CHAPTER 3

THE LITERATURE REVIEW ON FOREIGN AND JAPANESE DIRECT INVESTMENT

3.1 Introduction

With an increase of the international flow of investment, FDI began to attract the attention of researchers, more literature started to appear on this topic, a number of studies was conducted on the FDI in Malaysia. However, the amount of literature on this subject is still insufficient and there is room for the further investigation.

Basically, the theory of FDI has been introduced and developed by the Western economists. These economists were mainly interested in the determinants or economic significance of FDI, especially of FDI by the Multinationals (MNs). Some Japanese economists made an attempt to modify the theories on FDI or to introduce new elements to it, using the Japanese experience. However, these attempts have not been very successful so far.

In this chapter, we shall first review the mainstream of the literature on FDI. It would be better if we could have mentioned what the Marxist economists, such as Baran or Sunkel, said on the subject of FDI, but the unavailability of their books prevents us from doing so. Next, we shall examine the researches on FDI by the Japanese economists and, lastly, the literature on the FDI in Malaysia.

3.2 Literature on Foreign Direct Investment by Western Economists

After the development of transportation and telecommunication, the international related business came to existence. In 1939, Shumpeter wrote: "Such a process as the railroadization or the electrification of the world transcends the boundaries of individual countries in such a way as to be more truly described as a worldwide process than as the sum of distinct national ones".[1]

A neo-Classical economist Ohlin (1967) considers that international movement of capital in and out of countries occurs in response to the interest rate differential. He believed that interest rate would be decided by the difference in the factor endowment and capital moves from low-interest to high-interest countries. Under the perfect international capital market, there would be one interest rate in the world. This theory may give an explanation about Portfolio Investment, but does not explain Direct Investment.[2]

One of the pioneer works on FDI was done by Hymer (1976). He pointed out that international firms do not operate under the condition of perfect competition. They usually have advantages, such as economic scale, absolute costs, patent right. So, these advantages allow them to produce more desirable products than their competitors'.[3] Kindleberger (1969) disagreed with this point of view. In his opinion, the international firms operating in alien environment suffer from the disadvantage caused by linguistic and cultural differences, communication problem and ignorance of the local market condition. He said that for the success of FDI, there must be imperfections in the market of goods or factors.[4] The above-mentioned argument can be applied to FDI from one developed country to the other. However, the FDI from developed countries to developing countries may have additional reasons for existence, because the former have an advantage of exploiting cheap labour force or materials of the latter.

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[1] Schumpeter, J.A. (1939), *Business Circle: A Theoretical, Historical and Statistical Analysis of Capitalist Process*, McGraw Hill, London.

[2] Ohlin, B.G. (1967), *Interregional and International Trade*, Harvard University Press, Cambridge, Mass.

[3] Hymer, S.H. (1976), *The International Operations of National Firms: A Study of Direct Foreign Investment*, M.I.T. Press, Cambridge, Mass.

[4] Kindleberger, C.P. (1969), *American Business Abroad: Six Lectures on Direct Investment*, Yale University Press, New Haven, Conn.

Caves (1971) also conducted a research on this subject. He argues that Oligopoly normally prevails where international firms made horizontal investment. However, it does not necessarily prevail where the firms made vertical investment to produce abroad raw materials or other inputs for their production process.[5] This point of view reflects the situation with FDI in Malaysia.

Some economists have examined the MNs and discovered their peculiar characteristics. For example, Horst (1972) argues that the firms that have a well-established brand name and other forms of product differentiation tend to invest abroad on a bigger scale.[6] Gray (1972) conducted a research on the MNs in Canada and concluded that these MNs were research-intensive and produced the differentiated products.[7] Dunning (1973) investigated the US firms operating in the UK and discovered that the US firms were concentrated in the export-oriented industries and were technologically more advanced than the UK firms.[8] These empirical findings have conclusions similar to that of Horst's findings.

The new and comprehensive theory of FDI was introduced by Vernon (1966). He explains the behaviour of FDI using the concept of the "stage of production's life cycle". Vernon divides the production's life cycle into three stages. In the first stage, technology is still unstable and sales are only to domestic market. In the next stage, the technology stabilizes and production increases, export increases as well and competitors begin to produce the similar type of production. In this stage, FDI's aim is to defend the export market

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[5] Caves, R.E. (1971), "International Corporation: The Industrial Economics of Foreign Investment", *Economica*, Feb. 1971.

