Outward Foreign Direct Investment from Malaysia: An Exploratory Study

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Studie

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Abstract

Although Malaysia is well known as a host economy, there is little research on its investment abroad even though this has been steadily increasing over time. Using a case study approach based on Dunning's OLI framework, seven firms are studied in order to understand their motivations to invest abroad as well as home and host country policies that have facilitated or hindered their investments. The main motivations for these firms to invest abroad are quite varied, ranging from the low labor cost advantage in the host country, saturation of the domestic Malaysian market, as well as the need to enhance their export-competitiveness in third-country markets and to exploit the domestic market potential in other countries. The main home country policy that has benefited the companies in their overseas investment is the full tax exemption on income earned overseas. Host country policies such as tax incentives, while attractive, are not considered to be critical in their investment decisions. Equity constraints are also not considered as obstacles.[1] (Manuscript received June 1, 2007; accepted for publication August 15, 2007)

Keywords: Malaysia, outward foreign direct investment, OLI framework, home country policies, host country policies

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Studie

Ausländische Direktinvestitionen aus Malaysia: eine explorative Studie

Tham Siew Yean

Abstract

Malaysia ist als Standort für ausländische Direktinvestitionen bekannt. Obwohl in letzter Zeit die Zahl der ausländischen Investitionen aus Malaysia gestiegen ist, gibt es bislang keine Untersuchungen zu Motiven und Interessen der Investitionspolitik. Mit Hilfe des theoretischen Rahmens von Dunning werden sieben Unternehmen untersucht und nach Motivationen für Auslandsinvestitionen gefragt. Untersucht wird auch die Politik der Heimat- und Aufnehmerländer für Investitionen. Die Gründe der Firmen, im Ausland zu investieren, sind sehr unterschiedlich. Neben den Vorteilen niedriger Arbeitskosten im Gastland, der Sättigung des malaysischen Marktes und der Notwendigkeit einer höheren Wettbewerbsfähigkeit wird auch die Ausbeutung des Marktpotenzials anderer Länder genannt. Ein wesentliches Anreizinstrument des Heimatlandes ist die vollständige Steuerbefreiung für Einkommen, die im Ausland erworben werden. Als nicht entscheidend wird die Politik des Gastlandes eingeschätzt. (Manuskript eingereicht am 01.06.2007; zur Veröffentlichung angenommen am 15.08.2007)

Keywords: Malaysia, Auslandsinvestitionen, Direktinvestitionen, Politik der Heimatländer, Politik der Aufnehmerländer

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1 Introduction

While Malaysia is well known as a host country to Foreign Direct Investment (FDI), outward flows from the country are relatively less well known as it is substantially less than inflows. Nevertheless, the high rates of economic growth attained after recovering from the 1985 economic crisis led to an interest to explore non-traditional markets. Thus in 1991, the former Prime Minister Mahatir Mohamad had led a business entourage to Chile, Brazil and Argentina (MASSA 2004:3). Subsequent to that visit, he had encouraged Malaysian firms to explore investment and trade opportunities with the South as a means of reducing the country's dependence on the traditional markets of the United States, Japan and Europe.

At the same time, Malaysian firms were experiencing a loss in their export competitiveness due to increasing wages and escalating infrastructural bottlenecks as a result of the rapid industrialization and economic growth. The limited domestic market size added to the domestic pressures to go global. Externally, competitive pressures from globalization as well as the liberalization of emerging economies such as Vietnam, Cambodia and Laos further contributed further fuel to the shift toward global markets as a source of profits and growth. The rise of China and India have also attracted Malaysian firms to explore the opportunities that are associated with their sheer size, high rates of growth and rapid development.

However, unlike the intense research interest on FDI inflows into Malaysia, less attention has been paid on the outflows, resulting in a research gap between studies on inflows and outflows. This exploratory study attempts to bridge this research gap by examining the motivations and policy measures that have contributed toward outflows of FDI from the country. The paper is divided into six parts. A review of the literature is provided in Section 2, followed by a discussion on the methodology used in this study in Section 3. Section 4 gives an overview of outward FDI while the case studies conducted in this study are analyzed in Section 5. Section 6 summarizes the main findings of this study and suggestions for future research.

2 Framework of Analysis

In line with the research objectives of this paper, the literature review here will focus on the characteristics and the rationales for the emergence of transnational corporations (TNCs) from developing countries, which are based on the three main theoretical models on TNCs. As summarized by Yeung (1999:17), these are the investment development model (IDM), the location-specific advantage theory and the product life cycle model (PCM).

According to Dunning's IDM, outward/inward investments of a country are systematically related to the stages and structure of its economic development. In the early stages of economic development, a country is postulated to be primarily a net importer of direct investment as the firms would not have accumulated enough firm specific assets to operate outside their home country. However, as the home country develops, the cumulative learning by doing enables firms to accumulate sufficient firm-specific assets to operate successfully outside their home country. Thus as a country develops, it moves sequentially from being a net importer to a net exporter of direct investment. Dunning's eclectic framework of international production based on the ownership, location and internationalization advantages (OLI) of a firm is then used to explain the economic rationale for a firm's decision to relocate its production abroad.

The debate surrounding the nature of the ownership advantages of TNCs from developing countries have been divided into two main groups with the first group suggesting that the ownership advantages of these firms are based on country specific factors such as natural resources or cheaper labor costs (Pananond & Zeithaml 1998:164). Hence, the ownership advantages of these TNCs are deemed to be temporary and dependent on location-specific advantages that can be eroded over time with the advent of competition or through depletion.

The second group, however, contends that the ownership advantages of developing countries' TNCs are attained through a gradual accumulation of skills, information and technological effort (ibid. 1998:165). In this case, even though these TNCs may not possess frontier technology, they can nevertheless create sustainable ownership advantages through the adaptation of imported technology; product development that are appropriate for the needs of developing countries as well as innovations of small scale production techniques.

Firms will internalize their intangible assets, be it embodied or disembodied knowledge, when the imperfections in the market such as uncertainty over relatively unknown brands or trade marks and names as well as a less established reputation, prevent the use of contractual means to exploit these assets (Kumar 1995:2). In turn, TNCs are created when this internalization is conducted across national boundaries. As noted by Rajah (2004:12), the internalization of intangible assets may include relational assets that are appropriated directly or indirectly through the participation in business networks. In this instance, social and family networks may play an important role in the transnationalization of a firm.

