# Table of Contents

**Abstract**  
**Acknowledgement**  
**List of Tables**  
**List of Figures**  
**Abbreviations**

<table>
<thead>
<tr>
<th>Chapter 1: Introduction</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1 Background of the Study</td>
<td>1</td>
</tr>
<tr>
<td>1.2 Definition of Foreign Direct Investment</td>
<td>2</td>
</tr>
<tr>
<td>1.3 Importance of FDI</td>
<td>5</td>
</tr>
<tr>
<td>1.4 Role of FDI in the Malaysian Economy</td>
<td>8</td>
</tr>
<tr>
<td>1.5 Background of the problem</td>
<td>18</td>
</tr>
<tr>
<td>1.6 Objectives of the Study</td>
<td>23</td>
</tr>
<tr>
<td>1.7 Assumptions</td>
<td>23</td>
</tr>
<tr>
<td>1.8 Significance of the Study</td>
<td>24</td>
</tr>
<tr>
<td>1.9 Limitations of the Study</td>
<td>24</td>
</tr>
<tr>
<td>1.10 Organisation of Remaining Chapters</td>
<td>25</td>
</tr>
</tbody>
</table>

**Chapter 2: Literature Review**

<table>
<thead>
<tr>
<th>Chapter 2: Literature Review</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1 Introduction</td>
<td>28</td>
</tr>
<tr>
<td>2.2 Theories of FDI Flows</td>
<td>28</td>
</tr>
<tr>
<td>2.2.1 Industrial Organisation Theory of Foreign Direct Investment</td>
<td>32</td>
</tr>
<tr>
<td>2.2.2 Comparative Advantage Theories of Foreign Direct Investment</td>
<td>35</td>
</tr>
</tbody>
</table>
2.2.3 The Bandwagon-effect Theory of FDI 39
2.2.4 The Offshore-type Investment Theory of FDI 40
2.2.5 The Monopolistic Advantage Theory of FDI 43
2.2.6 Eclectic Theory of FDI 43

2.3 Empirical Studies on determinants of Foreign Direct Investment 48

2.4 Determinants of FDI

2.4.1 Market Characteristics
   2.4.1.1 Size of Economy 49
   2.4.1.2 Rate of Growth of Market 51
   2.4.1.3 Other Market Characteristics 52

2.4.2 Costs Considerations
   2.4.2.1 Wage Rate 53
   2.4.2.2 Labour Productivity 55
   2.4.2.3 Type of Labour 55
   2.4.2.4 Raw Materials 55
   2.4.2.5 Production Costs 56

2.4.3 Inflation Rate 57
2.4.4 Exchange Rate 57
2.4.5 Fund Availability 58
2.4.6 Tariff 59
2.4.7 Political Factors 60
2.4.8 Policy Imperatives 64

2.5 Empirical Studies in Malaysia 67

Chapter 3: FDI in Malaysia

3.1 Background 74
3.2 The Industrial Development Programme 76
3.3 Investment Incentive Programmes in Attracting Foreign Investment 79
  3.3.1 Pioneer Industries Ordinance of 1958 80
  3.3.2 The Investment Incentive Act of 1968 82
  3.3.3 Industrial Coordination Act of 1975 84
  3.3.4 Promotion of Investment Act 1986 86
3.4 Profile of FDI Flows into Malaysia 88
  3.4.1 Growth of FDI 91
  3.4.2 Sources of FDI 95
  3.4.3 Sectoral Allocation 103
  3.4.4 Importance of FDI to Capital Formation 103

Chapter 4: Research Methodology 107
4.1 Introduction 107
4.2 The Population and Sample 108
4.3 Selection of Sample 112
4.4 Interview Procedure 113
4.5 Quality of Response 115

Chapter 5: Research Findings: Analysis of FDI Interest in the Host Country 117
5.1 Introduction 117
5.2 Characteristics of Firm Surveyed 117
  5.2.1 Origin of Firms 117
  5.2.2 Types of Industry 118
  5.2.3 Ownership 120
  5.2.4 Year of Establishment of Firms 123
5.2.5 Sampled Firms FDI's Experience

5.3 Motives of FDI in Malaysia

5.3.1 Investment Motives by Country of Origin

5.3.1.1 Access to Factors of Production
5.3.1.2 Access to Markets
5.3.1.3 Economic Status
5.3.1.4 Political Stability
5.3.1.5 Fiscal Incentives and Disincentives
5.3.1.6 Socio-cultural Factors

5.3.2 Investment Motives by Subsector

5.3.2.1 Access to Factors of Production
5.3.2.2 Access to Markets
5.3.2.3 Economic Status
5.3.2.4 Political Stability
5.3.2.5 Fiscal Incentives and Disincentives
5.3.2.6 Socio-cultural Factors

5.3.3 Investment Motives by Firm Characteristics

5.3.3.1 Experienced vis-a-vis First-time Overseas Respondents
5.3.3.2 Export-oriented vis-a-vis Local Market Firms

5.3.4 A Comparison Between Japanese and non-Japanese Respondents in Industry 38

5.3.5 FDI Decision-making at an Aggregated Level

5.4 Time-series Analysis

5.5 Incentives and Disincentives

Chapter 6: Research Findings: FDI Impact on Host Country

6.1 Introduction
6.2 Employment Creation 163
6.3 Foreign Direct Investment and Product Sales 166
6.4 FDI and Purchase of Input and Machinery 171
6.5 Technology Transfer 177
6.6 Employment of Foreign Expertise 179
6.7 Training of Local Staff 182
6.8 Research and Development 184
6.9 Purchase of Capital and Equipment 186

Chapter 7: Summary, Conclusions and Policy Recommendations

7.1 Summary 190
7.2 Conclusions 194
7.3 Policy Recommendations
  7.3.1 Investment Incentives vis-a-vis Non-tax Incentives 197
  7.3.2 Infrastructural Facilities 200
  7.3.3 Human Resources 202
  7.3.4 Linkages 207

Bibliography 210

Appendix 1 Survey Questionnaire 225
Appendix 2 Summary of Investment Incentives Act of 1968 238
Appendix 3 List of Promoted Products and Activities 240