

# **Key Indicators Influencing Foreign Direct Investment in MALAYSIA**

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## **Abstract**

Foreign Direct Investment (FDI) is a direct investment into business or production in one country through an entity in alternative country, either via purchasing a business in the target country or via developing operations of a current business in that country. Despite the vast research by Malaysians and other foreign researchers about FDI in Malaysia, there are still other indicators that affect Malaysia as an attractive destination for FDI flows and consideration for any investment opportunity.

This research is based on primary data, which was collected through questionnaires with a sample of 34 foreign companies invested in Malaysia. The SPSS software is used to analyze the data. The findings show that 85 percent of investors agree to invest in Malaysia again, most of them prefer to invest in the tourism industry due to many reasons such as country attractiveness, economic growth, technology availability, religious freedom, and access to capital. Investors consider Malaysia as a good destination for investing in South East Asia. Among all factors, social and cultural factors, location factors and economic factors have the most impact on FDI inflows in Malaysia and among independent variables, there is a significant relationship. This research can be useful and reliable for Malaysian government to change its policy in some industries and focus more in incentives that attract more foreign investors.

**Keywords** Political, governmental and legal factors, social and cultural factors, location factors, financial factors and economic factors

## **INTRODUCTION**

Foreign Direct Investment is one of the dynamic types of capital inflows in the world economy throughout the past decades. In more countries, most of the firms in industries are raising foreign direct investment more than before, and almost all economies try to attract multinational enterprises (MNEs). There is a long-lasting notion among policy makers, where foreign direct investment is helpful in ensuring long-run development and growth compared to other forms of capital inflows. Disputes for this assumption have been diverse, but many are based on the concept that FDI conveys foreign

technology, management skills, and a considerable channel for the distribution of new opinions, which can be modified by the host country in other contexts. This impression is reinforced by the fact that fast growing economies tend to attract more FDI.

FDI is important for developing economies and accelerating growth in developing countries such as Malaysia. It is supposed that the benefits that FDI creates to the outlook and standard of living for economy growth of the host country mostly outweigh its weaknesses. Two changing trends of investment have persisted in the latest decade. First of all, there is a growing variety in the investment in different economic segments. Secondly, in the various segments of economy, further capital expenditure has been conducted into better technology intensive and higher value added projects. In most countries, the policy makers perform out of their system to draw more FDI.

An important grade of FDI inflows is a support of the economic strategies that the policy makers have been applying and an imprint of approval of the economic health of the specific country. There is obviously a strong global rivalry for FDI. In 1990, this extraordinary growth of worldwide FDI throughout the world caused FDI as a significant and dynamic element of development policy in developing and developed nations and strategies were planned for encouraging inward flows.

## **LITERATURE REVIEWS**

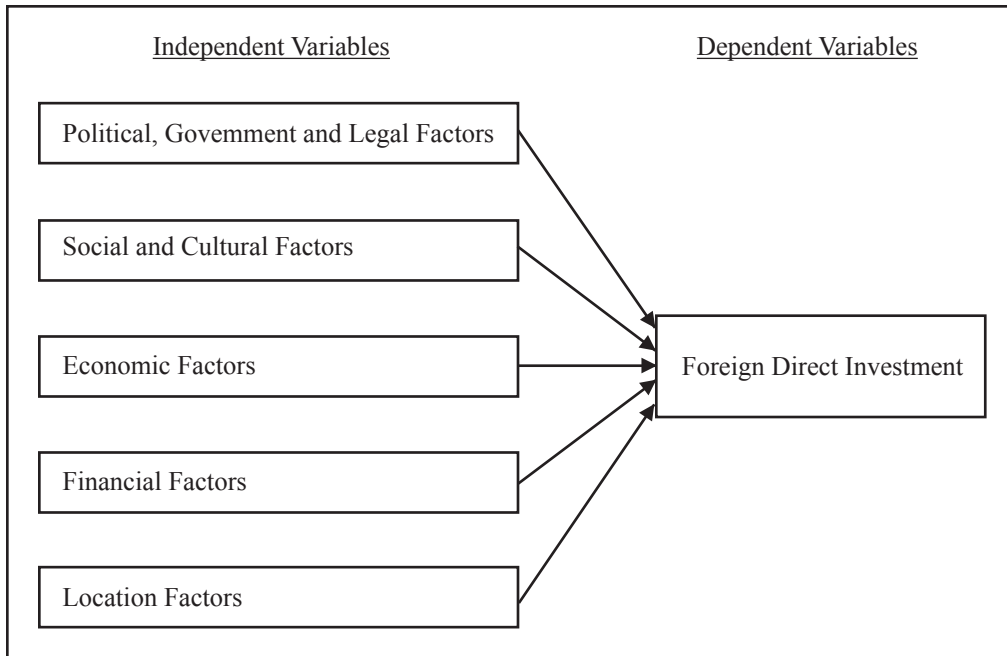
FDI is one of the main instruments for worldwide economic integrations. Firms view overseas expansion as a necessary step to achieve a more effective access in the markets where they presently have low representation. Investments often lead to increased trade flows indicating that trade flows and investments are complementary (Ali, Ahmad and Muhamad, 2010).

Previous researchers have done many Studies such as Zubir Hassan (2003), Ang (2008) and Hooi (2008). Zubair Hasan (2003) displays that export expansion, foreign exchange rate, and infrastructural growth are significant elements in fascinating FDI into Malaysia. There is a negative relationship between FDI and exchange rate. This indicates that a weak currency causes to reduce FDI inflows that oppose the hypothesised mark. Additional elements such as capital flight, balance of payments and growth rate have minor influence on FDI inflows.

Ang (2008) studied a broader analysis of FDI factors by data spanning during 1960-2005. Among the variables examined are financial development, income, corporate tax, and government spending on infrastructure, wage rates, exchange rate, inflation rate economic growth, openness and financial crisis 1997–1998. The outcomes indicate that all of elements are significant determinants of FDI. Exchange rate has the major part in attracting further FDI while economic growth rate takes the minimum impact on FDI.

## **THEORETICAL FRAMEWORK**

The framework, which is depicted below in Figure 3.1 shows the determinants of foreign direct investment. There are five independent variables such as political, governmental and legal factors, social and cultural factors, economic factors, financial factors and location factors. In addition, many items have been involved in the questionnaire.