[6] Horst, T.O. (1972), "Firm and Industry Determinants of Decision to Invest Abroad: An Empirical Study", *Review of Economics and Statistics*, August 1972.

[7] Gray, P. (1972), *The Economics of Business Investment Abroad*, Macmillan Press, London.

[8] Dunning, J.H. (1973), "The Determinants of International Production", *Oxford Economic Papers*, October 1973.

against tariff barriers. A lot of firms relocate the production base to the countries with a low labour cost. In the third, and final, stage of the production's life cycle, technology becomes standardized and there appears the need to relocate production base to the low-cost countries.[9] This theory can help us understand the behaviour of FDI and gives a good explanation of the various features of FDI. It also provides an adequate explanation of the character of FDI in Malaysia.

Knickerbocker (1973) wrote about the bandwagon character of FDI. He stated that if some firms invested abroad, the rival firms also followed them in order to protect their markets. It is important for a firm to maintain its markets, because if the market is protected from the competitors, a firm can enjoy a bigger scale of production and bigger sales.[10] This point of view can be applied to the foreign firms in Malaysia, especially to the electronics/electrical companies. The bandwagon theory explains why all the leading Japanese semi-conductor firms invested in Malaysia. One Japanese executive in Penang said: "We invested here because all our rival companies did so".[11]

Rugman (1979) introduced the risk diversification theory. He said that MNs started to invest abroad because of the risk diversification. He further explained that if the sales were solely for the domestic market, the firms would be vulnerable to the economic situation in their country. To avoid this risk, MNs invest abroad.[12] This theory explains one of the reasons why companies invest abroad, but it seems to be generally insufficient.

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[9] Vernon, R. (1966), "International Investment and International Trade in the Product Cycle", *Quarterly Journal of Economics*, May 1966.

[10] Knickerbocker, F.T. (1973), *Oligopolistic Reaction and Multinational Enterprise*, Division of Research, Graduate School of Business Administration, Harvard University, Boston.

[11] *La International*, August, 1988

[12] Rugman, A. M. (1979), *International Diversification and Multinational Enterprise*, Lexington Books, Mass.

Some economists have investigated relationship between location and activities of firms. Here we shall mention two pioneer theoreticians of the economics of location. Weber (1929) said that the firms' decision on location usually responded to the costs, such as production cost or transportation cost. The best location for a firm is a place where it can operate with minimum cost.[13] Losch (1954) said that the distribution of market or rival companies effected the locational decision of firms. He concludes that the best location for a firm is a place where it has monopolistic condition in market.[14] It seems that Weber's theory can be applied to the situation with FDI in Malaysia, and even to the FDI in Kedah. Losch's theory can be applied to horizontal investment, but not to Malaysia, where investment is vertical.

3.3 Literature on Foreign Direct Investment by Japanese Economists

Yoshihara (1978) has investigated the Japanese Direct Investment (JDI) in the South-East Asia and emphasized the comparative advantage as the main determinant of JDI. According to him, the development of JDI could be explained by the changing of the comparative advantage and other determinants, such as a revaluation of the Japanese Yen and various incentives. He uses a historical approach to analyze JDI and applies the "push factors" and "pull factors" theory to explain the FDI. "Push factors" are the factors that caused Japanese firms to invest abroad. Yoshihara explains that Japan was in need of raw materials and export markets. However, the Japanese Government restricted Japanese companies from investing abroad. After 1965, when Japan's balance of payment ran into surpluses, the Japanese Government considered the need of the constant supply of natural materials, especially oil, and abolished the regulations on FDI for Japanese companies. In addition,

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[13] Weber, A. (1929), *Alfred Weber's Theory of the Location of Industries*, University of Chicago Press, Chicago.

[14] Losch, A. (1954), *The Economics of Location*, Yale University Press, New Haven, Connecticut.

increasing wages of Japanese workers in the 1970s have changed the country's comparative advantage and forced the Japanese companies to invest more heavily abroad. Meanwhile, there are "pull factors" which attracted the Japanese firms to invest in ASEAN. Yoshihara concludes that ASEAN countries with relatively low cost of labour and abundant natural resources are an attractive destination for JDI.[15] This point of view is based on historical premises and may be useful for understanding the development of FDI in ASEAN countries. In this study, the concept of "push" and "pull" factors is also used to analyse the determinants of JDI in Kedah.