The role of institutions and other institutional related elements that can affect each of the OLI advantages are highlighted in Dunning (2004:20-31). For example, institutional ownership specific advantages includes a broad range of internally and externally imposed incentives and regulations that may affect the investment decision of a firm while location-bound institutions refer to investment promotion policies of host governments, bilateral investment agreements as well as regulations and incentives that can influence the entry, performance and exit conditions imposed on foreign investors. Institutions may also affect the organizational choice for the deployment of the ownership advantages of a firm. In this case, the incentive structure of both firms and society as well as the host country's policy toward the foreign ownership of assets may influence the decision as to whether a firm should deploy its intangible assets under the same ownership or not.

Finally, in the PCM, products are first invented or innovated in developed countries and they are initially sold in the domestic market alone. However, as the product matures or become standardized, large-scale production enables the product to be exported. When the cost of production of the good in the domestic market is outweighed by the cost in other countries, its production is relocated abroad. Developing host economies eventually join in the transnational trajectory of their predecessors from the developed countries as the comparative cost of production shifts in favor of production in other developing countries.

In view of the policy focus of this paper, the OLI framework as extended to incorporate the institutional elements of each of the advantages is deemed a more appropriate framework for conducting the case studies in this paper.

3 Methodology

The case study approach is adopted in this study due to the lack of secondary data on outward investment in Malaysia. In fact as noted by Sim (2005:38), there have been so far very few research papers that have been published on Malaysian multinational enterprises (MNEs). Besides Sim, the only other published paper, to my knowledge, is Ragayah (1999). Both Ragayah and Sim have also used the case study approach to study the key motives for the internationalization of

Malaysian MNEs. Sim, in addition, also examined the patterns and sources of competitive advantage for the 12 cases that were interviewed. Although Sim also considered the role of institutions, his focus was more directed toward the networks and alliances of the firms interviewed and not on government policies as in the case studies in this study.

While the Department of Statistics collects data on outflows in their Balance of Payments section, the data does not have any break down by countries nor by sector. The second source of information is the Cash Balance of Payments (BOP) Reporting System of Bank Negara Malaysia (or the Central Bank of Malaysia). The Central Bank publishes only the amount of outflows as well as the destinations of these outflows but the sectoral breakdown of these flows is not available to the public. It defines outflows as equity investment in related and non-related companies abroad; investment in real estate abroad; and loans provided or extended to non-residents by Malaysian residents. It further includes capital invested or loans extended by foreign-owned companies in/to their parent companies abroad. For the purpose of compiling balance of payments statistics, capital invested in or loans extended to parent companies abroad must be offset against the capital invested in or loans extended to Malaysia by parent companies abroad. However, the Cash BOP reporting system is unable to separate this type of transactions. The *Economic Report 1995/96* further cautioned that it only captures outflows/inflows of more than 50,000 MYR (Ragayah 1999:473).

There is no published centralized and comprehensive list of Malaysian companies that have investment overseas. The promotion of overseas investment is conducted by the Malaysian Industrial Development Authority (MIDA) under its cross-border investment department that is also in charge of the promotion of domestic investment. While MIDA has a list of foreign investors in Malaysia, it does not have a comprehensive list of Malaysian companies that have investment overseas. MIDA also does not release the list as the information is incomplete and deemed to be sensitive. The other alternative source of data for a list of Malaysian companies that have invested overseas is the Malaysian South-South Association (MASSA) that was formed to promote trade and investment with South-South countries in 1991. Again, this would not be a comprehensive list and it would only provide the names of the companies and their sectors for some countries. Hence it is not possible to conduct any kind of sampling.

Upon request, MASSA provided the names and contact of two government-linked companies, one construction company and four manufacturing companies based on MASSA's perception of their willingness to be interviewed. Out of this list, one government-linked company and two manufacturers agreed to be interviewed. The other companies interviewed were based on the author's contact with the firms. As noted by Ragayah (1999:476) and Sim (2005:40), Malaysian firms are in general reluctant to be interviewed and setting up the interviews took considerable effort and persuasion. Seven firms were interviewed from October to November 2005 for the case studies. While the primary source of data was the semi-structured interviews with the senior executives of the companies, secondary sources such as annual reports and information from the Internet on the companies were also consulted where available in the case of listed companies.

4 Overview of Outward FDI from Malaysia

Outflows grew at a moderate pace of 6 percent per annum for the period 1981-89 to 0.7 billion MYR in 1989 as reported in the 1994 *Central Bank Report*. However, these flows grew to 1.1 billion MYR in 1991 and tripled to 3.7 billion MYR in 1993 (Table 1). These outflows reveal a general upward trend with the exception of some moderation in 1997 and 2001. However, it dropped substantially to 10.6 billion MYR in 2003 before escalating three fold to 30.2 billion MYR in 2004. In 2004, gross outflows for overseas investment increased significantly to 16.5 billion MYR in the last quarter due mainly to higher short-term loan extension by non-resident controlled companies in Malaysia to their related companies abroad arising from the centralization of their treasury operations (Central Bank of Malaysia undated:4). Outflows continued to escalate in 2005 and 2006, reaching 142 billion MYR in 2006.

The significant jump in outflows after 2003 can be traced to the increasing importance of Labuan as a destination for Malaysia's overseas investment (Table 2). The share of Labuan grew from a mere 1.02 percent in 1991 to 17.9 percent in 1999. Its share escalated from 70.3 percent to 86 percent from 2004 to 2006 due to several reasons. First, the establishment of the Labuan Financial Exchange (LFX) that is catalytic for Labuan's development as an engine for the world's growing Islamic capital market. Thus, although Labuan was established as an offshore financial center since 1990, significant growth was only experienced after Malaysia's 600 million USD Global Islamic Trust Certificates (Sukuk) was listed on the LFX in 2002. Second, it should be noted that the equity to total investment ratio of Malaysian investment abroad fell significantly from 44 percent in 2003 to 15 percent in 2004 and even further still to 5 percent in 2006 (Table 1), indicating the increasing importance of inter-company loans in the outward capital flows of Malaysia. For example, the *Annual Report* of the Central Bank of Malaysia (2004b:51) stated that several large multinational companies in the electrical and electronics industry in Malaysia invested abroad, mainly through the extension of inter-company loans to their subsidiaries elsewhere. Labuan's attractiveness may be attributed to the tax privileges and deductions given as a result of its offshore status.

