

6. RESULTS OF THE SURVEY AND ANALYSIS

A total of forty (40) sets of questionnaire were sent out. However, to date only eighteen (18) sets of the questionnaires were completed and the respective companies interviewed. A copy of the questionnaire and the list of the companies responded is enclosed in *Appendix 2*.

Out of the eighteen firms which responded, all but three are from the property and construction sectors. One of the three companies is an investment holding subsidiary of a conglomerate in Malaysia, while the other is a consortium set up by a group of companies, specifically for venture overseas in property development and construction in the South countries.

As the objective of the study is oriented towards overseas investments in property development and construction activities, all but one of the companies surveyed made their first investment in either construction and property development. The company concerned had invested in heavy equipment.

6.1 GLOBAL ORIENTATION

In terms of the number of years since the overseas first venture, eleven (61%) of the companies are relatively young, i.e. 1 to 3 years; four companies (22%) indicate 3 to 5 years; two (11%) more than 7 years; while one is less than a year. The results imply that in respect of overseas investment of property development and construction Malaysian companies are generally progressing from the infancy stage.

At the infancy stage, international business strategies may not be the focus of an organisation's strategic management. The global orientation of the organisation is still tentative and superficial, and relatively lacks intensity and commitment. The strategic plans for overseas ventures and the overseas activities are probably still with the chief executive officers, instead of an international division that is set up for such purposes. However, most of the companies surveyed do think that an R&D section for the international business is important to study the socio-economic and cultural issues as well as for assessing the economy and demand of the host country.

Most companies take six to twelve months for the decision making regarding the investment on property/construction activities for the first time.

It is apparent that the companies surveyed have progressed beyond export-import activities and portfolio investment, towards FDI. They are aware of the opportunities in the international market.

6.2 RISK PERCEPTION

Most companies considered the political and country risk, i.e. expropriation risk, foreign exchange and assessment/forecast of the national economies as the three main foreign investment issues to be considered prior to implementation, followed by incentives and global logistics. The international and marketing management issues are considered relatively not significant. This is probably due to globalisation and the availability of information nowadays.

6.3 GEOGRAPHICAL DISTRIBUTION

In terms of geographical distribution of the overseas ventures for property development and construction, Asian countries, namely China, Vietnam and Cambodia, and to a lesser extent, Myanmar, appear to be the favorite. The less developed, English-speaking South countries, such as the South Africa, Namibia and Zimbabwe are also among the countries of the Malaysian ventures, though the amount of investment is considerably lower than those of the Asian countries. This is consistent with the studies on FDI from the developing countries and explained by the technological gap hypothesis. Capitalising on this, the Government is encouraging Malaysian companies to invest in the South countries.

The Malaysian companies that are presently in the South countries should have long-term strategic planning rather than short-term. They should have a strategic plan to make in-roads into as many sectors in the host country as possible. The companies should take advantage of being the pioneers and strengthen their position in terms of market share as well as marketing channels, so that barriers for competition could be created against future competitors from other countries.

The types of development undertaken by the companies being surveyed are typically residential and leisure (hotels and golf courses). However, in terms of amount of investment, the big projects are those involving infrastructure construction. Some firms that opt for more reliable and mature markets, have purchased properties in Australia, the United Kingdom and the United States. Since these countries are experiencing

economy slowdown, the prices of properties are relatively lower. Expectation of capital gains upon the economy recovery influences the investments.

6.4 MODE OF ENTRY AND METHOD OF INVESTMENT

Most companies enter into the foreign countries and markets by way of joint venture with the foreign partners or the host governments in construction activities and property development.

6.5 RATIONALE AND MOTIVES FOR OVERSEAS INVESTMENTS BY MALAYSIAN COMPANIES

The Malaysian Government has encouraged overseas investments selectively to minimise the risk of unnecessary diversion of domestic capital, financial and human skill resources. According to the Minister of International Trade and Industry (22/6/94), this strategy must be viewed in the context of Malaysia's industrial progression into the realm of higher technology to maintain its competitive edge. The Minister further advised that the private sector should form consortiums to minimise commercial and political risks. Thus, the geographical diversification helps companies to spread risks and to optimise on the differences in opportunities.