Another Japanese economist, Ozawa (1979) says that in the end of 1960s Japan faced a shortage of land and natural resources. The economic development caused pollution, congestion and ecological destruction in urban areas. All these problems, especially the lack of natural resources, caused the expansion of JDI. After the Arab oil crisis in 1973, the Japanese Government encouraged Japanese MNs to invest in the developing countries and thus secure the natural resources. So, MNs started to invest in oil-rich Middle-East countries and Indonesia.[16] Ozawa's research is useful in analysing the resource-oriented JDI. However, it may not be able to explain the export-oriented or market-oriented type of JDI. In addition to this, Ozawa stresses the role of the Japanese Government in the development of JDI. His rationalizing may adequately reflect the situation in the 1970s, when the Japanese MNs were not as powerful as they are now and needed to be protected by the Government. At the present time the situation is different, the Japanese MNs have become strong and usually follow their own decisions on investments.

Sekiguchi (1979) made a study of the prognosis of the JDI's future, based on the analysis of the political context. According to him, the resource-oriented

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[15] Yoshihara, K. (1978), *Japanese Investment in Southeast Asia*, The University Press of Hawaii, Honolulu.

[16] Ozawa, T. (1979), *Multinationalism, Japanese Style: The Political Economy of Outward Dependency*, Princeton University Press, Princeton, N.J.

JDI had expanded with a support from the Japanese Government. However, the expansion of this type of JDI causes a conflict with host countries. In addition to the memory of the World War II. some countries feared Japanese capital. The ASEAN and Japanese leaders are well acquainted with Western culture and education, but not very familiar with each other.[17] Sekiguchi's rationale, which is based on a political content, is very interesting and enlightening. However, the feelings towards the Japanese are not identical in all ASEAN countries. For example, Indonesia and Thailand have or had a very strong anti-Japanese stance, but this cannot be said about Malaysia.

Akamatsu (1962) suggested a "Catch-up" theory to explain the movement of FDI. This theory is similar to the Vernon's production life cycle theory. However, Akamatsu's main concern is limited to giving the explanation of the trade-oriented type of FDI, not of the material-oriented type of FDI. According to this theory, at first the developing countries just import products from the industrialized countries. Then, when demand for products becomes big, the import-substitution type of FDI comes to the scene. In the next stage, the governments introduce tariffs or incentives in order to protect the infant domestic industries. Finally, these domestic industries in their turn start to export production abroad.[18] Compared with the production life cycle theory, Akamatsu's interpretation lacks the depth, because it fails to explain the connection between the FDI and the stage of production.

Finally, let us discuss an established theory on FDI by Kojima (1978). He divides FDI into four major types: 1) resource-oriented; 2) labour-oriented; 3) market-oriented; 4) oligopolistic. In Kojima's opinion, the United State's Direct Investment (USDI) is mainly of the type "Four". The JDI, according to him, is mainly of the first three types. Therefore, the JDI is complementary to the factor endowments of developing countries and unlike the USDI,

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[17] Sekiguchi, S. (ed.) (1979), *Japanese Direct Foreign Investment*, Macmillan, London.

[18] Akamatsu, K. (1962), *A Historical Pattern of Economic Growth in Developing Countries*, Institute of Developing Economies, Tokyo

encourages the trade. Kojima's theory hardly explains the nature of the FDI in Malaysia, where many Japanese firms - such as Sony and Matsushita - use an advanced technology and are oligopolistic and the USDI is concentrated in the semi-conductor assembly and tends to create the trade.[19] Kojima's theory is interesting and acceptable in many cases. However, there are many exceptions from this theory because various types of FDI and JDI have different tendencies.

3.4 Literature on Foreign Direct Investment in Malaysia

In recent years, due to its growing presence in Malaysia, the FDI came to the attention of the mass-media, i.e., newspapers, economic magazines and other non-academic sources. While some articles are lacking in depth and do not contain any food for thought, other articles on this subject are very deep and enlightening. Let us review some meaningful articles on the FDI from newspapers and magazines.