Table 1 *Malaysia's Overseas Investment (MYR Million)*

Year	Total Investment (1)	Equity Investment	Equity/Total Investment (%)
1991	1,082	538	49.7
1992	1,482	775	52.3
1993	3,783	2,058	54.4
1994	6,826	3,292	48.2
1995	7,936	5,394	68.0
1996	10,715	7,745	72.3
1997	10,462	7,163	68.5
1998	11,620	8,348	71.8
1999	13,391	4,933	36.8
2000	13,805	4,104	29.3
2001	13,102	5,648	43.1
2002	16,872	7,293	43.2
2003	10,642	4,678	44.0
2004	30,176	4,628	15.3
2005	82,299	8,207	10.0
2006	141,978	7,648	5.4

Note: (1) Investment refers to direct equity purchase, purchase of real estate and extension of loans to non-residents abroad. Includes capital invested or loans extended by the foreign-owned companies in/to their parent companies abroad. For the purpose of compiling balance of payments statistics, capital invested in or loans extended to parent companies abroad must be offset against the capital invested in or loans extended to Malaysia by the parent companies abroad. At present, the CASH BOP reporting System is not able to segregate this type of transactions.
*Column 4 = [Column3/Column 2]*100*
Source: Central Bank of Malaysia 1998, 2005, 2007.

However, there is no data to show whether Labuan is the "ultimate" destination of these capital outflows since the data that is given by the Central Bank only shows that "immediate" destination only. As noted in UNCTAD (2006:106), the data of outward FDI from developing countries including Malaysia, may suffer from "double-counting" as significant amounts of FDI from these economies go to offshore financial centers that are also in turn major sources of FDI. It is also possible that the tax incentives may have also contributed to the surge in inter-company loans from Peninsular Malaysia to Labuan.

Table 2 *Share of Selected Countries in Malaysia's Investment Abroad*

Country	1991		1999		2004		2006	
Developed Countries								
United States of America	4.16		3.83		0.48		0.89	
Canada	0.65		0.02		0.29		0.02	
Japan	9.61		1.19		0.13		0.11	
EU-15	12.66		21.21		2.38		2.73	
ASEAN	33.83		19.09		13.06		4.56	
Brunei Darussalam		0.28		0.34		0.05		0.02
Cambodia		-		0.05		0.09		0.01
Indonesia		0.28		2.97		1.68		0.71
Myanmar		-		0.59		-		-
Philippines		0.37		0.75		0.02		0.09
Singapore		32.16		12.21		8.41		3.25
Thailand		0.74		1.13		2.26		0.31
Vietnam		-		1.06		0.57		0.17
Lao PDR		-		-		-		-
Africa	0.28		6.30		1.81		2.39	
China	1.02		1.50		1.34		0.80	
Hong Kong	22.07		3.25		3.71		1.45	
India	0.09		0.75		0.27		0.03	
Labuan	1.02		17.86		70.32		85.59	
Others	13.97		24.97		6.21		1.43	

Source: Central Bank of Malaysia 1991-2007.

Table 3 Malaysia's Investment to ASEAN, 1991-2006 (MYR Million)

	1991	1992	1993	1994	1995	1996	1997	1998
ASEAN								
Brunei Darussalam	3	. . .	. . .	. . .	2	. . .	8	26
Indonesia	3	10	11	100	328	414	648	229
Cambodia	. . .	6	8	3	16	67	40	88
Lao PDR	. . .	. . .	. . .	. . .	12	. . .	3	5
Myanmar	. . .	1	3	3		17	8	84
Philippines	4	5	53	223	646	375	300	106
Singapore	348	305	687	995	2185	1806	1784	2096
Thailand	8	23	33	70	89	129	132	540
Vietnam	. . .	13	7	73	102	129	143	71
Total ASEAN	366	363	802	1,467	3,380	2,937	3,066	3,245
Others								
TOTAL	1,082	1,482	3,783	6,826	7,936	10,715	10,462	11,620
	1999	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**
ASEAN								
Brunei Darussalam	45	19	12	1	. . .	14	81	25
Indonesia	398	536	1,683	901	356	506	3,612	1,013
Cambodia	7	39	5	2	11	26	17	9
Lao PDR	. . .	. . .	. . .	6	. . .	. . .	. . .	. . .
Myanmar	79	2	3	. . .	2	. . .	. . .	. . .
Philippines	100	109	54	78	66	6	27	124
Singapore	1,635	2,920	2,082	1,074	845	2,537	3,838	4,614
Thailand	151	292	134	45	226	682	174	445
Vietnam	142	50	88	78	86	171	171	248
Total ASEAN	2,557	3,968	4,060	2,184	1,592	3,942	7,920	6,478
Others	10,834	9,836	9,042	14,688	9,050	26,234	74,380	135,500
TOTAL	13,391	13,805	13,102	16,872	10,642	30,176	82,299	141,978

Source: Central Bank of Malaysia 1991-2007.

ASEAN was the largest recipient in 1991 (33.8 percent as shown in Table 2), with Singapore receiving the lion's share due to historical and geographical ties (32.1 percent of total outflows in 1991). The total amount of investment flowing into ASEAN increased steadily from 0.4 billion MYR in 1991 to 3 billion MYR in 1998 (Table 3). After the recovering from the financial crisis in 1999, total inflows into ASEAN fluctuated but it increased to 7.9 billion MYR in 2005 before falling to 6.5 billion MYR in 2006. However, ASEAN's share in total outflows has declined over time due to Labuan's increasing importance as a destination as explained above. The extraordinarily large inflows into Labuan have therefore dwarfed the inflows of Malaysia's capital into ASEAN. Hence, the share accruing to ASEAN dropped to 19.1 percent in 1999 and further still to 13.0 percent in 2004 as Singapore's share fell from 32.2 percent in 1991 to 8.4 percent in 2004 (Table 2). The share accruing to ASEAN continued to fall to 4.6 percent in 2006.

