

ECONOMIC RELATIONS BETWEEN SABAH AND JAPAN: A STUDY ON KEY TRADE SECTORS

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Abstract. This study focuses on the economic relationship between Sabah and Japan by analyzing key sectors in trade between the state and the country. Economic ties between Japan and Malaysia have grown significantly since the 1980s under the Look East Policy, with Japan being one of Sabah's key trading partners, particularly in terms of capital flow and technology. This study employs a qualitative approach, involving an analysis of official documents and previous studies. It also adopts the paradiplomacy theory as a framework to explain the relationship between sub-national entities and other countries, specifically between Sabah and Japan. The findings indicate that Sabah's key trade sectors remain relevant in its economic relations with Japan; however, policy implementation and infrastructure development are necessary to ensure the consistency of trade between Sabah and Japan. Despite these challenges, there are opportunities to strengthen economic ties by emphasizing green technology and other sectors. This study concludes that the Sabah-Japan economic relationship holds great potential for continued growth through the adaptation of more sustainable and innovative trade strategies.

Keywords: *Sabah, Japan, international trade, economic relations, trade sectors*

Introduction

The economic relationship between Sabah and Japan has existed since the 19th century, when Japan's activities in Sabah involved investment and trade in raw materials to support its rapid industrialization. During the colonial period, Japan extracted timber, rubber, and other primary commodities from North Borneo (now Sabah) to meet the growing needs of its domestic industries. These early interactions laid the foundation for what would later evolve into a formal and structured trade relationship. Following the formation of Malaysia in 1963, the economic relationship between Sabah and Japan underwent a transformation from one driven primarily by resource extraction to a more balanced and strategic partnership that emphasized mutual benefits and long-term cooperation (Josiettha and Abdul Rahmin, 2020; Rosdianah and Islam, 2020). As the second-largest state in Malaysia, Sabah possesses abundant natural resources, including palm oil, petroleum, gas, timber, and marine products. These resources have long positioned Sabah as a vital contributor to Malaysia's overall trade performance and as a strategic international trading hub, especially in the agriculture, energy, and forestry sectors. The state's geographical location, situated along major maritime trade routes, further enhances its role in facilitating regional trade activities. Sabah's participation in the Brunei-Indonesia-Malaysia-Philippines East ASEAN Growth Area (BIMP-EAGA) initiative underscores its importance in regional economic integration. Within this framework, the Sepangar Bay Container Port (SBCP) has become a key maritime gateway linking Sabah with Japan and other East Asian economies, serving as a critical node for cargo movement and logistics in the Asia-Pacific region (Fui Tom, 2019). Japan, as one of the world's largest economies and a

highly industrialized nation, has consistently viewed Malaysia including Sabah as an essential trade partner, particularly for securing a stable supply of raw materials. The mutual dependence between both economies is not merely limited to trade in goods but also extends to technology transfer, capacity building, and investment cooperation. Japan's investment in Malaysia, especially in manufacturing, infrastructure, and energy sectors, reflects its confidence in the long-term stability of Malaysia's economic environment. Conversely, Malaysia, through Sabah, benefits from Japan's expertise in industrial technology, green innovation, and sustainable resource management.

In recent decades, however, shifts in global trade dynamics have influenced the patterns of Sabah-Japan trade. The emergence of new economic powers such as China, technological disruptions, changing trade policies, and a growing focus on environmental sustainability have reshaped global supply chains. These changes have introduced new challenges to Sabah's traditional export sectors, compelling the state to diversify its economic base and adopt more competitive strategies to maintain its trade relevance with Japan. Moreover, environmental regulations, particularly those related to carbon emissions and sustainable sourcing, have encouraged both countries to reconsider their approaches to trade and investment. Given these evolving circumstances, this study aims to analyze the economic relationship between Sabah and Japan by focusing on key trade sectors that serve as the backbone of their bilateral cooperation. By examining the performance, challenges, and potential of these sectors, the research seeks to provide a clearer understanding of how Sabah can leverage its resources to strengthen its economic ties with Japan. This analysis also offers policy insights that could help local and national authorities develop more effective strategies to enhance trade competitiveness, attract investment, and promote sustainable development. Ultimately, understanding the dynamics of the Sabah-Japan economic relationship contributes to broader discussions on Malaysia's international trade strategy, particularly in the context of regional integration and global economic transformation (*Figure 1*).



Figure 1. Map of the ASEAN-East Growth Area (BIMP-EAGA).