An important and critical article on FDI by Ariff was published in the "Star" newspaper. The author considers FDI an ingredient of the development of Malaysian economy. Though the amount of investment is not very big, the foreign firms bring to Malaysia modern technology, management skills, access to the international market. The author points out that the effect of FDI's inflow on balance of payment is positive, because it allows to generate the foreign exchange. Considering this and other factors, Malaysia should remain opened to the rest of the world and be hospitable towards FDI.[20] This article helps us understand the issue and prospects of FDI in Malaysia and provides us with a useful information. This research was carried out keeping in mind this article.

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[19] Kojima, K. (1978), *op.cit.*

[20] *The Star*, February 12, 1992, March 3, 1992, and March 10, 1992.

A monthly magazine "Malaysian Business" has twice published special articles on FDI in Malaysia. According to these articles, in the end of 1980s the second wave of FDI came to Malaysia. The first wave of investments in the 1970s was led by the developed countries' firms that concentrated mainly in electronics and electrical industry, the US and Japanese investments played an important role at that time. The second wave of FDI in Malaysia has a different character. It consists of the wide range of industries and is led by the Taiwanese companies. According to these articles, the boom of FDI was caused by the relaxation of the regulations on FDI by the Malaysian Government.[21] These articles are useful to understand the new trends and features of FDI.

The number of academic researches on FDI has also increased in recent years. However, the lack or unavailability of the data on FDI makes it difficult to come to the definite conclusions on the subject. More information is needed to have a clear vision on the FDI in Malaysia. Here we shall discuss the academic literature on FDI in Malaysia.

Kulasingam and Tan (1982) conducted a research on FDI in Malaysia and analysed the new trends of FDI in this country. They came to the conclusion that the prevailing new trends of FDI were the no-equity participation, so-called "turn-key operation", licensing agreement and minority participation joint-ventures.[22] However, this conclusion contradicts with other researchers' opinions. This may be caused by the different period and scope of the object of study.

Lim and Nathan (1969) recognize that the FDI was traditionally important to Malaysian economy and the foreign ownership was substantial. The FDI in manufacturing sector has increased sharply because of the generous incentives,

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[21] *Malaysian Business*, July 16, 1988 and October 1-15, 1989.

[22] Kulasingam, M. and Tan, S. E. (1982), *Changing Patterns of Foreign Investment in Malaysia: Determinants, Issues and Implications,* Pusat Pengajian Sains Kemasyarakatan, Universiti Sains Malaysia, Penang.

a constant market and political stability. The inflow of FDI contributes to the job creation and raises the level of productivity. In Lim's and Nathan's opinion, the most important contribution of FDI is creation of externalities, such as technological knowledge, management skills, engineering techniques, etc.[23] This conclusion is similar to that of Ariff's article and stresses the importance of FDI as a means of technology and skills transfer.

Beaumount (1990) conducted a research on the FDI in Malaysia. He mentions that there are changes in global economy that affect the pattern of FDI. The downturn of economy, international debt crisis and volatility in foreign exchange adversely constrained the international investment. Beaumont also mentions the host countries' changing attitude towards FDI, when the FDI is being treated as a partner in the economic development. In these circumstances, transfer of technology is crucial for the Malaysian economy and represents the most tangible contribution of FDI to Malaysia. FDI is playing an important role in the industrial development through the subcontracting network. Beaumont concludes that Malaysia still maintains its friendly attitude to FDI.[24]

Lim and Pang (1991) conducted a research on the FDI and industrialization in Malaysia, Thailand, Taiwan and Singapore. They noticed that the Malaysian state corporations favoured the joint-ventures with foreign partners, especially with Japan. The Malays had generally a positive attitude towards the foreign investors, because foreign firms provided the employment opportunity for them, and under the New Economic Policy gave them a chance of business partnership as well. There is an ambivalent attitude to foreign capital among Chinese businessmen. Small enterprises consider foreign firms a threat to their business, while the larger Chinese companies try to establish relations with

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[23] Lim, P and Nathan, M. P. (1969), *Basic Readings in Malaysian Economics*, Modern Education Publishers, Kuala Lumpur, Malaysia.

