

The Importance of Japan-Malaysia Energy Cooperation for Strengthening Energy Security

Ken Koyama, PhD

Senior Advisor

The Institute of Energy Economics, Japan

On September 14-15, I had the opportunity to visit Kuala Lumpur and exchange views with energy stakeholders and experts in Malaysia. On September 15, I also participated as a panelist in an international conference hosted by Mitsubishi UFJ Financial Group (MUFG), entitled “*MUFG NOW: Powering Asia’s Future: Enhancing Japan-Malaysia Partnership for Energy Security and Transition.*” At a time when the international energy landscape is being profoundly shaken by the Strait of Hormuz crisis, the discussions provided a valuable opportunity to deepen my understanding of the energy challenges confronting Malaysia, as well as Southeast Asia more broadly. They also prompted renewed reflection on the significance of energy cooperation between Japan and Malaysia, and more generally between Japan and Southeast Asia. In the following sections, I would like to present some observations and reflections inspired by the conference and my exchanges during the two-day visit.

Malaysia is steadily enhancing its presence as one of the core economies of Southeast Asia, a region that continues to experience robust growth. The country is also an important producer of oil and natural gas. In particular, Malaysia occupies a strategically significant position in the LNG sector, serving as Japan's second-largest LNG supplier after Australia. As such, it constitutes a vital partner for Japan in energy cooperation, especially in relation to LNG and other energy options. Conversely, Japan is regarded by Malaysia as a country with which it enjoys deep and multifaceted economic ties, including in the energy sector. Symbolized by the "Look East Policy" initiated in the early 1980s, Malaysia has consistently attached great importance to its relationship with Japan, a stance that continues to this day.

Against this backdrop, one of Malaysia's most important energy challenges today is how to pursue energy transition while simultaneously safeguarding energy security amid an increasingly complex international environment. As I discussed in my earlier essay, *A Japanese Perspective on International Energy Landscape* (No. 796), particular attention should be paid to the substantial increase in electricity demand driven by the rapid expansion of data centers in Malaysia. Owing to what may be termed a "new information revolution," Malaysia now faces the critical challenge of ensuring a stable supply of electricity that is reliable, competitively priced, and, wherever feasible, generated from low-carbon or carbon-free power sources. Securing such a stable electricity supply has become one of the country's foremost policy priorities.

In recent years, Malaysia has demonstrated a strong commitment to promoting energy transition aimed at decarbonizing its energy supply and demand structure. In August 2023, the government unveiled the *National Energy Transition Roadmap*, outlining a pathway toward achieving net-zero greenhouse gas emissions by 2050 and intensifying policy initiatives across various energy sectors. In connection with these efforts, Malaysia's national utility company organized the first *Energy Transition Conference* in August 2023 and the second in June 2026. Both conferences served as important international forums for examining policies and strategies to accelerate energy transition while taking into account the domestic and international circumstances prevailing at the time.

The discussions at the second *Energy Transition Conference* were particularly notable because they took place against the backdrop of dramatic changes in the international energy environment triggered by the Strait of Hormuz crisis. As a result, the importance of energy security featured prominently throughout the conference. Furthermore, as noted above, the emergence of rapidly growing electricity demand associated with the "new information revolution" has reinforced concerns regarding electricity supply stability, thereby elevating the importance of energy security even further. This same perspective was evident in the meetings and exchanges of views that I participated in during my recent visit to Malaysia. Simply put, Malaysia, like many other countries, continues to uphold net-zero emissions as its long-term policy objective. At the same time, however, growing recognition has emerged that addressing immediate energy security concerns, protecting households and economic activities from energy disruptions, and ensuring adequate energy supply to support continued economic growth and development have become urgent priorities. Consequently, a notable shift has occurred toward emphasizing what might be described as an "energy transition for energy security."

Importantly, this "energy transition for energy security" can also contribute to reducing greenhouse gas emissions. Since the onset of the Strait of Hormuz crisis, many Southeast Asian countries, including Malaysia, have accelerated efforts to reduce dependence on the Middle East, promote electric vehicles, expand biomass utilization, and increase renewable energy deployment. These measures are fundamentally motivated by energy security considerations, yet they are also expected to generate positive emission reduction outcomes. Similarly, energy conservation initiatives, including efforts to reduce oil consumption in response to the crisis, contribute simultaneously to enhanced energy security and lower emissions. At the same time, the renewed interest in coal as a means of strengthening energy supply security in parts of Asia illustrates that the primary driver of current energy transition efforts is not necessarily decarbonization itself, but rather the imperative of strengthening energy security.

Another important observation arising from the discussions during my latest visit was the growing emphasis on advancing energy transition while minimizing increases in costs. In other words,

affordability has become an issue of central importance. In this regard, the role of natural gas and LNG in Asia's energy transition deserves particular attention. Since the early 2020s, our institute has conducted extensive research on this issue and has consistently argued that effective utilization of natural gas and LNG can serve as a means of minimizing the overall costs associated with energy transition, particularly in Southeast Asia. In this sense, natural gas and LNG represent practical and effective solutions for supporting a realistic and economically sustainable energy transition. An important policy question therefore concerns how Japan and Malaysia can cooperate to ensure that natural gas and LNG fulfill this expected role. Naturally, the Strait of Hormuz crisis has also had significant repercussions for global LNG markets, and careful analysis will be required to understand how these developments may shape the future evolution of the LNG market. As LNG supplies from Malaysia and the broader Asia-Pacific region are likely to become increasingly important under current circumstances, it is essential to reaffirm the strategic significance of natural gas and LNG within Asia's energy transition framework.

The discussions also highlighted another major issue in addition to affordability. This concerns the question of dominance within clean energy supply chains. Accelerated deployment of electric vehicles and renewable energy technologies may further strengthen China's dominant position in clean energy industries, potentially leading to greater dependence on China. Given today's complex geopolitical environment, this issue is emerging as a new energy security challenge of strategic importance for Malaysia and Southeast Asia as they pursue energy transition.

In addressing these multifaceted challenges, cooperation with Japan can play a critical role in supporting energy transition efforts in Malaysia and throughout Southeast Asia. Expectations toward Japan are high among regional partners, while such cooperation is also clearly aligned with Japan's own national interests. Indeed, during the Japan-Malaysia summit meeting held in Tokyo in June this year between Prime Minister Sanae Takaichi and Prime Minister Anwar Ibrahim, both leaders reaffirmed their commitment to strengthening and deepening bilateral cooperation, emphasizing the importance of collaboration in LNG, other energy sectors, and critical minerals. Prior to this, Japan had announced the *POWER ASIA* initiative aimed at strengthening energy security across Asia. In addition to addressing the urgent challenge of securing stable oil supplies, the initiative demonstrates Japan's commitment to supporting energy transition for energy security in the region. Through these initiatives, further advancement and concrete implementation of Japan-Malaysia and Japan-Southeast Asia energy cooperation can be anticipated. The current energy environment presents difficult realities for Japan, Malaysia, and Southeast Asia alike. To realize mutually beneficial outcomes, it is imperative that all parties move beyond dialogue and toward the practical implementation of concrete cooperative measures.

Contact: report@tky.ieej.or.jp

The back issues are available at the following URL.

http://eneken.ieej.or.jp/en/special_bulletin.html