental in fostering educational and cultural exchanges between Malaysia and Japan. From its early years, the policy emphasized the importance of learning directly from Japanese institutions and industries. Malaysian students were sent to Japan to study under scholarships and training programs, focusing on fields such as engineering, technology, and management. These programs not only helped Malaysia build a technically skilled workforce but also facilitated a deeper understanding of Japanese culture, ethics, and work practices. Over the decades, thousands of Malaysians have benefited from these initiatives, forming a vital bridge between the two nations.

Another critical aspect of the LEP is its role in supporting Malaysia's industrial policy. By adopting Japanese industrial practices and technological advancements, Malaysia successfully transitioned into a manufacturing-based economy. Sectors such as electronics, automotive, and heavy industries thrived under this approach, with Japanese multinational corporations playing a pivotal role. Companies such as Sony, Toyota, and Panasonic established operations in Malaysia, bringing in capital, expertise, and jobs. This strategic collaboration not only strengthened Malaysia's economic base but also integrated it into the global supply chain, enhancing its export competitiveness.

The LEP also contributed to the privatization movement in Malaysia, which redefined the role of the public sector. Drawing inspiration from Japan's corporate management techniques, Malaysia restructured its public enterprises to operate more efficiently and competitively. This shift marked a significant departure from state-controlled economic models, empowering businesses to innovate and expand. Key infrastructure projects, including telecommunications and energy, were privatized, attracting investments and improving service delivery. This period also saw increased public-private partnerships, fostering a more dynamic economic environment.

Despite its successes, the LEP has faced challenges in its implementation. One major obstacle was balancing the policy's aspirations with domestic socio-political dynamics. For example, while Japan's work ethic and industrial practices were highly regarded, adapting these principles to Malaysia's unique cultural and economic context required careful consideration.

Moreover, initial scepticism from some segments of Malaysian society, due to historical memories of Japan's wartime actions, posed a challenge to gaining widespread acceptance of the policy. Over time, however, the tangible benefits of the LEP helped mitigate these concerns, solidifying its role in Malaysia's development.

In its current phase, the LEP continues to evolve to meet the demands of a rapidly changing world. Collaboration between Malaysia and Japan now extends to cutting-edge fields such as digital transformation, renewable energy, and sustainable development. Both nations have recognized the need to address global challenges like climate change and technological disruption. The policy's renewed focus on these areas reflects its adaptability and relevance. Initiatives such as the development of smart cities, promotion of green technology, and joint research on digital solutions underscore the ongoing commitment of both nations to leverage their partnership for mutual benefit.

The LEP remains a cornerstone of Malaysia-Japan relations, exemplifying a successful model of South-South cooperation. Its emphasis on ethical governance, technological advancement, and sustainable development provides a blueprint for other nations seeking to balance economic growth with cultural and social integrity. As the global economy becomes more interconnected, the LEP serves as a testament to the enduring value of strategic partnerships built on mutual respect, shared goals, and a commitment to progress.

### *3.1 Recent Developments of LEP*

As Japan has consistently been one of Malaysia's top trading partners, maintaining its position as the fourth-largest trading partner for nine consecutive years. In 2023, total bilateral trade amounted to RM156.64 billion (US\$34.39 billion), showcasing the robust economic ties between the two nations. Japanese companies have played a vital role in Malaysia's economic landscape, with over 2,810 projects implemented, totaling investments of RM102.11 billion (US\$29.67 billion) (MIDA 2024). These investments span key sectors such as manufacturing, technology, and energy, reflecting Japan's integral role in Malaysia's industrial growth and economic diversification.

In 2023, Japan and Malaysia elevated their bilateral relations to a Comprehensive Strategic Partnership (CSP), marking a new chapter in their collaboration. The CSP framework is expected to enhance cooperation across economic, cultural, and security domains. Economically, it aims to build on existing trade and investment flows while fostering innovation-driven industries. On the cultural front, the partnership will deepen people-to-people exchanges through education and tourism initiatives. Security cooperation, including maritime security and counterterrorism, reflects the shared commitment to regional stability. This strategic alignment demonstrates the enduring significance of their relationship in addressing both bilateral and global challenges (MOHM 2023). Additionally, These investments span key sectors, including manufacturing, energy, and advanced technology, demonstrating Japan's integral role in supporting Malaysia's economic diversification and industrial growth. Japan's continued investment in Malaysia reflects a shared commitment to long-term collaboration and mutual economic benefit under the LEP framework.