[24] Beaumont, P.G. (1990), "The Role of Foreign Investment in Malaysia", *Jurnal Ekonomi Malaysia*, Vol. 22 and 23.

foreign partner and get an access to the new technologies and markets.[25] The attempt to investigate the different attitude towards the FDI among the various groups of Malaysians makes Lim's and Pang's research interesting. Especially, the information about the Chinese businessmen's feelings towards the FDI is new and thought-provoking.

Kanapathy (1971) investigated the role of FDI in the history Malaysia's economic development. He mentioned the pre-Independence period, when the British investment was a main source of a private investment in Malaysia, and the Japanese investment exploited extractive industries. The British investment dominated in Malaysia until the 1960s. After the Independence, the Malaysian Government in order to develop the country's economy encouraged the foreigners to invest not only in extractive industries, but in the manufacturing sector as well.[26] Kanapathy wrote about the determinant of FDI and suggested that the political stability was a necessary, but not a sufficient factor for attracting foreign investors. This point of view on FDI's determinant is interesting.

Jesudason (1989) conducted a research on the issues and prospects of the development of the Malaysian economy. The author writes about the role of the MNs. The state expects the MNs to play a strong role in caring out the Government's goals of the restructuring the country's economy. In Jesudason's opinion, the MNs help to keep the economy afloat by absorbing the labour and providing ownership opportunity to the Malays. However, Malaysia has failed to generate the linkage between manufacturing sectors. This caused Malaysia to be highly dependent on the commodity sectors.[27]

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[25] Lim, L.Y.C. and Pang, E.F. (1991), *Foreign Direct Investment and Industrialisation in Malaysia, Singapore, Thailand and Taiwan*, Organization for Economic Cooperation and Development, Paris.

[26] Kanapathy, V. (1971), *Foreign Investment in Malaysia. Experience and Prospects*, University Education Press, Singapore.

[27] Jesudason, J. V. (1989), *op.cit.*

Jesudason's arguments are original and idea-generating. Our intention to investigate a production network between the local and Japanese firms was suggested by this book.

Ariff (1991b) mentions that Malaysia has always had a favourable disposition towards FDI, and it is difficult to imagine that Malaysia can acquire the NIE status without the FDI's assistance. He states that the FDI, being engaged in export-oriented activities, provides a link between investment and trade. The intra-industry trade is on the increase and it is believed that intra-industry trade consists of intra-firms sales.[28] In this dissertation a due consideration is given to the intra-industry trade, applying Ariff's concept. We have investigated the Japanese firms' destinations of export which to some extent may be considered as an intra-firms trade and tried to analyse how the Japanese firms could contribute more to export.

Yen (1990) conducted a research on the multinationals' effect on employment. The researcher said that the employment by the Foreign Controlled Companies (FCCs) in primary industries was higher than the employment by the locally controlled companies. In terms of employment creation, the contribution of the FCCs remained unchanged except in the manufacturing sector. Yew mentions that three-quarters of employment in the machinery and electronics/electrical industries were generated by the FCCs.[29] In Kedah, the employment creation by the FCCs may be quite high. The employment creation by the foreign firms is one of their most important contributions to rural areas.

Hoffmann and Tan (1980) discovered that the value-added created in all FCCs was 18.6 percent of GDP in 1962, 16.2 percent in 1966 and 18.3 percent in 1970. From 1962 to 1970, the contribution of the FCCs to the GDP

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[28] Ariff, M. (1991b), *op.cit.*

[29] Yen, S.Y. (1990), "Employment Effect of Multinational Enterprise in Malaysia", in University of Malaya, Faculty of Economics and Administration, *Issues and Challenges for National Development*, Faculty of Economics and Administration, Universiti Malaya, Kuala Lumpur.

was 20.8 percent. During the same period the FCC's contribution to the manufacturing was 67.1 percent. The researchers mention that the two-thirds of the FCC's increase in the value-added were created in Selangor. The four states -- Selangor, Perak, Penang, Johor -- accounted for 94 percent of the FCCs growth during the years 1962-1970. In the tax receipt, FCCs paid 58 percent of direct tax and 40 percent of indirect tax in 1962-1970. In 1962, the employment creation by the FCCs was 8.9 percent, in 1970 it was 8.4 percent.[30] Hoffman's and Tan's research adequately shows the importance of the FDI for Malaysia.