Materials and Methods

This study employs a qualitative research design that relies entirely on secondary data analysis to gain an in-depth understanding of the economic relationship between Sabah and Japan, particularly in key trade sectors. The qualitative approach is deemed

most appropriate for this research because it allows for a deeper exploration of contextual factors, historical patterns, and policy implications that shape the dynamics of international trade. By examining relevant documents and official reports, this method enables a holistic and interpretive analysis of trade performance, economic cooperation, and the evolving partnership between Sabah and Japan. Where this study focuses on documentary and content analysis, involving the systematic review of published materials, institutional reports, and government statistics. The key secondary data sources include official publications from the Ministry of Investment, Trade and Industry (MITI), the Department of Statistics Malaysia (DOSM), and the Sabah State Economic Planning Unit (EPU). These documents provide comprehensive and reliable insights into trade flows, export composition, and investment trends between Sabah and Japan. Annual trade reports, economic outlook bulletins, and statistical yearbooks were reviewed to identify patterns and changes in trade performance across multiple years. In addition, policy papers and regional development plans such as the BIMP-EAGA framework were analyzed to understand the strategic role of Sabah in regional economic integration. Academic literature was also examined to support the theoretical and analytical framework of this study. Scholarly works, journal articles, and books that discuss Malaysia–Japan economic cooperation, foreign policy, and paradiplomacy provided the conceptual foundation for interpreting the data. This literature review enabled the researcher to trace the historical evolution of the Malaysia–Japan relationship, assess policy continuity, and identify key areas of bilateral engagement that influence Sabah’s economy. Through this process, the study integrates both empirical evidence and theoretical perspectives to ensure analytical depth and scholarly rigor.

The data analysis process adopted a thematic approach, which involves identifying, classifying, and interpreting recurring patterns and themes found within the collected documents. Thematic analysis is particularly useful for qualitative research because it allows researchers to detect meaningful relationships between different variables, such as the influence of policy reforms on trade growth or the impact of environmental standards on export competitiveness. In this study, themes such as “economic interdependence,” “trade diversification,” “sustainability,” and “policy adaptation” were identified to guide the analysis. To ensure credibility and reliability, the study applied data triangulation by cross-verifying information obtained from different sources. For instance, trade figures from DOSM were compared with data from MITI and MATRADE to ensure consistency and accuracy. This method minimizes bias and enhances the robustness of the findings by ensuring that the interpretation of data reflects an accurate representation of reality. Overall, the adoption of a qualitative approach based on secondary data analysis allows for a comprehensive understanding of Sabah–Japan trade relations without the need for direct fieldwork. It provides the flexibility to interpret complex economic interactions within a broader socio-political and historical context. The methodological framework employed in this study ensures that the analysis remains grounded in verifiable evidence, offering valuable insights into the sustainability, challenges, and future prospects of the Sabah–Japan economic partnership.

Results and Discussion

The Malaysia-Japan trade history

Trade relations between Malaysia and Japan have a long historical foundation that dates back to the post-independence period, but they became increasingly structured and institutionalized with the establishment of the Free Trade Agreement (FTA) in 2005. The signing of the FTA marked a pivotal moment in Malaysia's international trade strategy, as it aimed to enhance market access for Malaysian goods and services while simultaneously promoting the inflow of Japanese foreign direct investment (FDI). This agreement was a milestone that laid the groundwork for deeper economic collaboration, enabling both nations to strengthen their participation in regional and global value chains. The Malaysia–Japan Economic Partnership Agreement (MJEPA), which came into effect in 2006, represents a more comprehensive framework that goes beyond simple trade liberalization. The MJEPA facilitates not only the exchange of goods and services but also encourages cooperation in areas such as human resource development, technological innovation, and industrial competitiveness. Through tariff reductions, capacity-building programs, and knowledge transfer initiatives, the agreement has significantly contributed to improving Malaysia's export performance and industrial standards. Japanese firms, in particular, have played an instrumental role in supporting Malaysia's manufacturing and electronics sectors, leading to job creation, technological upgrading, and skill development among the local workforce. In recent years, modern FTAs have expanded their coverage beyond traditional trade dimensions to encompass new frontiers such as digital economy, supply chain resilience, intellectual property protection, government procurement, and environmental, social, and governance (ESG) considerations. The MJEPA has been periodically reviewed and updated to reflect these evolving priorities, ensuring that the partnership remains relevant in a rapidly changing global economy. This adaptability underscores the maturity of Malaysia–Japan relations and their shared commitment to sustainable economic growth.