**Figure 1** Factors Influence on FDI in Malaysia

## METHODOLOGY

### Sample and data collection method

The method to collect data in this research is qualitative method and transfer to the quantitative method, since all the data is numerical.

### Problem statement

Malaysia is one of the favourite destinations in the South East Asia region for foreign direct investment. The Ministry of International Trade and Industry (MITI) is playing a significant role to achieve the government's purposes to attract more FDI flows to Malaysia. In this regard, the government of Malaysia has principally concentrated on commodities like palm oil, tin and rubber.

In spite of supporting this public segment investment, the government has displayed its interest in expanding investment to the private segment over the years. After the recession in 1997 and 1998, the main factors for the growth were little foreign debt, low level of reserves and the continuous export and manufacturing segment. By this time, the attention reformed to external investment and foreign exports. FDI was stimulated in high tech activities and export oriented manufacturing. Any foreign investor who invested in Malaysia has four options for investing:

- a. To register as a foreign company
- b. To incorporate as a distinct company
- c. To form a single proprietorship
- d. A joint venture

Others studies mentioned that the main reasons that cause Malaysia to be an attractive destination are cheap labor, undervalued currency and low inflation rate. In the following, the study will show that there are other reasons that affect Malaysia as an attractive destination for FDI flows.

This study has divided each factor to many variables for considering more closely the relationship between each of them to FDI. For example, Cultural and Social factors include level of education, attitudes, beliefs and values, religion, manners and custom, and language and communication. In the following, this study considers how much Social and Cultural Factors, Financial Factors, Political/Government/Legal Factors, Economic Factors, and Geographical Factors affect the inflow of FDI in Malaysia.

### **Research Questions**

- a. What are the main determinants of FDI in Malaysia and is there any relationship between these determinants?
- b. What are the further potential FDI opportunities in Malaysia?

### **Research Objective**

- a. To investigate the factors that attract FDI flow to Malaysia and how they are related.
- b. To find out the sectors that the foreign investors consider as an investment opportunity in Malaysia.

### **Questionnaire Design**

The questionnaires comprised of two parts. **Part one** requested the respondents to assist in this research and its focus on general information with regard to FDI flow to Malaysia. **Part two** involves elements that influence the FDI, measured on the Likert Scale with 1 to 5 from strongly disagree to strongly agree. The Likert scale is implicated as the most measured applicable and reliable quantity scale for this kind of question and is easy to make and accomplish. To ensure the correctness, the surveys are proposed to take into account the following features;

- a. Research articles, academic writing, and journals.
- b. Pre-tested to make sure the answerers recognized the survey's accurate viewpoint.

### **Response Rate**

Thirty-four respondents have been answered out of sixty-sample size, therefore the rate of feedback is 56% and it can be examined as an acceptable level.

## **HYPOTHESES STUDY**

Hypotheses of this investigation are inspired from relevant previous studies and their hypotheses about key factors that influence the foreign direct investment and the sectors that foreign investors consider as an investment opportunity in Malaysia.

### **Independent Variables**

#### **Case 1:**

$H_0$  : There is a significant relationship between FDI & Political, Governmental and Legal Factors.

$H_1$  : There is no significant relationship between FDI & Political, Governmental and Legal Factors.

#### **Case 2:**

$H_0$  : There is a significant relationship between FDI & Social and Cultural Factors.

$H_2$  : There is no significant relationship between FDI & Social and Cultural Factors.

#### **Case 3:**

$H_0$  : There is a significant relationship between FDI & Economic Factors.

$H_3$  : There is no significant relationship between FDI & Economic Factors.

#### **Case 4:**

$H_0$  : There is a significant relationship between FDI & Financial Factors.

$H_4$  : There is no significant relationship between FDI & Financial Factors.

#### **Case 5:**

$H_0$  : There is a significant relationship between FDI & Location Factors.

$H_5$  : There is no significant relationship between FDI & Location Factors.

## **FINDING AND DISCUSSION**

### **Data Analysis**

This section encompasses Part A, B and C. Each part is divided into three main thrusts. Part A denotes General information on company registration year, company's position, types of business undertaken in Malaysia, key factors affecting FDI, Malaysia as a good destination in South East Asia, intention to invest in Malaysia, types of business that like to venture in Malaysia, and incentives sought from the MITI.

Part B indicates political factors, governmental factors, legal factors, social and cultural factors, location factors, financial factors and economic factors and Part C denote descriptive analysis for each factor.

## Part A General Information

**Table 1** The year of company registration in Malaysia

No	Year	Frequency	Percentage
1	1990-1995	3	9
2	1996-2000	2	6
3	2001-2005	5	14
4	2006-2011	24	71
5	<b>Total</b>	<b>34</b>	<b>100</b>

N=34

As illustrated in Table 1, the lowest percentage belongs to years between 1996 and 2000. As explained previously, Malaysia is faced with the 1997–1998 Asian Financial Crisis. This crisis has a strong influence on FDI flows in Malaysia and affected the fall in Ringgit. During this period, only 6 percent of companies were registered in Malaysia. During the crisis period, the RM-\$US exchange rate dropped from RM2.48 per US\$1 to RM2.57 per US\$1 and Bank Negara increased the short term interest rate above 10 percent but it was not useful and the government tried to use some monetary policy for supporting the economy from rising international pressures on the economy such as tax incentives based on the rise in the value of exports plus deferring a few mega projects, announced new exchange controls to avoid more manipulation of Ringgit. Moreover, the government prevented the transfer of Ringgit to outside of Malaysia and took many phases to raise the confidence of the external investments such as applying different degree of legislative guarantees. As a result, a few foreign companies were interested in investing in Malaysia.

Most companies registration year between 2006 and 2011, totally is 71 percent. Malaysia has a strategy of mixed economy whereby the countries interested in FDI into the country push the economy and secure growth. Most of the practical findings on the purpose of FDI in countries imply that FDI is a principal origin of capital, development of technology transfer, supplements domestic investment, and expansion of overall economic growth in states where better economic growth will make sound investment environment which invites investment from market-seeking companies.