Lim (1983) conducted a research on FDI and the Malaysian development policy. The author mentions government's incentives given to the foreign investors after the implementation of the Pioneer Industrial Ordinance (1958) and Investment Incentive Act (1968). In Lim's opinion these measures to promote the FDI are inadequate in two points: 1) the Government failed to understand the motivations or rationale of foreign investors; 2) the Government failed to protect the national interests against the unscrupulous firms.[31] Lim's criticism seems to be true and is quite sharp.

According to Ariff (1992), the character of the FDI has changed in recent times. The "new" investments differ from the "old" ones in terms of sources of supply, scale of operation, market orientation, externalities, factor intensity and geographical dispertion. The growing presence of the SMIs in the FDI profile in Malaysia has been noticed. Even the Japanese investors seem inclined to set up SMIs in Malaysia that would cater to the needs of the Japanese MNs operating in the country. Ariff concludes that realisation of the "Vision 2020" will depend to a considerable extent on the role that FDI can play. Therefore,

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[30] Hoffmann, L. and Tan, S.E. (1980), *Industrial Growth, Employment and Foreign Investment in Peninsular Malaysia*, Oxford University Press for the Institut fur Weltwirschaft, Kiel, KL.

[31] Lim, D. (ed.) (1983), *Further Readings in Malaysian Economy*, Oxford University Press, Singapore.

Malaysia needs to guard against overly strong nationalist sentiments and must continue to adopt liberal policies towards FDI.[32]

3.5 Literature on Japanese Direct Investment in Malaysia

We were able to find only two books on the Japanese Direct Investment. These books are: 1) "The Japanese Direct Investment in Malaysia" by the Embassy of Japan; 2) "The Role of JDI in Malaysia" by Chee Peng Lim and Lee Poh Ping. The first book is just a brief discussion of the character of the JDI. It does not contain any deep analysis, neither it investigates the specific traits of the Malaysian economy.[33] The book by Chee Peng Lim and Lee Poh Ping is a fundamental study on the subject of JDI in Malaysia. It is based on the survey of the Japanese firms in Malaysia. The book provides us with an important information on the size of firms, determinants, training of staff, subcontracting network of the Japanese firms, etc. The authors say that the most important factor which influenced the Japanese companies' choice to invest in Malaysia were political and social stability. Then, Japanese firms tended to locate their factories in more developed states, such as Selangor or Penang. Chee and Lee said that the Japanese firms concentrated in three types of industries, namely electronics/electrical (15.8 percent), wood products (10 percent) and textile products (9.5 percent). The size of firms was usually small and 53 percent of the Japanese firms employed less than 50 workers. The researchers pointed out that only 12.3 percent of the Japanese firms were wholly Japanese owned and the rest were joint-ventures. The majority of the Japanese firms belonged to the import-substitution category. In their management, the Japanese firms have certain distinctive characteristics, they are relatively centralized and their targets and budget are set by the head offices. The planning and decision making at the Japanese firms are generally

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[32] Ariff, M. (1992), *op. cit.*

[33] Embassy of Japan, Malaysia (1980), *The Situation of Japanese Firms in Malaysia.*

confined to the top Japanese executives, not to the local ones. Concerning the training, Chee and Lee said that all the Japanese firms in Malaysia have a training scheme for the local workers, and training activities are generally intensified in the initial stage. Most firms provided on-the-job training and a considerable number of firms sent their worker to the parent companies to train them. Concerning the subcontracting, the researchers say that there was not much evidence that the Japanese firms in Malaysia were making a big contribution to subcontracting.[34] In their book, Chee and Lee discuss various topics concerning the operation of the Japanese firms abroad. The information they provided us with was very useful and had been utilized as a foundation for this research. Especially, the discussion of how the Japanese firms established their subcontracting network and why it was weak was very helpful and idea-generating for us.

3.6 Summary and Comments

The theories on FDI by the Western economists seem to be more applicable to the US MNs, because these economists limit their analysis to MNs and consider the whole FDI as oligopolistic condition. However, not all foreign firms that invested in Malaysia are of the same type. For example, the main player during the second wave of FDI in Malaysia - Taiwan - consisted of many SMIs, and this type of FDI is not oligopolistic. Same can be said about the JDI in Malaysia after 1986, which also consisted of many SMIs. It is important to always remember that each firm that invested abroad has its own reasons for doing so. These reasons are determined by the firms' industry, size and other particular circumstances.