LEP continues to be a pivotal framework for Malaysia-Japan relations, adapting to meet modern challenges and opportunities. In November 2024, during the APEC Summit in Lima, Malaysian Prime Minister Datuk Seri Anwar Ibrahim and Japanese Prime Minister Shigeru Ishiba reaffirmed their commitment to the LEP. Discussions highlighted enhancing cooperation in trade, energy transition, maritime security, education, and cultural exchanges. Prime Minister Anwar emphasized Malaysia's intent to sustain the LEP, with a renewed focus on education and technology transfer, which remain essential to Malaysia's development goals (MIDA 2024). These areas are critical for equipping Malaysia's workforce with advanced skills and fostering technological innovation. Additionally, as Malaysia prepares to chair ASEAN in 2025, Japan's support enhances Malaysia's ability to lead regional initiatives, reinforcing the policy's relevance in broader geopolitical and economic contexts.

#### **4. Japan's Official Development Assistance (ODA) to Malaysia**

Japan's ODA has been a cornerstone of Malaysia-Japan relations, facilitating Malaysia's socioeconomic transformation since its inception in 1966. Initially aimed at addressing post-independence challenges such as poverty, ethnic polarization, and weak governance, Japanese ODA has supported Malaysia through various forms of aid, including capital, technical assistance, and expertise. Over nearly five decades, Japan provided approximately US\$2,569.18 billion in ODA to Malaysia, targeting sectors such as infrastructure, energy, healthcare, and human resource development.

There are five key contributions of Japanese ODA that have significantly impacted Malaysia. These contributions are in the areas of infrastructure development, human resource development, support for Malaysia's economic transition and sectoral impact. Japanese ODA has played a pivotal role in constructing roads, airports, power plants, and sophisticated communication systems, enabling Malaysia to attract foreign investments and strengthen its industrial base. Large-scale projects funded by Japan included power generation dams and transportation networks, fostering regional connectivity and economic integration. Japan's commitment to skill-building and education has been another critical aspect of its ODA. Scholarships, vocational training programs, and technical cooperation initiatives have equipped Malaysian professionals and students with skills to meet the demands of a modern economy. By 2014, 24% of Japan's technical cooperation aid was allocated to human resource development, making it a primary focus of ODA efforts. As Malaysia transitioned from an agriculture-based to an industrial economy, Japanese ODA provided crucial support in sectors such as manufacturing, energy, and transportation. This alignment with Malaysia's national development plans allowed for the successful implementation of key socioeconomic projects during various Malaysia Plans, particularly between the 1960s and 1990s. Japanese ODA had the most significant impact on the energy sector, with 51.7% of yen loan commitments directed towards electricity and gas projects. These contributions were critical to Malaysia's industrialization, providing reliable and efficient energy sources for its growing economy.

##### *4.1 The Shift in ODA Contributions*

In the recent years, Japan's Official Development Assistance (ODA) to Malaysia has

undergone significant transformations to align with both nations' evolving priorities. The elevation of bilateral relations to a Strategic Partnership in 2015 expanded the scope of cooperation beyond trade and investment to include tourism, the halal industry, and environmental sustainability. This shift was reinforced through the Malaysia-Japan Economic Partnership Agreement (MJEPA), which facilitated deeper collaboration in economic and technological sectors. A key focus of Japan's ODA strategy has been environmental sustainability, with numerous initiatives supporting Malaysia's green technology development, disaster risk management, and environmental conservation. Additionally, cultural and educational exchanges have remained a central pillar of bilateral relations, exemplified by programs such as the Japan-East Asia Network of Exchange for Students and Youths (JENESYS), which foster mutual understanding and strengthen people-to-people ties.

During the COVID-19 pandemic, Japan extended crucial assistance to Malaysia through the provision of medical equipment and technical support, demonstrating solidarity during a global crisis. Moreover, Japan's revised Development Cooperation Charter, introduced in 2023, emphasized the alignment of ODA with Japan's national interests, including security considerations, reflecting a broader strategic intent to promote a free and open international order. These developments highlight the dynamic and adaptive nature of Japan's ODA to Malaysia, ensuring that cooperation remains relevant and beneficial in addressing contemporary challenges and seizing new opportunities for mutual growth.