Hong Kong used to be the top destination for overseas investment before 1995. It received a share of 22.1 percent in 1991 but its share fell to 1.5 percent in 2006 (Table 2). Although the share of Malaysian investment in China and India increased from 1.0 percent and 0.1 percent respectively in 1991 to 1.5 percent and 0.8 percent in 1999, their shares subsequently fell to 0.8 percent and 0.03 percent respectively in 2006. Africa's share also increased perceptibly from 0.3 percent in 1991 to 6.3 percent in 1999 before dropping to 2.4 percent in 2006.

For the developed countries, the share of EU-15 almost doubled from 12.7 percent in 1991 to 21.2 percent in 1999 before falling to 2.8 percent in 2006 (Table 2). The share accruing to the United States of America and Japan fell from 4.2 percent and 9.6 percent respectively in 1991 to 0.9 percent and 0.1 percent in 2006.

Sectorally, while Malaysian investment abroad was mainly in the property market in 1980, the collapse of the property market in 1985 redirected Malaysian outflows toward business investment from 1989 onwards (Tham 1998:112). The *Annual Financial Survey of Limited Companies* published by the Department of Statistics provides some idea of the distribution of Malaysian investment abroad among the sectors. Table 4 shows the investment in or claims on branches, subsidiaries and affiliated enterprises abroad, investments in other companies abroad; long-term loans to foreigners; and holding of foreign securities by locally controlled companies or where 50 percent or more of the equity share capital is held by residents. The data in this table shows that the pattern in Malaysia conforms to the overall pattern for developing countries in that a greater concentration is found in the services relative to manufacturing (UNCTAD 2005a:18).

Table 4.a Malaysia's Investment Abroad by Limited Companies Incorporated in Malaysia (Locally Controlled), Selected Years (%)

Items/ Industry	Rubber	Other agriculture	Tin mining	Other mining	Manufacturing	Construction
1. Investment in or claims on branches, subsidiaries and affiliated enterprises abroad						
1977	0.64	8.29	0.13	-	6.08	1.02
1980	0.02	2.91	0.20	-	5.05	0.07
1985	0.34	1.74	0.37	-	3.78	0.11
1990	0.25	1.24	5.61	-	3.94	0.10
1993	0.14	0.54	1.83	0.00	5.55	0.16
1995	0.08	0.77	3.26	0.03	5.18	0.58
2. Investment in other companies abroad						
1977	3.98	7.98	4.87	-	3.63	1.80
1980	1.95	14.83	2.66	0.03	0.95	0.08
1985	0.50	1.39	24.55	0.01	0.49	0.29
1990	1.86	2.00	-	-	2.30	0.28
1993	0.97	11.22	-	-	2.71	0.04
1995	0.55	10.67	-	-	5.09	0.90
3. Long-term loans to foreigners						
1977	-	-	-	-	0.89	-
1980	-	-	1.66	-	-	-
1985	-	-	-	-	-	0.11
1990	-	-	-	-	-	-
1993	-	-	-	-	-	0.24
1995	-	-	-	-	10.37	1.24
4. Holding of foreign securities						
1977	1.17	0.03	0.09	90.72	0.89	-
1980	0.20	-	0.32	93.15	0.11	-
1985	0.15	0.53	0.82	6.95	1.98	-
1990	-	-	0.01	22.09	0.98	-
1993	2.34	0.68	0.01	45.39	1.65	0.01
1995	4.59	0.89	0.01	47.25	0.31	0.16

Table 4.b *Malaysia's Investment Abroad by Limited Companies Incorporated in Malaysia (Locally Controlled), Selected Years (%)*

Items/ Industry	Wholesale trade	Retail trade	Banks and financial institutions	Other industries	All industries
1. Investment in or claims on branches, subsidiaries and affiliated enterprises abroad					
1977	8.24	0.45	72.89	6.35	100.00
1980	3.29	0.53	86.25	0.92	100.00
1985	2.70	5.94	72.44	13.72	100.00
1990	19.01	10.12	67.04	9.85	100.00
1993	20.15	8.54	65.20	7.54	100.00
1995	11.06	5.54	62.39	11.12	100.00
2. Investment in other companies abroad					
1977	19.92	0.15	12.89	44.78	100.00
1980	7.73	0.01	46.71	25.05	100.00
1985	7.70	0.06	60.41	4.61	100.00
1990	1.82	0.07	80.60	11.08	100.00
1993	3.67	0.00	75.49	5.89	100.00
1995	1.82	0.02	75.13	5.81	100.00
3. Long-term loans to foreigners					
1977	2.08	-	96.86	0.18	100.00
1980	-	-	98.14	0.20	100.00
1985	5.99	-	92.55	1.35	100.00
1990	-	-	74.31	25.69	100.00
1993	-	-	94.15	5.61	100.00
1995	-	-	80.29	8.10	100.00
4. Holding of foreign securities					
1977	0.00	-	5.51	1.59	100.00
1980	-	-	5.58	0.64	100.00
1985	-	-	83.10	2.53	100.00
1990	0.00	-	74.91	2.00	100.00
1993	0.70	-	43.16	6.06	100.00
1995	0.26	-	42.04	4.50	100.00

Note: Other industries for year 1995 is including transport and storage, post and telecommunications, insurance, real estate and business services, and other industries compare to the previous years.

Source: 1977-1993 is extracted from Ragayah 1999:475. 1995 is extracted from Department of Statistics 1995.

For example, the share for investment in or claims on branches, subsidiaries and affiliated enterprises abroad in manufacturing fell from 6.0 percent in 1977 to 5.1 percent in 1980 before increasing to around 5.6 percent and 5.2 percent in 1993 and 1995, respectively. However, there is no published data since then as the survey was discontinued after 1995.

Given that Petroliam Nasional Bhd (Petronas) is listed as one of the top 50 non-financial TNCs from developing countries (UNCTAD 2005b: Annex table A.I.10:270), ranked by foreign assets in 2003, it is expected that outward investment from Malaysia is led by the oil and gas sector, followed by services. While the bulk of the investment in this sector is concentrated in upstream exploration and extraction activities, mainly in Africa and Southeast Asia, investment abroad in services is found primarily in utilities, banking and finance (PriceWaterhouse Coopers 2005:26). Other services that have also ventured to invest abroad include engineering and construction. Investments in manufacturing abroad were listed in sub-sectors such as fabricated metal products, machinery and equipment, palm oil, wood and wood-based products, including furniture. Apart from these three sectors, investments in oil palm estates were also found in Indonesia and South Africa.