Moreover, the fast reaction to the universal crisis is one of important reasons, which is explained in the following:

The Malaysian economy is separated from the America economy; the subprime crisis did not influence Malaysia since its banks did not have any exposure to these financial means. In addition, Malaysia can have access to the growth created by China. As if to prove that the economy of Malaysia would grow notwithstanding the universal slowdown, the MITI emphasized the point that MIDA is obtaining increasing investment applications in Malaysia.

**Table 2** Company’s Position

No	Company’s position	Frequency	Percentage
1	Chief Executive Officer	6	19
2	Managing Director	9	24
3	General Manager	6	19
4	Director	13	38
5	<b>Total</b>	<b>34</b>	<b>100</b>

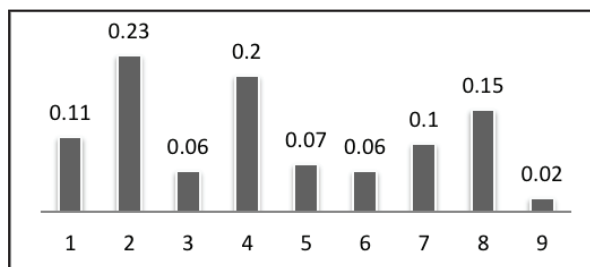
N=34

Chief Executive Officer (CEO) is the highest ranking in management of an organization. A CEO responsibility is all of the things that are related to the survival of the company, specifically in a start up. The failure or success of a company is under the CEO responsibility. Strategy, operation, financing, marketing, human resources and other things fall on the CEO’ shoulders. These duties cause them to be busy and this is one of the reasons that they could not fill out the questionnaire. There are only 19 percent of questionnaire was filled out by CEO. The second level in a company is Managing Director (MD). The MD needs to manage duties, which CEO delegates to the MD. It involves the budget, staff, customers and all other company’s resources and increases the profitability of company. The MD is a substitute of the CEO and when the CEO is not in the company, the MD is responsible for everything. As illustrated in Table 2, 24 percent of MDs answered the questions.

The third level is General Manager (GM), who is in charge of lots of activities in the business. GM manages all the portions of all the functions of the business such as the administrative services. A significant role of GM is that of a communication link between the management and the staff. Considering and observing the performance of the personnel and guiding them to the aims of the company are the occupations of a GM, but only 19 percent of them filled out the questionnaire.

The last level is Director that is lower than other levels of management. It is not usually involved with day-to-day management, and its role is an over-viewer, observing the interests of other stakeholders, ensuring adherence to good practice. As is shown in Table 2, the highest percentage is 38 percent that is related to the Director that has more time than top level of management.

**Analysis of Types of Business-Undertaken in Malaysia**



**Figure 2** Respondents Types of Business undertaken in Malaysia

Type of business undertaken in Malaysia consist of ICT, financial services, tourism, food and beverage products, education, oil and gas, healthcare, electronics and other (metal products, palm oil, agriculture) respectively.

### ***Financial services***

According to the 10<sup>th</sup> Malaysian plan, 58 percent of GDP is for the services sector and will be a significant driver of economic growth in the planned period. During this period, the services segment will be liberalised under the ASEAN Framework Agreement on Services (AFAS), Free Trade Arrangements (FTAs) and World Trade Organisation (WTO).

Among the businesses that were obtained from respondents, Financial Services had the highest percentage around 23 percent because the remittance and money changing industry has grown considerably during the last decade. According to Bank Negara of Malaysia, the number of non-bank remittance service providers increased to 39 services in the end of 2010 from 3 services in 2005. As a result, whole outward remittance throughout the formal channels has risen by 119.7 percent to RM13.4 billion in 2010 compared to RM 6.1 billion in 2005. This growth is because of faster speed, lower cost and further extended channels for transactions (Bank Negara Malaysia, Money Services Business (MSB)).

### ***Food and Beverage***

After financial services the second business is investing Food and Beverage products and services around 20 percent because of the government's emphasis on the agriculture sector, almost 10 percent of manufacturing output belongs to the food processing industry. SMEs comprise more than 80 percent of the total number of corporations in the processed food sector and the beverage sector includes the manufacture of mineral water and soft drink (MIDA, year, p 2).

According to the MIDA, it is expected the current international retail sales in food products are valued around US\$ 3.5 trillion and estimated to rise at a yearly rate of 4.8 percent to US\$ 6.4 trillion by 2020.

### ***Electronics***

The Electric & Electronic Industry is Malaysia's leading and the most liberalised industry. Throughout the last three decades, Malaysia has industrialised to a main international manufacturing base for the electronics business.

The existence of many MNCs has made a substantial local market for the mechanisms and supporting industry. The existence of leading electronic manufacturing services firms creates opportunities for indigenous firms to be segment of their supply chain in the supply of materials, equipment, components and parts, and devoted services.

The Government is supporting the development of Electrical and telecommunication industry through the reinforcement of backward and forward connections by encouraging activities. In addition, the Government supports investment in innovative and emerging technologies.



### ***ICT***

ICT is the fourth investment undertaken in Malaysia. The Multimedia Super Corridor (MSC) is the macro level initiative of Malaysia related to ICT industry and the micro level initiative is concentrated on provision of advanced ICT. ICT is the main driver of economic growth and in the Ninth Malaysian Plan; around US\$ 6 billion is distributed for developing ICT diffusion in Malaysia. This displays the significant grant by the government in ICT industry to quicken the economic competitiveness of Malaysia. Not only the public sector, but also the private sector is a key user of ICT services and products. In addition, the private sector has invested considerably in ICT over time.

### ***Health Care***

In the 1990s, the healthcare industry went through considerable restructuring and the Ministry of Health, which is responsible for providing medical services and healthcare services, has shifted regarding wellness rather than illness. Health advancement and prevention plans, using of information and multimedia technology, creation of specialty centres, expansion of health infrastructure, reforming of public hospitals, unveiling of the National healthcare Financing Scheme (NHFS), and the Execution of National Quality Assurance Program.

### ***Education***

The strategy of Malaysia as a zone and international centre of education has floated almost the whole of the last decade. Although the plan has achieved some prominent successes, the government needs to take things to a higher level. Therefore, the Education has been known as one of the main factors in ETP, which purposes to promote Malaysia as a high-income country by 2020.

According to the plan, the private sector is responsible for increasing the contribution of education to gross national income to \$20.2 billion by 2020 (Oxford, year). One way is setting a target of having 200,000 external students registered in Malaysia by 2020.