Japan has further strengthened its ODA to Malaysia, with a particular emphasis on security, economic development, and disaster management. During the Japan-Malaysia Summit Meeting on January 10, 2025, Prime Minister Ishiba Shigeru and Prime Minister Anwar Ibrahim reaffirmed their commitment to enhancing security cooperation. As part of this initiative, Japan has committed to providing Malaysia with maritime surveillance equipment, including rescue boats, to enhance its maritime safety capabilities. This effort is aligned with Japan's Official Security Assistance framework, demonstrating a broader commitment to fostering regional stability and security.

From an economic perspective, both countries have prioritized the reinforcement of supply chain resilience in key industries, particularly in the semiconductor and aerospace sectors. Additionally, they have agreed to collaborate on the development of rare earth resources, which aligns with Malaysia's "Madani" policy that underscores sustainability and technological advancement. In the domain of disaster management, Japan has extended its expertise in disaster risk reduction to support Malaysia in addressing the adverse impacts of natural disasters, including floods and strong winds. These initiatives reflect the deepening bilateral relations between Japan and Malaysia and underscore Japan's continued commitment to Malaysia's sustainable development.

Moreover, Japan's ODA to Malaysia has increasingly focused on fostering innovation and technological advancement, particularly in areas such as digital transformation and smart infrastructure. Japan's expertise in robotics, artificial intelligence (AI), and 5G technology has been a key asset in supporting Malaysia's ambitions to position itself as a digital economy hub in Southeast Asia. Through collaborative projects and capacity-building



programs, Japan has provided Malaysia with the necessary tools and knowledge to enhance its technological capabilities. Furthermore, Japan has been actively involved in supporting Malaysia's efforts to transition to a more sustainable and low-carbon economy, including investments in renewable energy, energy efficiency, and green technology projects. These initiatives not only align with Malaysia's long-term development goals but also strengthen the economic and technological ties between the two nations. By prioritizing innovation and sustainability, Japan's ODA strategy is helping Malaysia to achieve a more resilient and diversified economy while ensuring that both nations continue to grow together in an increasingly interconnected world.

#### *4.2 Promoting Mutual Benefits and Regional Integration*

Japan's ODA initiatives have consistently reflected a model of mutual benefit. For Malaysia, these programs addressed financial gaps in development, while for Japan, they ensured access to critical raw materials, protected overseas investments, and strengthened economic ties. Malaysia's strategic position in ASEAN further amplified these benefits, enabling Japan to leverage its market presence across Southeast Asia through agreements like AFTA.

Beyond economic collaboration, Malaysia and Japan have also intensified their engagement in security, environmental sustainability, and cultural exchange under the Comprehensive Strategic Partnership (CSP). This initiative reflects both nations' shared commitment to maintaining regional stability, particularly in response to evolving geopolitical challenges in the Indo-Pacific region. Additionally, Japan has played a crucial role in strengthening Malaysia's disaster preparedness and climate resilience, offering technical expertise in disaster risk reduction and sustainable urban planning to mitigate the impact of natural calamities such as floods and strong winds.

The collaboration between Malaysia and Japan in higher education has played a pivotal role in fostering regional integration, particularly through initiatives such as the Higher Education Loan Fund Project (HELP). As analyzed by Yoshida, Yuki, and Sakata (2013), HELP evolved from facilitating student mobility to implementing program mobility via a twinning arrangement, thereby enhancing the governance and capacity of participating institutions while strengthening educational ties between the two nations. Beyond this initiative, cooperation in education, research, and technology has been a cornerstone of Malaysia-Japan relations, with Japan continuously supporting Malaysia's human capital development through academic partnerships, scholarships, and skill enhancement programs, particularly in science, technology, engineering, and mathematics (STEM) fields. These efforts aim to equip Malaysia's workforce with the necessary expertise to thrive in an increasingly technology-driven world.

Additionally, cultural diplomacy has remained integral to bilateral ties, with both nations actively expanding programs that promote language education, the arts, and people-to-people exchanges. Such initiatives not only reinforce mutual understanding but also contribute to deeper societal and diplomatic relations, ultimately strengthening regional integration and the long-standing partnership between Malaysia and Japan. These cultural exchanges foster a sense of shared history and respect, helping to bridge generational gaps and promote

long-term, people-centered cooperation. By investing in these cultural initiatives, both countries are cultivating stronger ties that go beyond economic and political interests, ensuring that their partnership remains dynamic and resilient in the face of future challenges.

