

## 1. INTRODUCTION

There has been a significant increase in the level of foreign investment interest by Malaysian companies over past decade. 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. Together these investments accounted for almost 67 per cent of total long term overseas investment in 1995 (January to October). *Appendix 1* shows the Malaysian Investments Overseas from 1991 to 1995.

The Malaysian investments in Asia Pacific Region, South countries and new emerging economies has also been growing significantly. The Malaysian businessmen have been encouraged to invest abroad, and in this respect, the Government has organised various trade missions to the countries mentioned.

Generally, these foreign investments have significant impacts, both on the patterns of economic growth of individual business enterprise as well as on the national economies of investing and recipient countries. Foreign investments yield positive benefits in terms of:-

- \* increasing export of goods and services through commercial establishment in consumer centres; and
- \* establishment of processing plants abroad that may help in circumventing measures against Malaysian exports, and maintaining market share abroad.

Conversely, the cost to the economy as a result of the overseas investments could be considered in terms of the following :

- \* the possibility of an adverse balance of payments; and
- \* the likelihood that overseas investments may displace domestic investments.

## 1.1 OBJECTIVES OF THE STUDY

The specific objectives of this study are:

- (i) To review the structure and extent of foreign investment by Malaysian companies in respect of real estate development and construction activities;
- (ii) To identify the factors that influence the overseas investments and the countries selected;
- (iii) To review the response of companies towards the government policies that encourage investment abroad;
- (iv) To investigate the problems encountered by the companies;
- (v) To examine the relationships between business risk, political risk, and foreign currency risk as perceived by the Malaysian companies.

## 1.2 METHODOLOGY OF THE STUDY

This study will review the overseas activities of some of the Malaysian companies in respect of construction or property development, and to identify the nature of these investments. It will also examine the relationships between business risk, political risk, and foreign currency risk as perceived by Malaysian companies.

### 1.2.1 Overview

This study was an ex-post factor design, whereby the researcher has not attempted to manipulate the independent variables. Questionnaires and interviews were used to collect the primary data. The respondents were senior managers-in-charge of Malaysian companies that 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. In view of time constraint, quota sampling method was used. The sample chosen comprises companies which have announced their foreign investments in the newspapers/media. The interviews were semi-structured in nature. Questionnaires containing both open and close-ended questions were used to structure the interviews, most of which lasted about half an hour.

The questionnaire comprised four parts from which variables were extracted using statistical analysis. The variables were :

- a) structure and extent of foreign investment by Malaysian companies;
- b) factors influencing the investments;
- c) problems encountered by the Malaysian companies;
- d) response towards both Malaysian and host government policies.

### 1.2.2 The Sampling Design

This study is confined to the Malaysian companies listed on the KLSE with construction and property interests. The sampling frame comprises companies that

have investments overseas in respect of real estates and construction activities. In view of time constraint, quota sampling method was used. The sample chosen comprises companies that have announced foreign investments in the newspapers.

### 1.2.3 The Research Instrument

The research instrument comprised a six-page questionnaire that was used to structure personal interviews with the senior managers of the sample companies. Most of the interviews lasted about half an hour.

The questionnaires containing both open and close-ended questions were divided into four sections. Section I measured the structure and extent of the overseas investments by the Malaysian companies. Section II measured the rationale or motives for the investment. Section III measured the problems encountered by the companies, while Section IV measured the response to government policies.

Secondary data that were obtained from mainly from published sources, were used to analyse the structure of the Malaysian outward investment.

## 1.3 ORGANISATION OF STUDY

This report is divided into six chapters.

Chapter 1 introduces the report, discusses the objectives and defines the scope of the study. It also defines the research methodology, and the sampling.

Chapter 2 covers the relevant literature on the topics covered in the study, the theories, history and economics of the foreign investment, as well as the rationale and strategies for internalisation. It also looks into the international business problems and risks that are typically not present in domestic investment.

Chapter 3 reviews the investments by MNCs. Chapter 4 assesses the international trade framework by which the Malaysian companies operate and the role of the Malaysian Government on reverse investment. The international trade framework is important in view of extremely dynamic global environment.

The above four chapters set the scenario for foreign investment by Malaysian companies. Chapter 5 gives an overview of the construction and real-estate development activities overseas that have been or being undertaken by Malaysian companies, as well as the geographical distribution. It reviews the rationale and investment strategies, and the problems/risks faced by the companies.

Chapter 6 presents and discusses the findings on the structure of nature of the foreign investments, the problems faced, and the relationship of the risks as perceived by the Malaysian companies undertaking construction and real-estate development activities overseas.

Chapter 7 concludes the report and defines the limitations of the study.