5 Case Studies

Table 5 profiles the companies interviewed. Of the seven firms interviewed, two were in manufacturing, while the others were in services, ranging from property development to oil and gas line inspection, engineering and construction, education and telecommunication services. The size of these firms was quite diverse with a paid-up capital, ranging from 83,000 MYR to 160 million MYR. The year of establishment is also quite diverse with the oldest firm established in 1974 and the newest firms established in 2001. Predominantly Malaysian-owned firms were selected and hence only one of the firms has 32.5 percent non-Malaysian (Hong Kong) share. Four out of the seven companies are listed on the Kuala Lumpur Stock Exchange (KLSE), namely Furniweb Industrial Products Bhd, Nam Fatt Corporation Bhd, INTI College, and TM International Sdn Bhd.

Table 5 *Profile of Companies Interviewed*

	Company	Activities	Year of establishment	Paid-up capital (MYR'000)	Annual Turnover, 2004 (MYR'000)	Ownership (% Malaysian)
1.	Sinaran Manufacturing Sdn Bhd	Candles Manufacturer & Exporter	1974	83	24,000	67.5
2.	Furniweb Industrial Products Bhd	Investment Holding	2001	45,000	69,931	98.5
3.	Gui Zhou Austmal. Co. Ltd.	Property Development	1994	4,000	40,000	100.0
4.	Oilfield Pipeline Inspection Sdn Bhd	Oil and Gas line Inspection	1991	9,000	26,000	100.0
5.	Nam Fatt Corporation Bhd	Engineering & Construction, manufacturing, leisure and property	1966	160,000	600,000	100.0
6.	INTI College	Education and IT (educational software)	1986	160,000	140,000	95.0
7.	TM International Sdn Bhd (TM International)	Telecommunication	2001	35,600	120,000	100.0

Source: *Interviews.*

Table 6 shows their investment overseas. Sinaran is the only company interviewed that has only one affiliate abroad. For Gui Zhou Austmal, its only profitable venture in China is its property development in Guiyang. Of the other two companies, Landmark Property Management Co. Ltd. was set up to manage its rental in some of the business and shop lots that it has developed while its manufacturing facility in Shanghai was not doing well and the owner is considering liquidating it. OPI has three subsidiaries and one affiliate abroad. Nam Fatt is a multinational group with over 1,000 personnel employed in thirty-one subsidiaries and three associated companies. One was established for the construction of a toll bridge that was completed in 1997 and where it has a 20-year concessionaire for collecting toll. The manufacturing facility in Vietnam was in steel fabrication but was not making money. Nam Fatt is currently considering exiting from Vietnam. It has established an investment company in Hong Kong for overseeing the financing of its business abroad. INTI College is one of the pioneers in private education in Malaysia with three subsidiaries and one affiliate abroad.

Of the seven firms, TM International is the subsidiary of Telekom Malaysia Berhad (TM), a government linked company (GLC) that is the sole fixed-telephony company in Malaysia. TM, the parent company was established in 1984 and was subsequently privatized and listed in the KLSE in 1990. However, it remains controlled by the government with Khazanah Nasional Bhd (the investment holding arm of the Government of Malaysia) holding 35.1 percent of its shares, followed by the Employees Provident Funds holding 12.0 percent and Bank Negara Malaysia (the Central Bank) holding 7.4 percent as at 2005. It provides voice and data services as well as Internet services. TM International was established from its international ventures division as an investment holding company to oversee and manage its eight overseas ventures.

5.1 Ownership, Locational and Internalization Advantages

TM International's ownership advantages differs substantially from the other firms interviewed as it has benefited from the cumulative massive amount of capital investment in this sector arising from its position as the incumbent operator in a traditionally public sector monopoly. In addition, rapid technological changes in the telco sector, increasing competition especially in mobile phone services and improved market access as well as liberalization of foreign and domestic investment under the WTO's General Agreement on Trade in Services (GATS) that have contributed to the increase in FDI in this sector (Qiang & Guislain undated:29) have also facilitated TM's internationalization process.

Being part of a GLC has its advantages and disadvantages. Although TM benefited from its position as a public sector monopoly before the liberalization of this sector and the entrance of other cellular-telephony such as Maxis Communication Bhd and DiGi Telecommunications Sdn Bhd, it was also subject to the government's implicit directives.

Table 6.a Profile of Investments Abroad by the Companies Interviewed

	Name of Company	Year of establishment	% share owned by parent	Activities	Host economy
1.	Sinaran Vietnam Co. Ltd.	1994	49	Candles manufacturer & exporter	Vietnam
2a.	Furniweb Manufacturing (Vietnam) Co. Ltd.	1997	100	Manufacturing	Vietnam
2b.	Trunet (Vietnam) Co. Ltd.	2001	50	Manufacturing	Vietnam
2c	Premier Elastic Webbing & Accessories	2003	100	Manufacturing	Vietnam
2d.	Furnitech Components (Vietnam) Co. Ltd. (Furnitech)	2004	60	Manufacturing	Vietnam
3a.	Gui Zhou Austmal Co. Ltd.	1994	100	Property development	China
3b.	Hai Men Industry Co. Ltd.	1993	100	Manufacturing	China
3c.	Landmark Property Management Co. Ltd.	2002	100	Real estate	China
4a.	PT-OPI Indonesia	1995	70	Oil & gas inspection	Indonesia
4b.	Worldwide NDT Singapore	2001	80	Eddy current inspection	Singapore
4c.	OPI Services (India) Pte. Ltd.	1999	80	Heat treatment	India
4d	OPI Services Thailand Co. Ltd.	2004	49	Heat treatment	Thailand
5a.	Chongqing Jinfa Yangtze Bridge Construction Co. Ltd.	1994	70	Construction	China
5b.	Viet-Nam Fatt Co. Ltd.	n.a.	n.a.	Manufacturing	Vietnam
5c.	Nam Fatt Investment (HK) Ltd.	n.a.	n.a.	Financing	Hong Kong
6a.	Beijing INTI Management College	1993	90	Education	China
6b.	INTI College Hong Kong Limited	2002	51	Education	Hong Kong