#### *4.3 Adaptation Through the Development Cooperation Charter*

Under Prime Minister Shinzo Abe's administration, Japan redefined its ODA framework into the Development Cooperation Charter. This shift emphasized proactive contributions to global peace, stability, and sustainable growth. For Malaysia, this meant an ongoing collaboration in infrastructure, environmental conservation, and digital transformation projects. Objectives under this charter included enhancing trade, improving urban infrastructure, and promoting peace and stability, ensuring the relationship remains relevant in a multipolar global economy.

Japan's ODA contributions to Malaysia exemplify a sustained and dynamic partnership. From infrastructure and human resource development to green technology and regional trade integration, Japanese ODA has been integral to Malaysia's journey toward becoming a high-income nation. The evolving frameworks, such as the Development Cooperation Charter, demonstrate a shared commitment to adapting bilateral efforts to address modern challenges, ensuring long-term growth and stability for both nations.

In June 2023, Japan updated its Development Cooperation Charter to better address emerging global challenges and enhance the efficiency of its ODA. This revision underscores the principles of "human security" and "co-creation," aiming to safeguard and empower individuals while fostering collaboration among diverse stakeholders, including developing nations, private enterprises, and international organizations (Ministry of Foreign Affairs of Japan, 2024). The revised Charter establishes three key priorities: promoting "quality growth" through strengthened economic and social resilience, contributing to social stability by supporting legal system development and maritime security, and tackling global issues such as climate change and public health (Ministry of Foreign Affairs of Japan, 2024).

Scholarly analyses suggest that Japan's adaptation of its economic statecraft, particularly through ODA, represents a strategic response to shifting geopolitical dynamics. Govella (2021) highlights that Japan has increasingly leveraged ODA to reinforce stability and bolster defense capacities in Asian nations facing external pressures, thereby enhancing both regional security and economic development. This strategic shift aligns with the Charter's broader objective of contributing to global peace, stability, and prosperity, ultimately reinforcing Japan's own economic and security interests (Govella, 2021).

Within the Malaysia-Japan partnership, the updated Charter's emphasis on "co-creation" and "quality growth" serves as a guiding framework for strengthening bilateral cooperation. By aligning development initiatives with Malaysia's national policies, particularly the "Madani" policy, which prioritizes sustainability and innovation, both countries can collaboratively address shared challenges and advance regional integration (Ministry of Foreign Affairs of Japan, 2024).

#### *4.4 Recent Development of ODA*

Japan's ODA to Malaysia continues to play a transformative role, reflecting a deep and evolving partnership. Over the decades, Japan's ODA has shifted from addressing fundamental post-independence challenges, such as poverty and infrastructure development, to supporting Malaysia's transition toward a high-income and sustainable economy. A significant development in this framework occurred in 2024 with the elevation of Malaysia-Japan relations to a Comprehensive Strategic Partnership (CSP). This new framework expands ODA collaboration into emerging areas, including cybersecurity, supply chain resilience, and energy transition, showcasing Japan's adaptability in aligning its expertise with Malaysia's evolving developmental needs (MIDA 2024). The CSP underscores Japan's intent to strengthen its regional influence while reinforcing Malaysia's position as a key partner in Southeast Asia.

One notable evolution in Japan's ODA strategy is its shift from a request-based model to an offer-based approach. This proactive methodology enables Japan to identify and propose areas of cooperation that align with both its national interests and the developmental priorities of partner nations like Malaysia. For instance, Japan's emphasis on energy transition dovetails with Malaysia's commitment to achieving carbon neutrality by 2050 (The Malay Times 2024). By offering expertise in renewable energy and green technology, Japan not only contributes to Malaysia's sustainability goals but also secures opportunities to advance its own green innovations. This strategic alignment demonstrates how ODA can be leveraged as a tool for mutual benefit, balancing economic and environmental priorities.

Human resource development remains central to Japan's ODA contributions, reinforcing the longstanding focus of the Look East Policy. With over 26,000 Malaysians having studied or trained in Japan since the policy's inception, this capacity-building effort has significantly bolstered Malaysia's workforce. In the current landscape, ODA-funded training programs are increasingly tailored to equip Malaysians with skills in areas such as artificial intelligence, data analytics, and robotics, reflecting the demands of Industry 4.0. However, a critical challenge lies in ensuring that these skills are effectively integrated into Malaysia's domestic economy. For instance, small and medium enterprises (SMEs), which form the backbone of Malaysia's economy, must be enabled to absorb and capitalize on these advanced capabilities to drive sustainable growth.