### ***Oil and Gas***

Oil and Gas are two of the important resources in Malaysia and throughout their upstream and downstream activities are noteworthy contributors to the government revenue, including more than 40 percent of federal revenue yearly.

In 2009, the Oil and Gas industry contributed 13.1 percent of GDP from upstream activities represented 7.6 percent of GDP and from downstream activities contributed 5.5 percent of GDP, because of increasing in Global energy demand and economic growth.

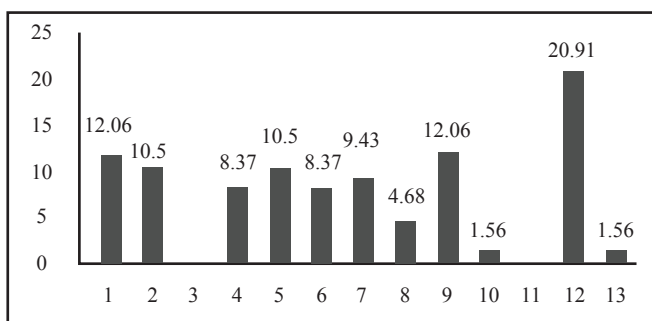
### ***Tourism***

In Malaysia, Tourism development is constrained by political factors and clear socioeconomic, which need planning considerations beyond the traditional worries for growing and advancement. Aside from the New Economic Policy, which requires racial-spatial economic reforming and indigenisation of control, tourism development needs a new approach with less than liberal religious and cultural orientations of the public.

**Others (Palm Oil)**

Aside from the New Economic Policy, which requires racial-spatial economic reforming and indigenisation of control, tourism development needs a new approach with less than liberal religious and cultural orientations of the public. In the 10<sup>th</sup> Malaysia plan, the aim is to develop this industry’s output to GDP around RM21.9 billion and in terms of export to achieve RM69.3 billion (Tenth Malaysia Plan, page 124).

**Analysis of Key Factors Influence on FDI**



**Figure 3** Respondent’s Observation about the Key Factors affecting FDI

Observation about the key factors affecting FDI include low cost labor, availability of raw materials, tax incentives, infrastructure facility, government regulation, level of education, political stability, joint venture partners, quality of life, efficient seaports, international airports, a vibrant business environment and high tech communication respectively.

***A Vibrant Business Environment***

As illustrated in Figure 3, the significant factors’ influences on FDI in Malaysia are a vibrant business environment, low cost labour, quality of life, availability of raw materials and government regulation. The reasons that make Malaysia to be a highly competitive manufacturing and export base and do business with international companies are supportive government policies, market-oriented economy and a great local business community. Furthermore, Malaysia’s rapid change towards the economy makes companies to do business in a situation that is geared towards IT.

***Low Cost Labour***

Malaysia is an exporter and importer of labour from Bangladesh, Indonesia and Cambodia. The population of these low cost labours is over 2 millions. The foreign workers have negative and positive effect on local workers. One of the positive impacts is the growth of economy and it does not have any net increase in unemployment rate in Malaysia, but the negative effect is low cost wages (Malaysia’s cheap labour crisis, page 1).

### ***Quality of Life***

The most distinctive characteristic in Malaysia is the rich diversity of culture. Heritage from its racial mix of the world's oldest civilisations such as Chinese, Indian and Malay. This diversity of culture and race has qualified Malaysians to be fluent in at least three languages like English, Bahasa Melayu, and their own mother tongue. Living in a multicultural environment, which accepts foreigners easily into their circle of friends is one of the key factors that attract more investors.

From 1991 to 2010, Malaysia's GDP has increased by an average of 5.8 percent each year. This growth has improved the quality of life in Malaysia and reinforced extensive progress in healthcare, education, public transport, infrastructure, electricity and water (Tenth Malaysia Plan, page 57).

### ***Availability of Raw Materials***

Malaysia is the source of many raw materials because of rich sources in mining, forestry, fishing and fertile lands for cultivation. In 2008, Malaysia approved the certificate of "Measures to Address Impact of Global Economic Slowdown on Malaysia's Trade and Industry", which offers further complete import responsibility freedom on the intermediate commodities and raw materials. The MITI supposed these "productive imports" and the aim of duty exemptions is to decrease the expenditure of undertaking business for the construction and manufacturing segments (MITI, 2008).

### ***Government Regulation***

The policy environment for inward FDI has been liberal. The key government organisation is MITI, which undertakes the assessment and approval of inward FDI, and investment encouragements, since the enactment of the Promotion of Investment Act of 1986. The Malaysian Industrial Development Authority (MIDA) is MITI's sub-organisation, which is the key promotional party attracting inward FDI. The NEM, the ETP and the 10th Malaysia Plan emphasise the absorption of investment and information intensive doings to raise the economy to the rank of a high-income economy by 2020. Inward FDI is a vital fragment of reaching this aim of progressing. The absence of talents and industrial capability is frequently mentioned as one of the major causes for a stoppage in inflow FDI, the declared policies to raise the supply of technological upgrading, innovation capability and human capital are estimated to recover FDI inflows. The creation of a genius organisation to invite expert and experienced employees, developments in government provision systems and public-private companies, renovating the education systems and the recognition of new main economic parts are estimated to supply to expansion the countries interest to external investors.

### ***Political Stability***

Political stability has an important role in attracting more investment. In other words, the political uncertainty can be a nightmare for investors. This factor can affect the economic growth and distribute the flow of foreign investment in private sector and public sector.

### ***Level of Education***

The advanced environment and open regulatory has reinforced private education services to be broadly known in the South East Asia. Nonetheless, numerous challenges are necessary to be addressed for achieving the desired target. Main challenges are the threats of crowding out arising from the growth of public institutes; unsustainable government capital with low portion of private needs financing and increased rivalry from the regional market.

To reach the growth target and improve the place as a first destination for education, numerous initiatives will be taken through all levels of education with particular concentration on advanced education as follows:

1. Initiating a dominant enrolment system for all domestic students and international students in steps with adjustable credit accumulation outline for all studies in public and private provision.
2. Preparing conducive educational eco-system to invite world-leading faculties and students in niche zones to establish branches in Malaysia.
3. Increasing marketing and promotion works in high potential markets.