Table 6.b Profile of Investments Abroad by the Companies Interviewed

6c.	INTI (Shanghai) Education Management Consulting Limited	2003	51	Education	China
6d.	P.T. INTI College	2002	30.6	Education	Indonesia
7a.	Acquisition of PT Excelcomindo Pratama	2005	27.3	Mobile operations	Indonesia
7b.	Dialog Telekom Ltd.	1995	87.7	Mobile phone	Sri Lanka
7c.	TM Internantional Bangladesh	1995	70	Mobile phone	Bangladesh
7d.	Casacom	1999	51	Mobile phone	Cambodia
7e.	Samart	1997	19.4	Value-added telecommunica-tion services	Thailand
7f.	Multinet Pakistan (private) Limited	2005	78	Fibre optic backbone project	Pakistan
7g.	Telekom Networks Malawi Limited	1995	60	Mobile phone	Malawi
7h.	Sotelgui s.a.	1995	60	Fined and mobile services	Republic of Guinea

Source: Interviews.

Thus its earlier investments in Africa from the early 1990s to the mid-1990s before the advent of the Asian Financial Crisis (AFC), were made ostensibly in line with the South-South investment stance that was encouraged by the previous Prime Minister of Malaysia (Jomo 2002:4). However, investments in the telco sector in Africa are vulnerable to changes in government. TM's investment in Ghana, for example, came under dispute when the new government of Ghana declined to renew TM's deal with the old government. TM subsequently had to relinquish its control in the G-Com consortium that was established to run the fixed line duopoly in Ghana.

In 2004, TM sold off its interests in South Africa in line with its decision to move out of Africa and to focus on the regional Asia Pacific markets such as South Asia and Southeast Asia. The focus on Asia Pacific is based on the potential of this region. Ure (2004:13) noted the enormous growth opportunity, need, as well as the sustainability of the market in this region as it is home to over 50 percent of the world's population although it is home to only over one-third of all fixed line and mobile subscribers. This new internationalization strategy therefore differed from the old in that it is not based on implicit government directives; instead it is focusing primarily on emerging markets that have low penetration rates and high potential for growth under relatively stable governments. Internally, its external investment is also driven by the fact that the domestic market is small, highly competitive in the non-fixed line sectors and saturated. Its overseas ventures are projected to increase from contributing toward 25 percent of the group's earnings in the first half of 2005 to 50 percent in the next three years.

In contrast, in the case of the two manufacturing firms interviewed, given the export-orientation of their products, their competitive advantages are based on price, low cost management and the capability to manage firms in other developing countries. Hence for these firms, the availability of cheap labor is very important and their main motivation in investing overseas is efficiency seeking due to the labor shortage in Malaysia, increase in domestic wages relative to productivity and the unpredictable changes in the foreign labor policy of the country. The relatively lower labor costs and relatively larger pool of unemployed labor are therefore the primary motivation for their investments in Vietnam. This is essential for them to maintain their price competitiveness in their export markets. Furniweb, however, also noted that while their goods are currently exported, they do plan to sell to the domestic market when it is able to absorb their goods as the Vietnamese economy continues to grow. Tax incentives offered by the Vietnamese government provide an additional boost to their relocation there. Sinaran was also able to access duty-free imports as it was operating in the Danang Industrial Zone that was developed by a joint venture between Malaysia and Vietnam. Similarly, Furniweb was able to obtain duty-free inputs from their operations at the Bien Hoa Industrial Zone II at the Dong Nai Province in Vietnam. It should be noted that Furniweb's choice of Vietnam came after considering the possibility of operating in Indonesia and Thailand. Indonesia lost out based on the firm's perception of the political stability in the country while the labor cost advantage in Thailand was perceived to be lower than Vietnam's. While these two cases fit the examples of first wave of third world MNEs (TWNEs) that are found to have competitive advantages based on cost and serving specific market niches, they are not targeted at the host country markets; instead they are export-oriented to third country markets.

However, service providers such as OPI and Nam Fatt are similar to the first wave third world multinationals as outlined by Dunning, van Hoesel and

Narula (1997:6). These are essentially seeking for new markets as a new means of growth. But both of these firms have been able to localize their technical knowledge and to use it in other developing countries. Hence unlike these first wave TWMNEs that have only country-of-origin specific advantages, these firms possess firm specific advantages based on their cumulative experience and knowledge in their respective fields in the domestic market. OPI's initial owner who started the company in 1991 had ten years of experience in non-destructive testing in the inspection of structures and piping works in the United Kingdom before coming back to Malaysia to start the company with a partner. Nam Fatt had 18 years of experience in engineering and construction before it obtained the project to build the Jiangjin Toll Bridge in the Sichuan Province in China in 1994. This project was undertaken as a Build, Operate and Transfer (BOT) contract and was completed in 1997. It also won the Export Excellence Service Award for construction by the government of Malaysia. As noted by D'Arcy & Roulac (2002:5), knowledge of the business and knowledge of clients and relationships are also sources of competitive advantages.

In addition, since OPI's main client was Petronas in Malaysia, it also followed the company into some of the latter's overseas projects. Nam Fatt had also obtained some of its overseas projects in the downstream segment in oil and gas from following Petronas overseas. This together with its local experience in building storage and distribution facilities, have enabled it to undertake projects in building field surface facilities and pumping station facilities in Sudan.

Similarly, INTI College was established in 1986, it had considerable cumulative experience as a private college before it was invited by the provincial government in Beijing to set up a subsidiary in Beijing in 1993. The college has since then established three other affiliates in Hong Kong, Shanghai and Indonesia. Its strategy in terms of its investment overseas is to use its centers in China as feeder colleges for its campus in Malaysia. Students are transferred to Malaysia after finishing their foundation year in China. In 2004, INTI has a total of 1,000 students from China in its campus in Malaysia, out of a total enrolment of more than 14,000 students in its five campuses in Malaysia. This constitutes slightly less than half of the 2,200 international students from more than 30 countries who are studying in this college. It also constitutes about 11 percent of the total number of students from China who are studying in Malaysia.[1]

While Gui Zhou Austmal Co. was also market-seeking as it was tapping into the booming property development in China in the first half of the 1990s, its ownership advantage was more in the financial resources that it brought into the country. Although it had previous entrepreneurial experience, it had no technical know-how as the owner of this owner-managed company had no prior experience in property development. It was attracted to the Chinese market after meeting with the officials from Guizhou who were promoting investment in their province. Ethnic ties therefore provided the main link for the owner to venture into China. Relocating to China to live there and manage his company in order to seize the opportunities in booming property development at the point of entry was eased by his knowledge of the dialect and culture there. Tax incentives provided by the provincial government further enhanced the attractiveness of the investing in Guiyang city in Guizhou.