The theories on FDI by the Japanese economists stress the comparative advantage as the main determinant for investing abroad. This point is well-

[34] Chee, P.L. and Lee, P. P. (1979), *op.cit.*

known and adds no new information. However, it can be applied to the MNs and SMIs, as well as to the JDI in Malaysia.

The Western and Japanese economists have different approaches to the analysis of FDI. The Western economists usually build a general theory and try to apply it to the real situation, while the Japanese researchers use historical and political background for their analysis of the tendencies of FDI. The exception is Kojima's research on this subject.

However, it would be unjust not to mention the works on FDI by such Western economists as Caircross and Imlah, who often base their analysis on political and historical background. But this is not the common tendency for the Western economists. Especially, at the present time the Western researches prefer a mathematical method of analysis.

It is difficult to find the genuine determinant of FDI, because often determinants are of a relative - not the absolute - nature that changes according to the context. For example, in 1989, JACTIM conducted a research on the Japanese affiliated firms in Malaysia. It shows that 55 percent of the Japanese firms replied that their determinant was the cheap labour cost in Malaysia. The number of the firms putting the importance on the labor cost may seem to be not very high compared with those 80 percent of the firms that valued economic and political stability most. However, this rate may be misleading, because the social and political stability is Malaysia's advantage compared with other developing countries, such as Thailand or Indonesia, but not compared with Singapore or Taiwan. The same can be said when the Japanese firms reply that their determinant to invest in Malaysia is the absence of communication problem in this country. Certainly, it is easier for the Japanese staff to speak English to the Malaysian workers, than to speak Thai or Bahasa Indonesia to their Thailand and Indonesian personnel. But then, Singapore and Taiwan, where a lot of people speak Japanese fluently, also should not bring any communication problems for the Japanese staff.

Another example can show the ever-changing nature of FDI's determinant. For example, a hypothetical firm establishes its factory in a developed state in Malaysia where it can find enough labour force. Another hypothetical firm which sets up a factory in the same place a year later may face a shortage of workers and an increase of the labour force cost. Incentives also may be a determinant for FDI, but incentives can be given or abolished. So the situation here also changes. Whether the common determinant for the firms to invest in a certain place exists or not?

Not only the determinants but also firms' performance variables (such as export sales ratio, local content ratio, etc.) and characteristics of firms (such as size, industries, location) have tendencies to change. Firms with different characteristics have different performance variables. For example, if firms were established in different years their performance variables will be different. The firms which were established in the 1970s may have different export sales ratio and local content ratio from those established in the 1960s. There is a possibility that even the employment structure is dissimilar among the firms with different location. In addition to that, a local content of a firm located near the industrial area may be higher than that of a firm located in a rural area. Firms located near industrial areas face a serious increase of workers' salaries compared with firms in rural areas. Therefore, it is difficult to capture he typical characteristics and behavior of FDI because FDI has various faces.

Finally, we would like to say that there is a lack of criteria for defining FDI, for example in circumscribing industrial categories or financial condition. This makes empirical findings difficult. There are additional difficulties one has to encounter while conducting research on FDI. To cite an instance, the statistics on the JDI are dissimilar in Japan and Malaysia, i.e. the amount of outflow from Japan is totally different from the amount of inflow to Malaysia. In addition, each country adopts different statistics method.

In this study, an attempt is made to find out a real situation concerning the JDI in Malaysia and we encountered some serious problems while conducting analysis. We have tried to overcome these problems following the advice given in an old Japanese saying "If you have difficulties, try to divide them into groups". This prompted us to divide the Japanese firms into several categories according to their type of industry, size, establishment year, instead of applying a single hypothesis or theory to all of them. For example, the differences between the electronics/electrical and non-electronics/electrical firms, or between the earlier and the later established companies are compared. Then, considering location of firms, firms are classified into those located near and those located far from Penang. This is followed by the analysis of the firms according to their location. Finally, an assessment is made of the prospects of firms through the interviews and issues are discussed.