### ***Infrastructure Facility***

The physical infrastructure has developed considerably during last year's. For economic growth, considerable additional infrastructure investments are needed to support it that will be provided by the ETP. Among them, only two will receive specific attention; logistics and broadband. About logistic, the government has committed to increasing access and connectivity in improving airports, developing rail network, building and improving roads and upgrading maritime infrastructure. In broadband, the Ministry of Information, Communications and the Arts has committed to do the following works: Broaden coverage and access to improve virtual mall, increase speed to facilitate broadcast of large IC design documents and enhance capacity to spur data centre hubs.

### ***Joint Venture Partners***

Doing joint venture can permit participating corporations to quickly change the scope or scale of their activities. The Construction industry has a significant role in the Malaysia's economic growth. It has contributed to the GDP of the country and can be the indicator or yardstick of the country's economic performance. Joint ventures are recognised to take benefit of the economic, social and political conditions dominant in a specific economy. In Malaysia, international companies come to its shores principally because of the economic growth, political stability, a moderately low cost labour and other reserves. Joint ventures are becoming progressively widespread both in local government and international construction companies because of completing their individual objects.

### ***Efficient Seaports***

Ports are a dynamic component of transport of mass cargo. In 10<sup>th</sup> Malaysia Plan, a countrywide port policy is prepared to achieve the purposes, planned directions and more development of ports. Sea infrastructure will be modernised to make sure effectiveness of Malaysian ports, expenditure around RM1 billion aimed at the capital dredging of port canals to provide for better vessels and promoting mechanism at Westport of Port Tanjung Pelepas and Port of Klang, Selangor. In addition, Johor caters further capacity for export and import of goods. Significant private investments through the 10<sup>th</sup> Plan period are improving the Westport, Penang Port and Port of Tanjung Pelepas, around RM6 billion (Tenth Malaysia Plan, page 111).

### ***High Tech Communication***

The private sector has participated in the transformation and growth of Malaysia's communication infrastructure. Doing this work has certified the establishment of essential information infrastructures. Nowadays, Malaysia has one of the most superior telecommunication networks in comparison with other developing countries. Latest technologies such as, wireless transmission, optic fibres, digitalisation and satellites are utilizing the proposal of following generation networks, 3G content, unified communication, VOIP, WIMAX digital TV, and sensor technology. Maxis, Digi and Celcom Communications are the key network operators in Malaysia. Moreover, Astro, Time dot com, Packet One and Axiata, are several of the important players.

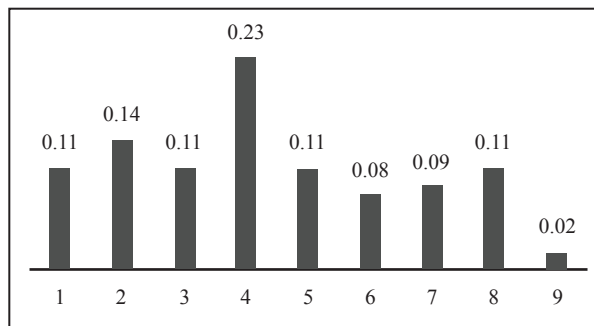
## **MALAYSIA AS A GOOD PLACE FOR INVESTMENT IN THE SOUTH EAST ASIA**

Malaysia is located in the heart of South East Asia, which provides a cost-competitive place for capitalists planning to establish offshore operations as the manufacture of advanced technological goods for local and global markets. 71 percent of respondent agree that Malaysia is a good place for investing. Due to the pro-business Government policies and market-oriented economy, Malaysia provides a dynamic business environment for investors with the perfect prerequisites for profits and progress. The main strengths are productive manpower, developed infrastructure, political stability because of well-developed legal system.

## **RESPONDENT'S INTENTION TO INVEST IN MALAYSIA**

Nowadays, Malaysia has changed from depending on primary commodities and agriculture to become an export-oriented place through capital incentive industry, knowledge base, and high technology. The reasons that motivate foreign investment are advanced technology, human resources, towards the economy of tomorrow, a vibrant business environment and well-developed infrastructure. 85 percent of investors are interested in investing in Malaysia. All of the reasons mentioned above effect on Malaysia to be one of the top investment destinations in the world and more than 5,000 international companies from 40 countries set up their business and operations in Malaysia. Moreover, some of them expanded their business in the country. So, Malaysia is a haven for international companies.

## TYPE OF BUSINESS IS TO VENTURE IN MALAYSIA BY INVESTORS



**Figure 4** Respondent's Perceptions of type of Business like to venture in Malaysia

Respondent's Perceptions of type of Business like to venture in Malaysia according figure 5.3 consist of food and beverage, electronics, ICT, tourism, palm oil, healthcare, oil and gas, financial services and others respectively.

### *Tourism*

As illustrated in Figure 4, 23 percent of investors are interested in investing in the tourism industry. In addition, under 10<sup>th</sup> Malaysia plan promoting tourism industry and attracting a significant share of tourist arrivals especially from Middle East, India, China and Russia is the 2015 target. For achieving this purpose, there are some strategies such as:

- a. Upgrading tourism products by the design of concentrated tourism clusters that will influence the current and innovative iconic tourism products.
- b. Preparing special and typical travel patterns such as family fun, cultural diversity and affordable luxury.
- c. Expanding new iconic tourism products in public and private sector.
- d. Offering certification of tourism products and activities gradually to confirm safety and quality.

### *Electronics*

As shown in Figure 4.14 percent of foreign investors are interested in investing in the electrical industry. The electrical industry is identified by fast advanced technology and has developed more quickly than other industries. One of the reasons of growth is government policy for encouraging investment in modern and emerging technologies. A new chance for electronic manufacturers in Malaysia is to set up the manufacturing based operation or offices to do their business both in local market and regional market in ASEAN.

### ***Food and Beverage***

Through the increase of Malaysia's purchasing power and improving of living standards, demand of food items will be increased. The people will be more health conscious through the standards of living then low fat products and quality of food are important for them. In addition, price of food and beverage is important. Consequently, it is essential for government to consider the purchasing power of population, quality and price of food. As shown in Figure 4, 11 percent of investors like to invest in the food and beverage industry. Since, Malaysia has many land and properties that are ready for agriculture.