5.2 Home Country Policies

Government support for overseas investment in Malaysia comes in three main forms: (1) tax exemption, tax incentives and special funds, (2) investment guarantee agreements, (3) trade and investment missions, and (4) institutional support.

In the case of tax incentives, tax abatement on income earned overseas and remitted back to Malaysia and tax deduction for "pre-operating expenses" was first introduced in 1991 as incentives to encourage investment abroad (Ragayah 1999:470). Since 1995, all income remitted by Malaysian companies investing overseas are fully exempted from income tax. In 2003, an additional incentive was introduced for acquiring foreign-owned companies abroad for high-technology production within the country or to gain new export markets for local products. This incentive provides a deduction that is equivalent to the acquisition costs for five years. The government also introduced a third country business development fund that allows Malaysian and Singaporean enterprises to cooperate and identify and pursue investment and business opportunities in third countries, that is, countries outside of Malaysia and Singapore. The grant, ranging from 200,000 MYR to 100,000 MYR is directed for target specific due

[1] In 2004, the Ministry of Higher Education (2004) reported that there were 16,663 foreign students (from China, Indonesia, Bangladesh, and Pakistan) studying in Malaysia. Out of this total, 9,107 were from China.

diligence studies, pro-active searches and joint missions (MASSA 2005:11).

As for investment guarantee agreements, as of April 2004, a total of 65 investment guarantee agreements have been signed between Malaysia and countries in Central and Eastern Europe, Western Europe, Central and South America, ASEAN, Commonwealth of Independent States, South Asia, North America, East Asia, West Asia, Africa and Oceania countries (MITI 2004:274).

Trade and investment missions are regularly organized. In 2003, six trade and investment promotion missions were undertaken by MITI while the Malaysian Industrial Development Authority (MIDA) also organized another investment mission to European countries. However, the focus of these missions appears to be more oriented toward trade and inward investments rather than outward investments. While the promotion of investment abroad is conducted by MIDA under its cross-border investment section, there also appear to be a conflict of interest as the promotion of domestic investment is also under the purview of the same division. Given that domestic investment has been in the doldrums since the advent of the AFC, it is unclear whether the unit would aggressively promote outward investment.

Apart from MIDA, market information is also provided by the national trade promotion agency or Malaysia External Trade Development Corporation (MATRADE). However, MATRADE's main role lies in the promotion of export markets for Malaysian exporters and less on the promotion of investments, as stated in its mission statement, which is to develop and promote Malaysia's export to the world. Nevertheless, to a certain extent, its trade counselors located in its 31 branch offices over 25 countries in the world can provide some information on doing business overseas.

In 1995, the Export-Import Bank of Malaysia Berhad (EXIM Bank) was established to provide medium and long-term credit to Malaysian exporters and investors as well as foreign buyers of Malaysian goods. It's authorized and paid up capital are 500 million MYR and 300 million MYR respectively. The bank gives special emphasis on the promotion of exports to non-traditional markets. In addition, the bank also supports relocations of Malaysian companies from Malaysia to other cost effective countries, especially in the labor-intensive industries. Investment projects that are considered eligible for consideration have to be more than five years, and the loan sizes range from 5 million USD to 10 million USD. As of December 2004, the cumulative loans and guarantees given out by the EXIM Bank amounted to 5,598.5 million MYR (EXIM Bank

2005:34). Out of this, 24.4 percent (or 1,368.5 million MYR) were given out for overseas project financing, mainly in property, manufacturing and infrastructure in Southeast Asia and Northeast Asia. In 2005, EXIM bank was merged with Malaysia Export Credit Insurance Bhd. The facilities provided by the bank now include credit insurance guarantee together with trade financing and overseas project financing. The government further strengthened the capacity of the EXIM bank with the setting up of a 1 billion MYR fund to assist and encourage local and especially Bumiputera entrepreneurs to venture abroad (NST, 2005).[2]

Further in response to the calls from the small and medium (SMI) business community for more financing facilities, the government in the 2005 budget has announced the formation of the SME Bank with a sum of 9 billion MYR to be raised for its lending activities. This bank is created specially to nurture and develop SMEs by providing them with financial and non-financial services. These financing facilities will help the SMEs in expanding their business domestically and abroad.

While Sim (2005:47) concluded that the government has provided institutional support and government networks in its institutionalization programs on the basis of the full tax exemption on income earned overseas, investment guarantee program and the investment promotion missions abroad, the response of the firms interviewed in this study was rather different. TM International, for example, believes that investments in the telco sector are completely market-driven and even good government to government ties cannot change the rules governing this sector as seen in the case of the fallout its plan to capture the Indian market via a joint 32.9 percent stake in Idea Cellular with Singapore Technologies Telemedia in June 2005. The deal had collapsed as it ran counter to India's cross shareholding regulations. On the contrary, government-to-government relations can have a negative impact as encountered in some of its investment in Africa as changes in government in the host economy can result in adverse impact on investment made with the previous government that was in power. Nevertheless, TM International did acknowledge forming a strategic alliance with Khazanah Nasional Bhd, in two ventures. The first pertains to TM's acquisition of a 27.3 percent stake of Indonesia's PT Excelcomindo Pratama (XL) while Khazanah acquired 16.8 percent of XL. In August 2005, it also announced forming a

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[2] Bumiputera refers to the "sons of the soil" or the Malays and indigenous people in Malaysia.

joint venture consortium with Khazanah to acquire 12.06 percent of MobileOne Limited (M1) of Singapore.

