

(R)

OVERSEAS INVESTMENT BY MALAYSIAN COMPANIES
IN PROPERTY AND CONSTRUCTION

by
Loh Guat Eong

Universiti Malaya
1997

Dimitrofiskan pada..... 24-7-1998
... Mikrofis..... 13594
Jumlah Mikrofis..... 1

UPR UNIT REPROGRAFI
PERPUSTAKAAN UTAMA
UNIVERSITI MALAYA

A. B. P. A. Wahab

**OVERSEAS INVESTMENT BY MALAYSIAN COMPANIES
IN PROPERTY AND CONSTRUCTION**

by

LOH GUAT EONG

Bachelor of Science (Hons.) (Housing, Building & Planning)

University Sains Malaysia

Perpustakaan Universiti Malaya



A507470366

Submitted To:

Faculty of Economics & Administration

Universiti Malaya

In Partial Fulfillment of the Requirements for the Degree of

Master of Business Administration

February 1997

ACKNOWLEDGMENT

I would like to thank my supervisor, Professor Sieh Mei Ling for her invaluable time, guidance and suggestions given to me during the preparation of this paper.

I would also like to thank the people who have kindly taken their time to respond to the questionnaires as well as allowed themselves to be interviewed.

The members of my study group, Kng Tuan Kah, Lee Woon Hwa, Ong Sze Een, Lim Keh Chay, Ooi Swee Tee and Tony Quah have been extremely supportive, and we have thoroughly enjoyed ourselves as a team throughout the MBA programme. To them and many other fellow coursemates, I extend my sincere thanks.

Lastly, but not the least, the unquestioning support from my family members and good friends during my years at the MBA programme has been very dear to me.

LOH GUAT EONG

ABSTRACT

Over the last decade, there has been a significant increase in foreign investment overseas by Malaysian companies. The Malaysian Government has been actively encouraging local companies to venture abroad, particularly to the other developing and less developed countries. Based on the Bank Negara trade statistics, outflows for overseas investments have increased steadily from RM1.08 billion on 1991 to RM4.77 billion in 1994, with focus mainly on neighbouring Asian countries, namely Hong Kong, Singapore, and the Philippines as well as in the United States, Australia and the United Kingdom.

The main objectives of the study is to investigate the structure of the overseas investments by Malaysian companies, in respect of property development and construction activities. Specifically this study aims to :

1. To review the structure and extent of foreign investment by Malaysian companies in respect of real estate development and construction activities;
2. To identify the factors that influence the overseas investments and the countries selected;
3. To review the response of companies towards the government policies that encourage investment abroad;
4. To investigate the problems encountered by the companies;
5. To examine the relationships between business risk, political risk, and foreign currency risk as perceived by the Malaysian companies.

Questionnaires and interviews were used to collect the primary data. The respondents were mainly senior managers-in-charge of Malaysian companies which have investments overseas in respect of real estates and construction activities. The sampling frame comprises companies listed on the KLSE with overseas investments in property development and construction. Secondary data that were obtained from mainly from published sources and reports, were used to analyse the structure of the Malaysian outward investment.

The results of the primary data collection revealed that the most important motivational factor for the overseas investment is to develop new market, i.e. market opportunities. In view of the keen competition and limited market opportunity in the property development and construction sectors in Malaysia, some of the more established public listed companies have made a strategic move into the international arena. Other motivating factors are the attractive incentives offered by the Malaysian as well as the host countries; the award of contracts in the host countries, both by the public and private sectors; government to government arrangements; and the expectation of better returns arising from cheaper resources and relatively cheaper real estates.

The principal criteria for choosing the countries for direct investment are political stability and economic stability. Incentives from governments are also considered in the selection of the host countries.

In their ventures abroad, Malaysian companies have faced problems, such as lack of formal legal structure of the host countries; bureaucratic problems in the sense of lack of

coordination among the stakeholders, and sometimes, due to language problem; and weak financial system and stringent conditions imposed by the foreign governments. Some firms encountered problems caused by cultural differences and the attitude of the locals.

The lack of or under-developed legal system, and bureaucratic problems are particularly common in countries like China, Myanmar, Vietnam and Cambodia. Most companies (75%) believe in working with the locals who are familiar with the conditions and seeking out the right parties for possible association. In cases of stalemate, the investors may have to resort to government intervention.