### ***ICT***

The market development of ICT is anticipated to motivate the trends of mobile technology and data transfer. The Figure 4 shows 11 percent of investors want to invest in ICT. For growth of Malaysia, the government should progress from a normal producer of ICT services and products to a niche producer of particular ICT services and products, and shift from a net importer to a net exporter. Moreover, developing the ICT sector parallel to application of ICT in all industries.

### ***Palm Oil***

If Malaysia wants to be a global hub in the palm oil industry, it must promote the basic oleo chemicals and palm oil industry. As shown in Figure4, 11 percent of capitalists are interested in investing this industry. To get this goal, the palm oil industry should develop the downstream activities such as pharmaceuticals, biofuel, nutraceuticals, oleochemicals, biomass products and food products, furthermore, supporting good agricultural performances, agronomic management, and mechanisation among farmers.

### ***Financial Services***

The financial services sector has an important role in Malaysian economy. It responds to the challenges of global environment. During the last decade, financial amendments led to the increase in institutional capacity and reinforce the regulatory and supervisory charter. As shown in Figure 4, 11 percent of capitalists keen on investing financial services. During 10<sup>th</sup> Malaysia plan, the financial sector makes more efforts to remain resilient, competitive and diversified to economic growth. One of the key elements in 10<sup>th</sup> plan is to increase the position of country in Islamic finance universally via the reinforcing of the Malaysia Islamic Financial Centre initiatives.

### ***Oil and Gas***

The rich resources of oil and gas have given a distinctive advantage to Malaysia. Concrete infrastructure and the value chain of three unified petrochemical areas, offshore rigs and an international class LNG production place have supported Malaysia's growth. The Figure 4 shows 9 percent of investors like to invest in oil and gas industry. In the part of downstream activities, three important integrated petrochemical parts have been



set up and many countries such as United States, Japan and Germany are interested in investing there. For further growth, the government must develop construction, enhance skills in engineering, procurement, installation of onshore and offshore oil and gas services and equipment.

### **Health Care**

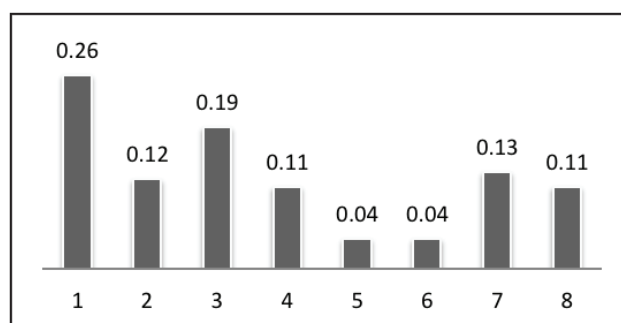
In the 10<sup>th</sup> Malaysia plan, a significant element in achieving economic growth is healthcare. This is essential to making the country as a good place for living and leads to a further productive manpower. As illustrated in figure 4, 8 percent of investors want to invest in healthcare sector. Coherent strategies for getting more investors and international patients are:

- a. Supporting more private and public hospitals to obtain accreditation with global healthcare accreditation bodies.
- b. Enhancing capacity, quality and coverage of its infrastructure.
- c. Intensifying organised and integrated advertising activities to increase the existence of Malaysia Healthcare brand universally.
- d. Shifting from treatment to wellness and disease prevention.

### **Other Businesses**

As illustrated in Figure 4, 2 percent of investors are interested in investing other businesses such as paper products, machinery and engineering, chemical, rubber and PVC based products, distributive trade Inc, wholesale and retail, transport equipment, manufacturing related services and pharmaceutical.

## **INCENTIVE FROM MITI**



**Figure 5** Incentives seeking from MITI or/and Malaysia Government

Incentives seeking from MITI or/and Malaysia Government include tax incentives, duty free importation of project related tariffs, adequate expatriate visas, extension of business visitor visas, regional incentives, incentives sector, foreign fund management and export incentives and free trade zones respectively.



### ***Tax Incentives***

In Malaysia, both direct tax incentives and indirect tax incentives are offered in the Customs Act 1967, Income Tax Act 1967, Sales Tax Act 1972, Excise Act 1976, Promotion of Investments Act 1986, and Free Zones Act 1990 (MIDA, Malaysia, year). All mentioned Acts protect investments in different industries such as the tourism, agriculture, and manufacturing and approved R&D, services sectors, environmental protection activities and training. As illustrated in Figure 5, 26 percent of investors expect more tax incentives from the government in future.

As shown in Figure 5, capitalists are keen on Adequate Expatriate Visas, Foreign Fund Management, Duty Free Importation of Project Related Tariffs, Extension of Business Visitor Visas, Export Incentives and Free Trade Zones, Sectoral Incentives and Regional Incentives almost 19 percent, 13 percent, 12 percent, 11 percent, 11 percent, 4 percent and 4 percent respectively.

## **Part B: FACTORS RELATED TO FDI**

### **POLITICAL FACTORS**

Political factors include four variables such as country image, government stability, lack of terrorism and taxation policy. Among four variables, country image is the maximum influential factor and lack of terrorism as the ineffective factor. It means that most of the investors are satisfied about the immigration of Malaysia and the real situation of Malaysia. In addition, the respondents agree that Malaysia has not experienced any severe happening of terrorism in the past years.

Policy makers and international business specialists believe that the efficient information on the function and significance of country image in attracting FDI, supporting a domestic exports, protecting national markets because of imports and capitalizing on major global occasions for promoting nationwide image proximately valuable in preparing policies and strategies.

On the other side, Lack of terrorism has a positive impact on FDI. While the growth of international terrorism definitely affects particular corporate decision makers as considering whether or not to capitalise overseas, it has not, obviously, stopped many of investors from determining to participate in some investment in the post 9/11 developing world.

### **GOVERNMENTAL FACTORS**

Governmental factors consist of five variables such as lengthy approval procedure, local authorities rules, immigration policies, environmental laws and antitrust and intellectual property law. Among the five variables, Environmental Laws by has the maximum and Immigration has the minimum rank.

About environmental laws, in the 1970s, the establishment of the New Economic Policy of Malaysia in reforming the economy of the society had a positive influence on developing the property marketplaces when property segment presented marks of

recovery. In addition, Malaysia has many natural resources such as oil and gas, water and land. Therefore, in economic planning, Malaysia is considering rules to confirm sustainability of resources. It is necessary to protect the natural resources when other countries invest in Malaysia.