Looking ahead, Japan's ODA will play a crucial role in regional cooperation as Malaysia prepares to chair ASEAN in 2025. Enhanced collaboration under the ODA framework, particularly in maritime security, disaster resilience, and regional connectivity, will be pivotal in promoting stability and economic integration across Southeast Asia. At the same time, Japan's ODA approach must adapt to the shifting geopolitical landscape, marked by increasing competition from other major powers like China. By fostering innovative partnerships and addressing shared regional challenges, Japan and Malaysia can ensure that ODA remains a dynamic and impactful instrument for mutual growth and stability. The continued relevance of ODA underscores the strength of Malaysia-Japan relations, rooted in shared goals and a forward-looking vision for the region.

## 5. Discussions

### *5.1 Expanding Trade and Economic Integration under MJEPA*

MJEPA was introduced in 2006, has been instrumental in fostering bilateral trade, enabling both nations to strengthen their economic ties. Malaysia's exports to Japan, which include LNG, electrical and electronic products, and palm oil, demonstrate its strategic role as a global supplier of essential commodities and industrial components. Conversely, Japan's exports to Malaysia, such as machinery, transport equipment, and chemical products, reflect its advanced technological capabilities and its role in sustaining Malaysia's industrial ecosystem. This trade partnership has matured to include value-added services and eco-friendly solutions, aligning with global trends in sustainability and digital transformation. However, the challenge lies in further diversifying trade portfolios and addressing supply chain vulnerabilities exacerbated by global disruptions, such as the COVID-19 pandemic. For instance, initiatives under the Regional Comprehensive Economic Partnership (RCEP) aim to mitigate these risks by enhancing regional trade resilience and connectivity.

### *5.2 Japanese Investments in Emerging Sectors: Driving Innovation and Sustainability*

Japan's investments in Malaysia have historically focused on traditional industries like manufacturing, electronics, and automotive production. However, recent trends reveal a strategic pivot toward emerging sectors such as renewable energy, digital technologies, and the green economy. Japanese companies are increasingly supporting Malaysia's sustainability goals, particularly its commitment to achieving carbon neutrality by 2050. Examples include investments in solar energy projects and energy-efficient manufacturing processes. Additionally, Japan's role in Malaysia's digital transformation is significant, with investments in areas such as AI, cloud computing, and e-commerce. For instance, Japanese tech firms are collaborating on Malaysia's 5G infrastructure rollout, which is vital for the nation's digital economy ambitions. While these investments signal adaptability and forward-thinking collaboration, Malaysia must enhance its infrastructure and regulatory frameworks to fully capitalize on the opportunities presented by these transformative industries.

### *5.3 Comprehensive Strategic Partnership: A Holistic Framework for Growth*

The establishment of CSP between Malaysia and Japan in 2023 marked a pivotal moment in their bilateral relations. This upgraded partnership extends beyond traditional economic collaboration to include critical areas like regional security, cultural exchanges, and technological innovation. Capacity-building initiatives under the CSP focus on equipping Malaysia's workforce with advanced skills in emerging fields such as robotics, renewable energy, and urban planning. For example, Japan's expertise in smart city development is being utilized to address urbanization challenges in Malaysia, enhancing resource management and infrastructure efficiency. However, the success of the CSP depends on Malaysia's ability to implement these advancements equitably across sectors and communities. Furthermore, both nations must work to ensure that this partnership remains adaptive to the rapidly evolving global landscape, particularly in the face of increasing regional competition from powers like China.

#### *5.4 Security and Regional Stability: Foundations for Economic Growth*

Economic growth and security are deeply intertwined, as evidenced by Japan and Malaysia's collaborative efforts in areas such as maritime security, disaster preparedness, and counter-terrorism. These initiatives are critical for maintaining a stable regional environment, which is essential for sustained economic development. For instance, both nations are actively addressing maritime security challenges in the South China Sea, a key trade route for global commerce. Additionally, Japan's support for Malaysia's disaster resilience programs highlights the strategic importance of mitigating risks that could disrupt economic activity. These efforts are further bolstered by frameworks like the RCEP, which aim to strengthen ASEAN's economic and security integration. However, the rising influence of China and other global powers in the region presents both challenges and opportunities for Malaysia and Japan. To maintain their strategic influence, both countries must balance economic collaboration with robust geopolitical strategies that ensure long-term regional stability.