However, despite these positive developments, bilateral trade between the two nations has also faced fluctuations due to changes in global economic conditions. The emergence of China as a global economic powerhouse has significantly reshaped the dynamics of trade and investment across Asia. China's ability to attract major investors, including from Japan, has introduced a new layer of competition for countries like Malaysia. Furthermore, Malaysia's grand strategy towards China has been restructured from a balanced approach with the West to one that leans more towards China, particularly through economic opportunities such as the Belt and Road Initiative (Mohammad Ikhrum et al., 2024; 2019). As noted by Mohamad Ikhrum et al. (2024), Malaysia's foreign policy must therefore strike a delicate balance maintaining its strong ties with Japan while simultaneously engaging with China and other key economic players. To navigate these complexities, Malaysia's foreign policy initiatives, such as the Look East Policy (LEP) introduced in the 1980s and revitalized as Look East Policy 2.0, have been vital. The LEP encouraged Malaysians to emulate Japanese work ethics, management practices, and industrial strategies, which have since contributed to national productivity and modernization. The renewed LEP 2.0 continues to attract Japanese investors by promoting innovation-driven collaboration and strengthening Malaysia's position as a trusted partner in Southeast Asia (Akhir et al., 2023).

Malaysia's participation in regional and multilateral frameworks has reinforced its diplomatic and economic standing. Malaysia's image as a country that practices a free and non-aligned policy and maintains friendly relations with all nations, as long as they respect other countries and pursue peaceful foreign policies, is also one of its strengths (Ridzuan and Abd Majid, 2023). One notable milestone was the establishment of the

East Asia Summit (EAS) in 2005 under the leadership of Tun Abdullah Ahmad Badawi, which brought together key powers including Japan, China, and India to foster regional cooperation and stability (Mohamad Ridzuan and Ma'dan, 2023). Through such platforms, Malaysia has positioned itself as a bridge between major economies and as a proponent of balanced regional integration. Today, Japan remains Malaysia's fourth-largest trading partner, maintaining this position for eight consecutive years since 2015. This sustained relationship reflects deep-rooted economic interdependence and mutual trust. Japan continues to import a range of Malaysian commodities such as liquefied natural gas, crude petroleum, and palm oil, while exporting high-value machinery, vehicles, and electronic components to Malaysia. Beyond trade in goods, the relationship has also expanded into services, education, and technology cooperation. Ultimately, the Malaysia–Japan economic partnership stands as a model of strategic collaboration, grounded in mutual benefit, shared growth, and a common vision for a resilient and sustainable Asia-Pacific economy..

Trade sectors in Sabah

The Malaysia–Japan trade relationship has experienced a steady evolution over the decades, driven by economic cooperation and policy initiatives aimed at sustaining mutual growth. While federal-level trade relations dominate discussions, the state-level dynamics, particularly those concerning Sabah, offer a unique lens into how regional economies can integrate within global networks. The Free Trade Agreement (FTA) and Malaysia-Japan Economic Partnership Agreement (MJEPA) have facilitated such integration, supporting Sabah's ability to position itself within Japan's broader trade and investment strategies (*Table 1*). The role of Sabah as an economic gateway in East Malaysia has become increasingly significant. The development of the Sepanggar Bay Container Port (SBCP) as a regional hub, along with the Palm Oil Industrial Cluster (POIC) in Lahad Datu, demonstrates how infrastructure investment enhances the connectivity and efficiency of Sabah's export sectors. Japanese investors have expressed growing interest in these facilities due to their proximity to regional shipping routes and their potential to serve as logistics bases for renewable energy and manufacturing industries. The close collaboration between the Japan External Trade Organization (JETRO), MITI, and the Sabah state government highlights how infrastructure can be leveraged as a catalyst for long-term trade stability and economic diversification (*Figure 2*).

Table 1. Major export destinations and import sources in Sabah on 2022.

Country	Exports (RM million)	Imports (RM million)	Percentage Share (%) Exports	Percentage Share (%) Imports
China	8,158	2,841	20	28
India	4,344	443	10	4
Japan	3,743	334	9	3
Filipina	3,621	35	9	0
Australia	3,544	305	9	3
Netherlands	2,979	45	7	0
Republic of Korea	2,955	875	7	9
Negara-Negara Lain	2,398	1,082	6	11
Thailand	1,717	455	4	4
Brunei Darussalam	1,547	2	4	0
Taiwan, Province of China	1,547	100	4	1
Viet Nam	1,240	1,168	3	11
Singapore	853	250	2	2
Pakistan	847	59	2	1
United States	678	134	2	2
Sepanyol	580	12	1	0

Itali	399	44	1	0
New Zealand	234	63	1	1

Source: Department of Statistics Malaysia (2022).