On the other side, about the immigration policies, there is a close and complex relationship between immigration and development especially in economic development. Malaysia has signed a contract about foreign workers with some countries such as Vietnam, Pakistan, Thailand, China and Sri Lanka that is called MOUS. In addition, the Ministry of Home Affairs of Malaysia has a close coordination with Immigration Department to consider closely the immigration policies to better monitoring business people and immigration condition.

## **LEGAL FACTORS**

Legal factors have two variables. One of them is conflict resolution and the other one is litigation. Litigation has the most influence effect on FDI. Conflict resolution is conceptualised as the processes and methods included in simplifying the peaceful conclusion of public conflict. Global investment, especially FDI, remains to grow quickly across the Asian countries, notwithstanding the Asian Financial Crisis and the Global Financial Crisis. Most foreign investors may face some problems about their investment in the host countries so the government should enact some rules about international investment. The methods of alternative dispute resolution in Malaysia are mainly conciliation, mediation, arbitration and adjudication. These methods of alternative dispute resolution are becoming gradually widespread mechanisms to resolve arguments.

In Malaysia, the litigation procedure follows an argumentative system. All advocates and attorneys have the exclusive rights of audience in the courts, except in two courts the Syariah judges and the small claims tribunal. For rights before the Syariah courts, advocates and lawyers should find a distinct qualification. Foreign solicitors are usually not approved rights of audience; only the advocates who are granted a superior certificate for permission by the Attorney General.

## **SOCIAL AND CULTURAL FACTORS**

Social and Cultural factor consist of five variables, which include level of education, Attitudes, beliefs and values, religion, manners and customs and language and communication. Among all factors, religion and level of education are the effective and ineffective factors influencing FDI.

Religion influences in the political structure, economy, social behavior of individuals and legal environment, consequently, religion is a significant part of the global business environments. In addition, the prominence of religion is a concern for trade. Religious attitudes are essential to the people. The policy makers should care about their decisions, which can affect the beliefs of people regarding to the grade of religious homogeneity or heterogeneity and the grade of tolerance of religious variety. The level of education has the minimum impact in Social and Cultural factors.

Education is a significant variable in the age of information. Knowledge is quickly qualified substituting labor and raw materials as the most serious contribution for existence and success. Higher education increases a country's capability for contribution in a knowledge based world economy, develop growth of economic and decrease poverty. Therefore, higher education has an important role in developing countries.

## **LOCATION FACTORS**

Location factors include six variables such as terrain, level of technology, communication infrastructure, low cost labour, access to physical infrastructure and skill workforce. Among all variables, level of technology has the main influence in attracting FDI and immigration skilled workforce has the minimum impact on FDI.

Nowadays, the most principal instrument for worldwide technology transfer is FDI. In Malaysia, the National Action Plan in related to industrial technology development was introduced in 1991. Through the six and seven Malaysia plans, the government provided the basic infrastructure motivations, supportive services, enhancing productivity, and develop the capabilities for technology adaptation and integration. An immigration skilled worker has a significant role in FDI. They supply useful information regarding to market structure, business morals, consumer inclinations and business codes in economies. In addition, the language abilities and knowledge about the host country considerably decrease communication expenditures.

## **FINANCIAL FACTORS**

Financial factors consist of five variables such as high interest rate, exchange rate fluctuation, high inflation, access to capital and currency risk. Accesses to capital and Exchange rate fluctuation have the maximum and minimum impact on FDI.

SMEs in Malaysia, which adapted the International Financial Reporting Standard for accessing to capital better than previously, should have a broader link to achieve capital by converging to International Financial Reporting Standard since it would require reliable information and knowledge to financial organisations. This work causes the SMEs' financial reports to be coherent and comparable through the world and permit these firms to develop overseas and could affect in a level competing field with other firms abroad.

On the other side, one of the influential factors on FDI is the performance of exchange rates. It is described as the national currency price of an overseas currency, in terms of the volatility and the levels. It can affect not only the total amount of FDI that takes place but also the distribution of the investment applying across a series of nations. The exchange rate fluctuations impact strongly on foreign income. The foreign income has a vital role in economic growth in Malaysia. The important implementation that effect on exchange rate fluctuations is monetary and fiscal policies which influence to stabilise the fluctuations that come from outside. The government's decision is important to control or minimise the exchange rate fluctuations.

## **ECONOMIC FACTORS**

Economic factors include seven variables such as market size, access to market, market growth potential, and access to raw materials, human development, technology availability and innovative capacity. The results show that technology availability and human development are the effective and ineffective variables impact on FDI.

Nowadays, access to technology is a vital variable for competition in the world and FDI is a principal channel that transfers technology in the world economy, because of this the world is moving from industrial age to information age. Malaysia provided the First National Science and Technology Policy for technology development in 1986. According to Chandranetal (2003 and 2004), Malaysia was one of the exports of high technology industries in 2001, but it depends on overseas technology, and government should increase its effort to promote the technology capabilities.

The United Nations Development Programme has placed Malaysia sixty first out of one hundred eighty seven countries in its Human Development Index (Human Development Report, 2011).

Since 1979, Malaysia has presented good activities and performance, with many successes that should be supported, continued or improved. This ranking is because of the low level of woman involvement in government, where nearly 15 percent of legislative seats are for female candidates. Therefore, Malaysia should increase its effort to improve its situation in the world about ranking of human development index.

## **Part C DESCRIPTIVE STATISTICS**

This part of study used the SPSS software for analyzing statistical methods of 34 questionnaires. First outcomes of variables are depicted by using descriptive statistics with explanation about Mean and Standard Deviation. At the end, the Skewness and Kurtosis are examined.

## **POLITICAL, GOVERNMENTAL AND LEGAL FACTORS**

Political, governmental and legal factors consist of eleven variables. The table presents the number of questionnaire, minimum and maximum scale (1-5), mean and standard deviation, skewness and kurtosis for each variable. The Likert Scale is implicated as the most applicable and reliable quantity scale used for measurement for this study. The Likert Scale is 1 to 5 from strongly disagree to strongly agree. The outcomes displays that the minimum statistic is 1 and the maximum statistic is 5 for all variables except local authority rules that maximum statistic is 4. It means the foreign investors agree to the role of local authority rules influence in FDI.