In regard to incentives, many companies commended on the Malaysian Government policies on

- tax-free repatriation of profits from overseas;
- opening up markets for Malaysian businessmen through trade delegations;
- access to data and information provided by trade commissions, e.g. MATRADE, etc.

However, some companies opine that dissemination of information on construction and property development available overseas, and easier funding from Malaysian financial institutions, could help in promoting the investments overseas.

The recognition that an investment abroad is an opportunity to be pursued and examined is a necessary part of an organisation's strategic management. There has been extensive discussion on striking a balance in the overall allocation of investment, between investment overseas on the one hand and investment at home on the other. Generally, the decision to

look abroad is actually a specific one. It is a decision to look at the possibilities of a specific investment in a specific country, not a general resolution to look around the globe for investment.

Technological changes and innovations have also greatly influenced direct investments, in respect of the physical, socio-economics, and to a certain extent, the political aspects. The extent to which the international developments involve the international diffusion of technology will depend on (a) the knowledge content of the investment vis-à-vis that which is already available in the host country; (b) the age and form of the foreign investment, (c) the policy of the investing company towards its overseas operations; and (d) the competitive environment in which the investment firm is operating.

In view of the keen competition in the Malaysian market for property development and construction activities, maybe the Malaysian businessmen should consider looking internationally for market opportunities and better returns.

CONTENTS

	Page
1. INTRODUCTION	3
1.1 OBJECTIVES OF STUDY	4
1.2 METHODOLOGY AND TERMS OF REFERENCE	4
1.3 ORGANISATION OF STUDY	6
2. LITERATURE REVIEW AND THEORETICAL FRAMEWORK	
2.1 RATIONALE FOR OVERSEAS INVESTMENT	8
2.2 THEORY	10
2.2.1 The International Trade Theory	10
2.2.2 Foreign Direct Investment Theories	11
2.3 FORMULATION OF STRATEGIES FOR INTERNATIONALISATION	19
2.3.1 Assessment of Internationalisation Philosophies and Policies	20
2.3.2 Formulation of Strategies to Penetrate Market	23
2.3.3 Forms of entry	24
2.3.4 Ownership Strategies	26
2.4 INTERNATIONAL BUSINESS PROBLEMS	26
2.4.1 International Risks	27
2.4.2 Multinational Conflicts	28
2.4.3 Multiple Environments	28
2.4.4 International Business and Development	29
2.4.5 Political Instability and Expropriation Risks	29
2.4.6 International Legal Disputes	30
3. INVESTMENT BY MNC COMPANIES	31
4. REGIONAL ECONOMIC INTEGRATION AND GOVERNMENT POLICIES	33
4.1 THE INTERNATIONAL TRADE FRAMEWORK	33
4.1.1 World Trade Organisation	34

	Page
4.1.2 The General Agreement on Tariffs and Trade	34
4.1.3 United Nations Conference on Trade and Development	34
4.1.4 Asia Pacific Economic Cooperation	34
4.1.5 Export Incentives	35
4.1.6 Bilateral Payment Arrangements	36
4.1.7 ASEAN Economic Link	36
4.1.8 South-South Cooperation	37
4.2 MALAYSIAN GOVERNMENT POLICIES ON REVERSE INVESTMENT	40
4.2.1 Incentives for Malaysian companies investing overseas	43
4.2.2 Qualifying Criteria	44
4.2.3 Investment Guarantee Agreements	44
5. OVERSEAS INVESTMENT UNDERTAKEN BY MALAYSIAN COMPANIES	45
5.1 NATURE OF FOREIGN DIRECT INVESTMENT	45
5.2 EXTENT OF FOREIGN DIRECT INVESTMENT	46
6. RESULTS OF THE SURVEY AND ANALYSIS	50
6.1 GLOBAL ORIENTATION	50
6.2 RISK PERCEPTION	51
6.3 GEOGRAPHICAL DISTRIBUTION	52
6.4 MODE OF ENTRY AND METHOD OF INVESTMENT	53
6.5 RATIONALE AND MOTIVES FOR OVERSEAS INVESTMENTS BY MALAYSIAN COMPANIES	53
6.6 CRITERIA FOR CHOICE OF COUNTRY	54
6.7 PROBLEMS FACED BY THE MALAYSIAN COMPANIES	55
6.8 RESPONSE TO GOVERNMENT INCENTIVES	56
7. CONCLUSION AND LIMITATION OF STUDY	57
8. REFERENCES	60