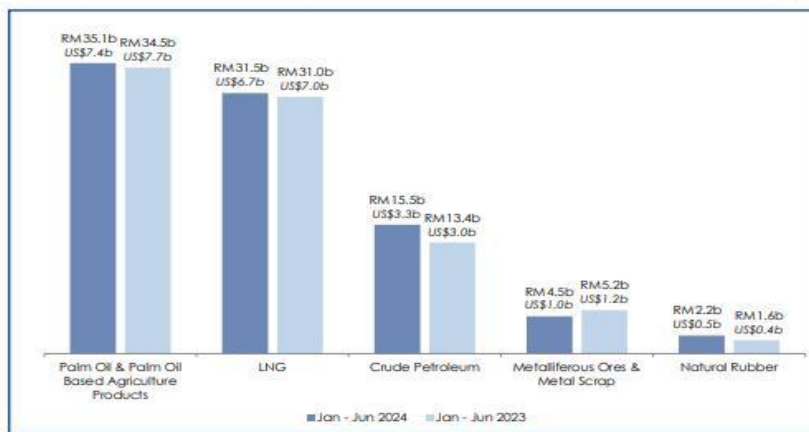


Figure 2. Exports for five key industries. Source: MITI (2024).

Accordingly, China remains Sabah’s top export destination, amounting to RM8.16 billion or 20% of the state’s total exports. This is followed by India (RM4.34 billion; 10%) and Japan (RM3.74 billion; 9%). These figures underscore Japan’s continued relevance as one of Sabah’s principal trading partners, even amid increasing competition from regional markets. Japan’s import share of 3% from Sabah reflects a consistent demand for raw materials, particularly palm oil and liquefied natural gas (LNG), which form the backbone of the bilateral trade relationship. The composition of Sabah’s exports illustrates a highly resource-based economy dominated by commodities. Figure 2 shows that palm oil and palm oil-based agricultural products continue to record the highest export value nationwide, reaching RM35.1 billion in 2024, followed by LNG (RM31.5 billion), crude petroleum (RM17.3 billion), metal ores and scrap (RM5.2 billion), and natural rubber (RM1.4 billion) (MITI, 2024). Within this national context, Sabah contributes significantly to the palm oil and LNG sectors, supplying Japan with essential raw materials that support its energy and manufacturing industries. Sabah’s palm oil industry remains a major pillar of the state’s economy, with 1.5 million hectares of oil palm plantations producing approximately six million tons of crude palm oil (CPO) and 30 million tons of crude palm kernel oil (CPKO) annually. Japan has increasingly relied on palm oil imports for its biomass energy generation projects, in line with its national strategy to reduce carbon emissions and diversify renewable energy sources. As reported, Sabah exported more than 256,000 tons of palm oil to Japan in 2019, a trend that has persisted due to Japan’s ongoing commitment to clean energy and the establishment of several biomass power plants. The POIC Lahad Datu has played an instrumental role in this trade, providing a dedicated industrial hub for processing, storage, and export of palm oil to Japan.

In addition to palm oil, the liquefied natural gas (LNG) sector represents another cornerstone of Sabah’s export economy. According to Malaysia’s trade data, LNG exports in Q3 2023 reached RM12.8 billion, with 43.1% (RM5.5 billion) exported to Japan. In Q1 2024, LNG export value slightly declined to RM12.7 billion, but Japan’s share increased to 45.4%. This demonstrates Japan’s stable dependence on Malaysia particularly Sabah as a secure LNG supplier, especially after the Fukushima nuclear

disaster which shifted Japan's energy policy toward imported LNG. However, because most oil and gas operations in Sabah are managed by companies headquartered in Peninsular Malaysia such as Petronas and Shell there are limitations in accessing state-specific LNG export data. Despite these limitations, the petroleum and gas sector continues to generate substantial revenue for Sabah while fostering deeper bilateral engagement. Japan's strategic investments in LNG infrastructure and technology transfer to Malaysia have enhanced production efficiency and environmental safety in offshore operations. The recent expansion of the Sabah Oil and Gas Terminal (SOGT) in Kimanis further strengthens the state's capacity to meet future demand from Japanese partners. Beyond palm oil and LNG, Sabah's natural rubber industry also maintains trade relations with Japan, albeit at a smaller scale. Rubber production in Sabah has deep historical roots dating back to the early 20th century under British colonial rule. The Sabah Rubber Fund Board (Lembaga Tabung Getah Sabah) continues to support smallholders, but challenges such as low international prices, aging trees, and competition from synthetic rubber have weakened the sector's global competitiveness (Juri, 2022). Nonetheless, Japan remains an important buyer of natural rubber for its tire and automotive industries, which emphasizes the need for revitalizing smallholder productivity and promoting high-quality latex production. The diversification of Sabah's trade portfolio also aligns with Japan's economic transition toward green and sustainable technologies. Japanese corporations have increasingly prioritized Environmental, Social, and Governance (ESG) principles in foreign investment, creating new opportunities for Sabah to attract green capital. For instance, the state's renewable energy initiatives, including mini-hydropower projects, biomass energy plants, and sustainable forestry management, resonate strongly with Japan's environmental goals. These sectors could form the next frontier of Sabah–Japan economic cooperation, promoting a more balanced and environmentally responsible trade relationship.