In the case of the other six companies, the only government policy that was stated as helpful was the tax exemption for income earned overseas and remitted back to Malaysia. None of the companies were aware of the tax incentive for the acquisition of foreign owned companies abroad and the third country investment fund, probably because the incentive and fund may not be relevant for them and also possibly because they are relatively new. Furniweb and Gui Zhou Austmal have the opinion that the government cannot do much to assist companies in their investment abroad as investment decisions are private decisions based on their own estimation of the risks and returns involved. Sinaran requested for incentives to be given to companies investing abroad. They also did not deem the trade and investment missions to be particularly useful for collecting information; one of them even echoed Jomo's sentiments that such trips were used to get close to the former Prime Minister in order to secure the latter's undivided attention for deals back home (Jomo 2002:10).

INTI, OPI, and Nam Fatt suggested that the government can play a more active role in facilitating investment abroad by providing local advice, local knowledge and local support, possibly through the Malaysian embassies in the host country. Although some of the firms were aware of MATRADE, they have the opinion that it provided general country information. Furniweb, for example, stated that although it consulted with the MATRADE and the Malaysian embassy in Vietnam, it was the Japanese and Taiwanese investors that he met in Vietnam that guided him in terms of setting up the factory in Vietnam. Nam Fatt suggested a central agency for the dissemination of market intelligence and information to investors that are venturing abroad. In the case of services such as construction and engineering and oil and gas inspection, finding an appropriate local partner is deemed to be very important as the local partner can provide the local knowledge (especially for dealing with the local bureaucracy) that is needed in these services. Hence, both OPI and Nam Fatt also suggested the need for assistance in finding suitable and reliable local partners.

In terms of financing, larger listed companies did not face much problem as they have their own internal reserves, established ties with the commercial banks and recourse to the capital market. However, smaller companies such as Gui Zhou Austmal and OPI found financing to be a problem and it was difficult to secure loans. Nam Fatt is of the opinion that the banks in Malaysia are relatively keener on retail banking and the credit card business and less on project financing. EXIM bank was deemed to be insufficiently active due to its relatively small size.

5.3 Host Country Policies

The firms were also asked questions pertaining to host country's policies. TM International emphasized on the government stability over and above incentives. Both Sinaran and Furniweb expressed satisfaction with their dealings with Vietnam's government in their investment. Furniweb thought that the tax incentives that Vietnam offered to their company were the best in Southeast Asia at the time of entry. It, however, felt that Vietnam did not know how to sell their country well as the brochures were not well written in English and they did not know how to emphasize their strengths in terms of procedures to invest and the investment package that they offered. They did not encounter any major problems with the government in their investment there. Nor did they face any kind of labor problems. Furniweb is in the process of localizing their management as this is deemed to be more cost effective and sustainable in the long run.

Both Furniweb and Nam Fatt have the opinion that tax incentives are not critical in their investment decisions. None of the companies viewed equity requirements a constraint. In fact both OPI and Nam Fatt worked with local partners who can provide the local knowledge for their overseas project; essentially they need local partners who can provide contacts for local projects.

In the case of the firms with investment in China, all mentioned that the host economy had weak legal infrastructure and needed better rules. The laws were deemed to be unclear and needed improvement in terms of clarity. INTI College emphasized the need to shorten and simplify the process for getting licenses. They also concurred on the relative importance of *guanxi* or personal relationships in their dealings with the government. For example, Gui Zhou Austmal spoke of the use of contributing back to the development of the local economy as a means to win the hearts of the local bureaucrats. In this regard, his company built three schools for the city for goodwill. India's bureaucracy was highlighted by OPI as some of obstacles that it faced in its overseas business.

6 Conclusion

Although equity outflows grew steadily in the 1990s, this pattern was reversed with the onset of the AFC in 1997. Since then, outflows of equity investment have fluctuated and have not attained its pre-crisis levels. While ASEAN, primarily Singapore, was the main recipient of these outflows in the early 1990s, its share has declined over the years. Instead, Labuan has emerged as the main recipient of outflows from Malaysia, serving mainly the offshore banking needs of non-resident companies to their related companies abroad. The jump in the share accruing to Labuan has led to a fall in share accruing to the other countries in 2004. Nevertheless, ASEAN continues to lead in the share of these outflows, with Singapore still garnering the largest share. This is followed by the EU-15, Africa, and China. Oil and gas and services predominated in these investments abroad.

The motives and policies affecting outward flows were investigated in seven case studies. The response of the two firms in manufacturing showed that they were the exploiting low labor-cost advantage in Vietnam in their overseas ventures. Specifically, these two firms were relocating their manufacturing to maintain their export-competitiveness in third country markets for their niche products. The host country market was not their targeted market, although one of them deems there is long-term potential in the local market as well.

In the case of services, the saturation and competition in the local market as well as the potential in other less developed markets for their expertise, knowledge and financial resources are the prime motives in the internationalization of their business. All of the firms interviewed, with the exception of Gui Zhou Austmal, have established themselves in the local market in their respective fields before venturing overseas.

The main home country policy that has benefited the companies in their overseas investment is the full tax exemption on income earned overseas and remitted abroad. Host country policies such as tax incentives, while attractive, are not considered to be critical in their investment decisions. Equity constraints were not considered as obstacles. In fact, two of the service exporters considered a local partner as essential for their ventures abroad as these partners can provide contacts to secure contracts for local projects. The firms that have invested in China emphasized on the need for clearer rules and regulations while the firm that has invested in India and Indonesia complained about the bureaucracy and difficulty encountered in the repatriation of income.

Lastly, it should be cautioned that this study is mainly exploratory in nature. Indeed the smallness of the sample, its non-random nature and non-response to some of the questions asked, means that the findings need not necessarily apply to firms outside the sample. However, in view of the paucity of secondary information and the huge research gap in this area, the study does point to the need to investigate further in some issues. First of all, a comprehensive data bank needs to be compiled on the host countries, sectors and amount of invested overseas. The drop in equity investment overseas since the AFC certainly warrants further study. Similarly, the effectiveness of government policies and institutions in assisting the internationalization of Malaysian companies, especially the SMEs, also needs further study. Specifically, SMEs lack the resources to do the market intelligence that is required in penetrating other countries and appropriate policy responses are particularly pertinent here. Finally, the impact of the Malaysian companies on the host country's economy also needs to be further investigated.

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