

Abstract

An empirical study of 59 companies at Shah Alam and Petaling Jaya Industrial Estates examined the determinants of foreign direct investment (FDI) in Malaysia. Also, issues regarding the importance of fiscal incentives and disincentives and some economic impact of FDI were highlighted. The results showed that the most important priorities for investment in Malaysia are political stability, access to markets, and the economic status of Malaysia. Export-oriented firms considered all five aspects of political stability as significant. Other investors were only concerned with some of these factors.

In access to markets category, export-oriented firms were concerned with production for home and third countries, while the Malaysian market was cited as important by other investors.

Newly Industrialising Countries and food and beverage industry considered size, growth, and infrastructure facilities as significant. Japanese companies, electrical and electronic industry (it also includes other industries categorised under industry 38), and export-oriented companies were concerned with infrastructure facilities and cheap land. Local-market oriented firms cited size and growth as significant. To some extent, domestic prices and exchange rates were significant. With regard to factors of production, all three variables of human resources were cited as significant by investors.

Among fiscal incentives and disincentives, tax and trade

exemptions, other incentives, foreign exchange remittance and equity requirements were considered as significant by most investors. Among socio-cultural factors, diligence of labour, host government and people's attitude towards foreign investors, literacy rate, labour movement and political ties to capital exporting countries were considered as significant. Government incentives and disincentives were considered merely as compensation for restrictions. Withdrawal of the incentives would not affect FDI inflows if disincentives were removed.

The forward and backward linkages expected from the inflow of FDI have not emerged. To improve linkages, the government should encourage the development of more local SMIs through financial assistance. The present policy requirements on local content should be continued. Because of high wages, Malaysia should focus on capital-intensive, skill-intensive and high value-added industries. The shortage of skilled labour should be overcome. Research and development must also be given due attention.

Infrastructural bottlenecks must be removed through investment in infrastructural development. This includes the expansion and upgrading of port facilities, road and railroad transport and telecommunication networks. To ensure reliability and efficiency in the supply of such facilities, healthy competition must be emphasised.