#### *5.5 A Dynamic Partnership for the Future*

As both nations look to the future, their economic relationship is poised for continued growth and diversification. Areas such as digital healthcare, precision agriculture, and biotechnology present new opportunities for collaboration. Japan's emphasis on innovation and Malaysia's strategic location and market potential create a fertile ground for joint ventures and technology transfers. Furthermore, the alignment of Japan's Development Cooperation Charter with Malaysia's sustainable development goals underscores a shared commitment to addressing global challenges through bilateral initiatives.

LEP is evolving to address emerging global and regional challenges, ensuring its relevance in a rapidly changing world. One significant focus area is the exploration of collaborations in emerging industries, such as cybersecurity, information technology, supply chain resilience, and energy transition. These sectors are critical for building resilient economies in the face of digitalization and climate change. Japan's expertise in cutting-edge fields like AI, robotics, green technology, and climate change mitigation offers valuable opportunities for Malaysia to leapfrog in technological and environmental sustainability. For example, partnerships in AI and robotics could enhance Malaysia's manufacturing sector, while green technology and renewable energy collaborations align with Malaysia's carbon neutrality goals. These initiatives not only support Malaysia's economic diversification but also position both nations as leaders in sustainable development.

Human resource development continues to be a cornerstone of the LEP, with over 26,000 Malaysians having studied or trained in Japan since the policy's inception. This legacy underscores the policy's success in transferring skills and knowledge to Malaysia's workforce. Moving forward, there is an emphasis on equipping Malaysians with skills that meet the demands of Industry 4.0 and the digital economy. Training in areas such as data analytics, cloud computing, and green engineering is essential to maintaining Malaysia's competitiveness. Japan's world-class educational institutions and training programs provide a robust platform for advancing Malaysia's talent pool. However, a critical challenge lies in ensuring these skills are effectively integrated into Malaysia's domestic industries,



particularly SMEs which form the backbone of the nation's economy.

As mentioned, regional cooperation will play a pivotal role in the future of the LEP. Both nations are poised to strengthen their collaboration within the regional framework to promote stability, peace, and economic growth in Southeast Asia. Japan's longstanding engagement with ASEAN, coupled with Malaysia's leadership, creates opportunities to address shared regional challenges such as maritime security, disaster management, and climate resilience. Furthermore, Japan's investments in infrastructure and technology within ASEAN can enhance regional connectivity, benefiting not only Malaysia but also neighbouring countries. However, the growing influence of other major powers in the region, such as China, presents a complex dynamic that Malaysia and Japan must navigate carefully to maintain their strategic influence and mutual objectives.

The Malaysia-Japan relationship, underpinned by initiatives like MJEPA and the CSP, exemplifies a dynamic and forward-looking partnership. By leveraging their complementary strengths, both nations are well-positioned to address global challenges such as climate change, digital disruption, and regional instability. However, realizing the full potential of this collaboration requires continuous adaptation to emerging trends and a commitment to equitable and sustainable development. Through strategic investments, innovative partnerships, and a shared focus on regional integration, Malaysia and Japan are poised to solidify their roles as key players in the evolving global economic landscape.

## **6. Conclusion**

The current economic relationship between Japan and Malaysia exemplifies a forward-looking partnership that adapts to global changes while leveraging historical ties. From trade and investment to green technology and digital innovation, the collaboration continues to evolve, reflecting shared values and strategic objectives. With the CSP as a guiding framework, Japan and Malaysia are well-positioned to achieve mutual growth and contribute significantly to regional and global economic stability.

In summary, the future of the LEP lies in its ability to adapt to contemporary challenges and opportunities. By focusing on emerging industries, continuing human resource development, and strengthening regional cooperation, Malaysia and Japan can ensure that the LEP remains a dynamic mechanism for mutual growth. The policy's success will depend on its capacity to integrate innovation with traditional strengths, balancing local needs with global trends, and fostering a sustainable and inclusive partnership that benefits both nations and the broader ASEAN region.

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## **Authors contributions**

Mohd Ikbal Mohd Huda and Nur Aiman Nabilah was responsible for study design and



revising. Mohd Ikbal Mohd Huda and Nur Aiman Nabilah was responsible for data collection and drafted the manuscript and revised it. All authors read and approved the final manuscript, as well as contributed equally to the study.

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No additional data is available.

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