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**AN ASSESSMENT OF THE MALAYSIAN GOVERNMENT POLICIES TO
PROMOTE FOREIGN DIRECT INVESTMENT**

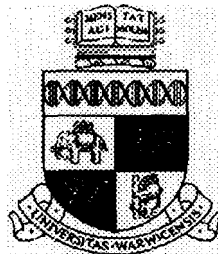
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Declaration

I hereby declare that the work presented in this dissertation is entirely my own and was conducted under the supervision of Dr. Diane Stone. All sources of quoted information have been acknowledged by means of references.



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16 September 1996

Abstract

Experiences of most developing countries show that the initial stage of development has to be engineered by the government. In the case of Malaysia, state-managed policy of the “structuralist approach” has become a yardstick for its development. Government in Malaysia work hand in hand with private sectors to accelerate the pace of industrialisation embodied in the Malaysia’s “Vision 2020”. This objective cannot be fulfilled without any contribution from foreign direct investment (FDI) and Malaysian economic experience has proven that FDI is vital for its development. This in part, indicates how vulnerable Malaysia is to the trends at international level. However, the country’s heavy reliance on FDI is not the sole choice of the Malaysian Government, nor does the decision of the capital-exporting countries, but the real mechanism which determines this is the market power. In this sense, the ‘wave’ of FDI is not a phenomenon in Malaysia only, but also to other part of the world, especially the ASEAN countries. In fact, Malaysia was not the first to promote FDI in this region, but it was rather a follower of this policy that proved successful in its neighbouring countries. Looking at these issues this paper examines the policies approached by the Malaysian Government in its different phases of development from three different views of development economics (neo-classical, dependency and structuralist).

Table of Content		Page
Chapter 1:	An Assessment of the Malaysian Government Policies to Promote Foreign Direct Investment	1
	1.1 Introduction	
Chapter 2:	Costs and Benefits of Foreign Investment: Theoretical Issues	7
Chapter 3:	Foreign Direct Investment in the Malaysian Economic Development: Policies and Pattern	
	3.1 Introduction	14
	3.2 Pattern of Foreign Direct Investment in the Global Context	16
	3.3 Period of 'Import-Substituting' Policy (1957- 1968)	21
	3.4 Period of 'Export-Expansion' Policy (1968- 1980)	24
	3.5 Period of Mahathir (1980-Onwards)	30
	3.6 Evaluating FDI in Malaysia	34
Chapter 4:	Foreign Direct Investment and ASEAN Economic Cooperation	
	4.1 Introduction	42
	4.2 The Economic Strategies of the ASEAN (Singapore, Malaysia and Thailand)	
	4.2.1 Singapore: A pioneer in MNCs-led Industrialisation	43
	4.2.2 Malaysia: The New Economic Policy (NEP) and FDI	46
	4.2.3 Thailand: A Latecomer to FDI-led Growth	48
	4.3 Policy Shifts Towards FDI	50
	4.4 Growth is Not a Zero-Sum Game	52

4.5	FDI and ASEAN Economic Cooperation	56
4.6	Future Outlook	60
Chapter 5:	Conclusion	64
	Bibliography	66

Glossary

AFTA	ASEAN Free Trade Area
ASEAN	The Association of South East Asian Nations
APEC	Asian Pacific Economic Cooperation
BOI	Thai Board of Investment
CEPT	Common Effective Preferential Tariffs
DOP	Department of Statistics
EAEC	East Asian Economic Caucus
EPZs	Export Processing Zones
EU	European Union
FDI	Foreign Direct Investment
FELDA	Federal Land Development Authority
GDP	Gross Domestic Product
GNP	Gross National Product
ICA	Industrial Coordination Act
IGAs	Investment Guarantee Agreements
IMP	Industrial Master Plan
ISI	Import-Substituting Industrialisation
LDCs	Less Developing Countries
MARA	Majlis Amanah Rakyat
MIDA	Malaysia Industrial Development Authority
MITI	Ministry of International Trade and Industry
MNCs	Multinational Corporations
NEP	New Economic Policy
NDP	New Development Policy
NIEs	Newly Industrialising Economies
PDA	Petroleum Development Act
PETRONAS	Petroleum National Berhad
PERNAS	Perbadanan Nasional Berhad

PNB	Permodalan Nasional Berhad
R & D	Research and Development
R M	Ringgit Malaysia
OECD	Organisation for Economic Co-operation Development
UNCTC	United Nations Centre for Transnational Corporations

Chapter 1

An Assessment of the Malaysian Government Policies to Promote Foreign Direct Investment

1.1 Introduction

The importance of foreign direct investment (FDI) to the Malaysian economy can hardly be exaggerated. FDI has contributed significantly to the economic development of the country not only in terms of GDP (gross domestic product) growth but also in terms of structural changes that have transformed Malaysia from basically a primary producer to a rapidly industrialising economy. FDI has provided capital technology, marketing channels and managerial expertise which constitute the necessary ingredients for rapid industrialisation. To be sure, one must not take FDI for granted. That Malaysia has been quite successful in attracting foreign direct investments does not mean that the recent upward trends will continue indefinitely in the future. Much will depend on the domestic policies pursued and the changes taking place in the international economic environment.

Nevertheless, past experience has shown that Malaysian policies towards foreign investors has been favourable to its economic development. Since the early days of development planning in Malaysia, the Government² has recognised the important role which foreign investment can play in providing the impetus to economic growth and to attaining socio-economic advancement. Looking at Malaysia's enormous ability to adjust its socio-economic development in an abruptly changing world economy, the importance

¹ 'Direct' implies that the investor has some direct control over the investment, and therefore FDI is investment where a foreign person or corporation not resident in Malaysia has an equity or voting share in the investment and therefore some element of managerial control over the investment.

² The term Government with a capital 'G', throughout this dissertation refers to Malaysian Government.

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