It is noted that the main reason cited by the companies (67%) is to develop new market, i.e., market opportunities. The companies undertake the direct investment overseas mainly in response to the desire to penetrate and strengthen their hold of the export markets. In view of the keen competition and limited market opportunity in the

property and construction sectors in Malaysia, some of the more established public listed companies have made a strategic move into the international arena.

The second and third factors given by the respondent companies are the attractive incentives offered by the Malaysian as well as the host countries (55%); and the award of contracts (39%) in the host countries, both by the public and private sectors. In some cases (17%) government to government arrangements also provide the motivation for the investments. Expectation of better returns arising from cheaper resources and cheaper property is also cited by two companies as a motivating factor for the companies to venture overseas.

6.6 CRITERIA FOR CHOICE OF COUNTRY

The principal criteria for choosing certain countries for investment can be classified as follows, with the number of respondents recorded for the "Most Important".

	No. Of Respondents
Economic stability	5
Foreign currency advantage	-
Good infrastructure	-
Government incentives (domestic and host country)	3
Liberal financial repatriation policies by host country	-
Political stability	9
Potential market and future growth	1
Relatively cheaper labour cost	-
	18

The three main criteria given by the companies on their choice of country for investment are political stability, economic stability and government incentives.

6.7 PROBLEMS FACED BY THE MALAYSIAN COMPANIES

In their ventures abroad, Malaysian companies do face several problems even though some of which are inherent to the countries of investment. Lack of formal legal structure of the host countries has been the main problem faced by the investors. Ten companies (56%) interviewed have cited the lack or under-developed legal system as the biggest problem. This is common in countries like China, Myanmar, Vietnam, Cambodia, and so forth. The laws in China, for example, vary from province to province; and they keep changing all the time. It is therefore very difficult to seek legal recourse should there be any breach in contractual obligations. In Vietnam and Myanmar, the legal system is not as comprehensive as Malaysia's. Omission of certain pertinent issues poses risks and uncertainties.

Five of the companies (28%) consider the bureaucratic problems encountered in the host countries as significantly important. The problems arise due to lack of coordination among various agencies, stakeholders and so forth, and even due to language problem. In China, the bureaucratic problem is further aggravated due to the reluctance of the government officials to make decisions, and who would then pass the matters to their superiors. These have caused unnecessary delays and frustration in the decision-making process.

Some of the firms encountered problems caused by cultural differences. In most cases, the problems are due the attitude of the locals and the general lack of initiatives.

Weak financial system and stringent conditions imposed by the foreign government have also been cited by some companies as contributory to the problems encountered. Most companies find it hard to repatriate their money back to Malaysia. In certain cases, there is limited number of financial institutions; and the Malaysian investors do find it hard to adjust to the financial and accounting systems.

Most companies (75%) believe in working with the locals who are familiar with the local conditions and seeking out the right parties for possible association. In cases of stalemate, investors may have to resort to government intervention.

6.8 RESPONSE TO GOVERNMENT INCENTIVES

Many companies commended on the Malaysian Government's policy 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.

In regard to other incentives that can help to promote the foreign investments, companies are of the opinion that dissemination of information on construction and property development available overseas, and easier funding from Malaysian financial institutions, would help.

On the other hand, to promote FDI into Malaysia, companies are of the opinion that the prevailing incentives, namely, the tax holiday, free repatriation of profits, political and economic stability, educated workforce and one-stop processing centre, are good. As to additional incentives, lower corporate taxes, relaxation of offshore funding regulations, removal of foreign credit restrictions, and a more transparent approval system, have been cited.

7. CONCLUSION

In view of the keen competition in the Malaysian market for property development and construction activities, maybe the investors have to look internationally for market opportunities and better returns. Moreover, with the encouragement and the various incentives from the Malaysian government, now would probably be a good time for Malaysian companies to selectively invest overseas.

The relationship between direct investment and technological change

Technological changes and innovations have 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.

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LIMITATIONS OF STUDY

The study is only limited to certain parameters of measuring the nature of the Malaysian overseas investments. Due to time constraint the collection of primary data is only limited to a small sample size of 18 Malaysian companies. A sample size of 30 would be a better representation of the data. However, the results are supplemented by secondary data which comprises news publications, reports and studies that have been carried out, and so forth.

Further study is recommended to investigate in detail the opportunities available and potential risks for property and construction activities in specific countries vis-a-vis technological advancement.

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