The Mean and S.D of country image, government stability, and taxation policy are 3.68, 3.65, 3.53, and S.D 1.065, 1.012, .992 respectively. They consider as important variables. On the other side, the Mean and S.D of local authority rules, immigration policy and litigation are 3, 3.03, 3.03 and S.D .985, 1.167, .969 respectively. They have ineffective impact on FDI.

About the skewness, all statistics of variables are negative, only litigation has the positive value. Therefore, the skewness is negative. In kurtosis, all values are negative,

only government stability and antitrust intellectual property are positive; therefore, the distribution is flatter.

Since small number of large companies control international production in many industries, the role of government in supporting FDI within will enhance a country image, support connection between large MNCs and local companies, government stability, provide information about investment opportunities and taxation policy is very important. The government of Malaysia reviewed its policy during the last decades, and tried to attract more foreign investors and provide a good condition in investment.

## **SOCIAL AND CULTURAL FACTORS**

The minimum statistic is 1 and the maximum statistic is 5 for all variables. In addition, the mean and S.D of religion is 3.588 and .924 and mean and S.D of level of education is 3.205 and 1.038. These variables are the most effective and less effective variables, which influence in FDI.

In skewness, the value of all variables is negative, so it is negatively skewness. In kurtosis, the value of three of variable is positive and two of them are negative. As a result, the distribution should be more flat.

Religion has played an important role in the ordinary lives of individuals and the manner of organise, socialise, and control of lives. Since Malaysia has religious freedom and diversity, it attracts more FDI. The great diversity in Malaysia causes more economic growth and different investors have different religion and beliefs, because of religious freedom and diversity, foreign investors feel more secure in their investment and are not worries about their products or services is not interested of the local.

## **LOCATION FACTORS**

Among all variables in location factors, the minimum statistic belongs to physical infrastructure and immigration skilled workforce with scale of 1, the scale of other variables is 2 regarding to maximum scale all of them is 5. In part mean and standard deviation, level of technology with mean 3.85 and S.D .957 and immigration skilled workforce with mean 3.058 and S.D 1.042 are the most effective and ineffective variables in location factors, which affect FDI.

In skewness, the value of all variables is negative, so it is negative skewers. In kurtosis, the value of access to capital is positive and the value of others is negative. As a result, the distribution should be more flat.

The technology spillover influence of FDI has been paid more notice by the entire world with the quickening of globalisation. FDI in a host country with lower technical level cannot significantly support the technical growth. Therefore, governments should pay more attention in the level of technology in their countries. Since Malaysia has tried to increase the level of its technology during attracting more FDI and implements the “market for technology” strategy to achieve the advanced technology of FDI through external capital. All of them lead to Malaysia getting an acceptable level of technology for foreign investors.

## **FINANCIAL FACTORS**

Financial factors include five variables. The minimum and maximum Likert scale is 1 and 5 for all variables. Among all variables, access to capital with mean 3.558 and S.D .859 and exchange fluctuations rate with mean 3 and S.D 1.044 are the most effective and ineffective variables, which impact FDI.

In skewness, the value of all variables is negative except exchange rate fluctuations. As a result, the skewness is negative. In kurtosis, the value of two of variables is positive and three of them are negative. As a result, the distribution is flatter.

In Malaysia, one of the types of investment is joint venture. When the researcher spoke to one of the foreign investors, he informed that he did not have enough money to begin his second investment, so one of his Malaysian partners requested loan from one of the bank and after several months they could start the new business. Therefore, access to capital (using credit or loan) is one of the incentives that attract more foreign investors to Malaysia. The government considers the business and if it is useful for country, it will provide the conditions such as giving loan and borrowing fund to them for investing.

## **ECONOMIC FACTORS**

Economic factors consist of seven variables. Among all variables related to Likert scale the minimum statistic for all variables is 1 except market size and technology availability, which are 2 and maximum statistic for all variables is 5. The technology availability with mean 3.764 and S.D .818 and human development with mean 3.147 and S.D 1.048 are the most effective and ineffective variables influence on FDI.

In skewness, the value of all variables is negative, so it is negative skewness. In kurtosis, the value of all variables is negative, only innovative capacity and market growth potential have positive value. Therefore, the distribution is flatter.

One of the most important factors, which help to economic growth in Malaysia, is technology development. For investors, access to technology is vital, because technology availability is a tool between home and host countries. Malaysia developed its technology during the fifth Malaysia plan (The National Science and Technology Policy) and these developments effect on attracting more FDI. When there is technology availability, the communication with other nations is easier than past and investors can do more works in shorter time and higher speed. This is one of the reasons that more countries invest in Malaysia as a good destination in South East Asia.

## **CONCLUSION**

All analysis is done for pooled data sample of 34 foreign companies from 1990 to 2011. In part A, the findings show that financial services are the most important business, which is undertaken in Malaysia by foreign investors. In addition, a vibrant business environment has the most effect on FDI and most of the investors agree that Malaysia is a good destination in South East Asia for investing. 85 percent of investors are interested in investing Malaysia again in tourism industry and electronic industry. The government has some plans to develop the tourism industry. Moreover, they are



seeking more tax incentives from MITI to attract more international investment in Malaysia.

In part B and C, the analyses show that in political, governmental and legal factors the most effective variables are country image, environmental law and conflict resolution. On the other hand, lacks of terrorism, immigration policy and litigation have ineffective impact on FDI. In social and cultural factors, religion and level of education have the most influence and less impact on FDI. In location factors, level of technology is effective and immigration skilled worker has ineffective impact on FDI. In financial factors, access to capital plays an important role to attract more FDI and exchange rate fluctuations' role is ineffective in attracting more FDI. In economic factors, technology availability plays a significant role in FDI and human development has an ineffective impact on FDI.

All in all, there is a significant relationship between all variables and FDI in Malaysia. The results show that each investor considers its investment destination from many sides such as political, financial, economic, location and social and cultural factors that mentioned as independent variables in this study and all of them together play an important role for attracting more foreign investors. In addition, there is a significant relationship among all independent variables such as the political policy can influence the financial and economic factors. For example, if the government reduces its business or political relationship between two countries and that country has an important role in the region and in the world, it directly affects the exchange rate, inflation, export and import and other things.

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