

R

PERPUSTAKAAN UNIVERSITI MALAYA

ACI 0581
INVC...nms...10/2/01

COMPETITIVENESS IN ATTRACTING FOREIGN DIRECT INVESTMENT: THE MALAYSIAN EXPERIENCE

By

LOY WEE LEN

Bachelor of Social Science

Universiti Sains Malaysia

Pulau Pinang, Malaysia

1979

Submitted to the Faculty of

Business and Accountancy

University of Malaya

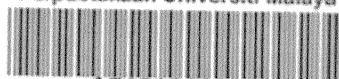
In partial fulfilment of

the requirement for the Degree of

MASTER OF BUSINESS ADMINISTRATION

September 1998

Perpustakaan Universiti Malaya



A510144480

Dimikrofiskan pada... 15.01.02.
No. Mikrofis... 1527
Jumlah Mikrofis... 1

HAMSI AH BT. MOHAMAD ZAHARI
UPR UNIT REPROGRAFI
PERPUSTAKAAN UTAMA
UNIVERSITI MALAYA

ABSTRACT

Recent trends indicated that private capital flows, particularly foreign direct investment (FDI) have outpaced official flows to developing countries. The majority of FDI estimated at 65 percent of total FDI inflows in 1996 went to the developed countries with the remaining 35 percent going to the developing countries. Even among developing countries, the pie was unevenly distributed, with China getting the largest share of FDI inflow since 1992. Why is it that some nations are more able than others to get large inflows of FDI?

The focus of the study is in examining the reasons why some nations are able to attract more FDI than others. The assumption is that more competitive economies with higher rankings are able to attract larger FDI. This is evident in the case of countries like the United States, Singapore and Malaysia. However in the case of China, which does not rank as favourably, it is the sheer market size that is pulling in the FDI. The study will also run a regression analysis to identify the significant factors which influence FDI inflow.

The Malaysian economy can be considered to be competitive in attracting FDI, and has been a major FDI recipient among the developing economies. The nation ranks high on the physical measures, such as investment incentives and corporate taxes, but ranks less favourably on issues like "control" (regarding freedom in acquiring domestic companies). Recent trends however indicate that issues like "control", improper practices and transparency are assuming increasing importance. This will have a bearing on the nation's ability in attracting FDI, which has been more oriented towards physical measures.

In the light of the regional slowdown and the anticipated shrinkage in FDI inflow due to the lack of investor confidence, it is envisaged that the country will face intensified competition for FDI, not only among Asean countries but other emerging economies. The paper will analyse whether the Malaysian economy has instituted a conducive environment to attract FDI, and to suggest recommendations on improving its competitiveness in attracting FDI, based on recent developments and the findings of the regression analysis.

ACKNOWLEDGEMENTS

The initial adjustment to study life has not been easy for me, having completed my first degree way back in 1979. Now at the end of the MBA programme, I can honestly say that I have enjoyed and benefited from the learning experience.

I am grateful to my supervisor, Prof. Dr. G. Sivalingam for his advice, guidance and patience with me throughout the preparation of this project. I would not have attempted this topic, if not for the interesting courses I took under Prof. Dr. G. Sivalingam.

I would also like to thank the Public Services Department for sponsoring me, as well as granting me the study leave to do this course. Special thanks go to the Manpower Department of the Ministry of Human Resources for supporting my application to do the MBA programme.

To my parents, siblings and especially KGN, whose encouragement and unwavering love, understanding and support have always sustained me, with all humility, I dedicate this piece of work.

LIST OF TABLES

	Page
1.1. Financial Flows to Developing Countries, 1990-1996	4
1.2. Net FDI Inflow to Developing Countries, 1990-1996	6
1.3. Approved Manufacturing Projects, 1991-1997	7
4.1. WEF Competitiveness Ranking, 1996-1998	32
4.2. IMD Competitiveness Ranking, 1996-1998	33
4.3. All-Variables Regression Analysis Summary	34
4.4. Stepwise Regression Summary	36
4.5. FDI Inflow and International Ranking	38
4.6. FDI Inflows into Asean, 1991-1996	39
4.7. Country Ranking by GDP per Capita Growth and FDI	42
4.8. Country Ranking by Exports as % of GDP and FDI Inflows	43
4.9. Country Ranking on Tangible Factors of FDI	46
4.10. Country Ranking on Improper Practices and Transparency	48

LIST OF FIGURES

	Page
1.1. Official and Private Flows to Developing Countries, 1990-1996	2
1.2. Foreign Direct Investment to Developing Countries, 1992-1996	2
1.3. FDI Inflows to Developed and Developing Countries, 1991-1996	3
1.4. FDI Distribution in Developing Countries, 1996	3
4.1. FDI Inflows and Ranking	41
4.2. FDI Inflow and Real GDP per Capita Growth, 1995	41
4.3. FDI Inflows and Exports, 1995	44

TABLE OF CONTENTS

	Page
Abstract	<i>i</i>
Acknowledgements	<i>ii</i>
List of Tables	<i>iii</i>
List of Figures	<i>iv</i>
CHAPTER 1 INTRODUCTION	1
1.1. Recent Trends in International Capital Flows	1
1.2. Background of the Problem	5
1.3. Objectives of the Study	8
1.4. Significance of the Study	8
1.5. Scope of Study	9
1.6. Limitations of the Study	10
1.7. Organisation of the Study	10
CHAPTER 2 LITERATURE REVIEW	12
2.1. Theories of FDI	12
2.2. International Competitiveness	20
CHAPTER 3 RESEARCH METHODOLOGY	24
3.1. Secondary Data	24
3.2. Limitations and Strengths of the Data	24
3.3. Data Analysis Techniques	26
3.4. Considerations for Factor Choice	28
3.5. Analysis	29
CHAPTER 4 RESEARCH FINDINGS	31
4.1. Malaysia's International Competitiveness	31

4.2.	Regression Analysis	33
4.3.	Correlation between International Ranking and FDI Inflows	37
4.4.	Correlation between Economic Growth Rates and FDI Inflows	40
4.5.	Correlation between Exports and FDI inflows	43
4.6.	Other Factors of FDI	45
CHAPTER 5 CONCLUSION AND RECOMMENDATIONS		49
5.1.	Summary	49
5.2.	Conclusions	50
5.3.	Policy Recommendations	53
5.4.	Suggestions for Additional Research	56
5.5.	Implications of the Study	57
APPENDIXES		58
APPENDIX I:	WEF Competitiveness Ranking	58
APPENDIX II:	IMD Competitiveness Ranking	60
APPENDIX III:	MIDA Approved Projects	61
APPENDIX IV:	Regression Analysis (Enter)	62
APPENDIX V:	Regression Analysis (Stepwise)	64
APPENDIX VI:	Foreign Equity Conditions	67
BIBLIOGRAPHY		68