The participation of Sabah in the Brunei–Indonesia–Malaysia–Philippines East ASEAN Growth Area (BIMP-EAGA) further enhances its potential as a trade hub. Its geographic proximity to major sea routes linking East Asia and the Pacific has made it an ideal location for transshipment and logistics operations. Japanese companies are exploring opportunities to develop cold chain logistics, precision agriculture, and maritime connectivity projects in collaboration with Sabah state agencies. This not only strengthens the trade relationship but also contributes to employment creation and technological upgrading within the local economy. The data from Table 1 and Figure 2 collectively illustrate that Sabah's trade structure remains heavily reliant on commodities; however, the state's evolving economic strategy shows an increasing emphasis on value-added industries and sustainability. Through continuous collaboration with Japan in technology transfer, logistics enhancement, and environmental innovation, Sabah is well positioned to transition toward a diversified and resilient trade economy. Furthermore, the Look East Policy 2.0 and subsequent foreign investment initiatives have revitalized Japanese confidence in Malaysia as a trusted trade partner. This is reflected in the steady inflow of Japanese capital to Sabah's manufacturing, energy, and services sectors. As noted by Akhir et al. (2023), such policy frameworks reinforce Malaysia's long-term diplomatic and economic engagement with Japan by encouraging knowledge exchange, human capital development, and innovation-led industrialization. In this regard, the evolution of Sabah–Japan relations also mirrors Malaysia's broader foreign policy priorities. As

observed by Mohamad Ridzuan and Ma'dan (2023), Malaysia's active participation in multilateral platforms such as the East Asia Summit (EAS) has allowed it to mediate and balance strategic interests among major powers, including Japan and China. Sabah's economic diplomacy, although subnational, plays a complementary role by reinforcing federal efforts in maintaining regional stability and fostering inclusive growth.

Finally, the integration of sustainable trade practices within Sabah's economy marks a critical evolution in its external relations. Japan's growing demand for responsibly sourced commodities aligns well with Sabah's ambition to position itself as a regional leader in sustainable resource management. Through initiatives such as certification of palm oil under the Malaysian Sustainable Palm Oil (MSPO) scheme and expansion of eco-industrial parks, Sabah is laying the groundwork for a greener and more competitive trade relationship with Japan. Overall, the analysis of trade statistics, export compositions, and industrial trends highlights a consistent trajectory: Sabah's economic relationship with Japan is not merely transactional but progressively strategic. It encompasses trade, investment, environmental cooperation, and innovation. By capitalizing on these strengths, Sabah can enhance its global competitiveness while ensuring that its partnership with Japan continues to evolve in a sustainable and mutually beneficial direction.

Conclusion

The economic relationship between Sabah and Japan continues to evolve in a positive trajectory, particularly through key trade sectors such as palm oil, petroleum, and liquefied natural gas (LNG). These sectors not only serve as the backbone of Sabah's export economy but also symbolize the long-standing trust and interdependence that define the Sabah–Japan partnership. The findings of this study indicate that Japan remains a critical trading partner for Sabah, especially in the context of energy security, sustainable agriculture, and industrial cooperation. However, sustaining this momentum requires careful policy coordination at both the state and federal levels. Foreign policy decisions, investment incentives, and environmental regulations play a decisive role in determining the competitiveness of Sabah's exports in the Japanese market. Beyond economic gains, this partnership also holds significant potential for promoting sustainable development. Collaboration in green technology, renewable energy, and eco-friendly trade practices could transform Sabah into a model of sustainable regional growth under the BIMP-EAGA framework. Furthermore, fostering knowledge exchange and capacity-building programs between Sabah and Japanese industries could enhance technological capabilities, innovation, and workforce skills. Nevertheless, the research acknowledges several limitations, particularly the lack of disaggregated data specific to Sabah's export performance and the limited access to primary sources from industry actors. Hence, future research should adopt a more comprehensive, multi-sectoral approach that integrates environmental, social, and policy perspectives. Strengthening the Sabah–Japan economic relationship through innovation, inclusivity, and sustainability will ensure mutual long-term benefits for both economies and their people.

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Conflict of interest

The authors confirm that there is no conflict of interest involve with any parties in this research study.

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