

Chapter Six

Summary and Conclusion

FDI is the principal means of wealth for nations in the 21st century and is the device to elevate the development. It is unanimously encouraged by almost all the developing nations. Since late 70's, Malaysia, like other developing nations, took a task to move towards FDI-drive economies in order to move forward. FDI was considered as the fuel of the engine of manufacturing sector, which constitutes the backbone of the economy. The role of foreign direct investment in the development process of a developing country has become an important research subject in the literature of the economics profession. This chapter summaries and reviews the major findings of the study followed by some policy suggestions for further development with FDI in Malaysia.

6.1 Summary

This study is concerned with the macroeconomic effects of FDI inflows on the Malaysian economy and its determinants. A model was employed to analyze the role of FDI in the economic development of Malaysia. The effects of FDI on the economy were examined through four channels, namely, through the effects on inflation rate, interest rate, exchange rate, export, import and employment. To summarize the empirical results of this study, I found the following variables are significant.

1. FDI has a negative effect on inflation rate.
2. FDI has positive effect on export.
3. FDI has a positive effect on employment of Malaysia.

My finding of FDI has a negative effect on inflation rate, with elasticity of 10 to 19, which was consistent to findings by Aliber (1970) and Grosse and Trevino (1996). Negative relationship means the good position of host country's economy stability. That is why foreign investors choose Malaysia as their host country, which include investors from China.

The export is positive relationship with FDI, which researches by Froot and Stein (1991) and Hultman and McGee (1988).

As for employment, I find that FDI inflows have a positive effect. This finding is consistent with Zhao (1998), Alesina(1993) and Bertola (1988).

A survey by way of questionnaire on the China manufacturing company was conducted. Little Swan Southeast Asia Sdn. Bhd. (LSSA), as a good example of the Chinese FDI investing in labour-intensive industries by its enormous employment into Malaysia.

As mentioned in the previous, the case study shows that most of the technology transfer was in the form of know-how and experience with standard, and well proven a production technique. They normally could not be embodied in the form of capital equipment or

transmitted through blueprints and operation sheets. Therefore, training of local personnel was considered as one of the most important aspects of technological transfer by these Chinese companies. This includes both in-house and overseas attachment (in China parent company) training. Furthermore, the greater reliance of these Chinese overseas subsidiaries on "transfer through people" is closely connected to their preference for using FDI as a means to transfer technology. These subsidiaries being long term in nature, allow a more sufficient period for these Chinese to transfer personnel skill and know how to the host countries. A similar view is expressed by Chen, who emphasizes that a fundamental aspect of any technical assistance to a foreign country ought to be through human contact. (Chen 1997)

Apparently the company LSSA has considerable activities based on OJT basis in their operation, technical and management training. In the previous discussion, it shows that the company LSSA sent their local employees for overseas attachment training.

From the all result, it is so interesting to note that the growth rate of the economy is another important determinant of FDI inflows to Malaysia. An implication of this observation is that if the current growth rate can be sustained into future, FDI will continue to flow into the economy. This is a challenge to the Malaysian economy since this will continue to exert additional upward pressures on wages and possible prices. From a policy perspective, this suggests the domestic priorities should continue to emphasize on education to better insure that productivity increases along with wages.

With regard to openness, the policies that favor trade and FDI act as an incentive for FDI inflows, since the FDI is found to be a plus for Malaysia, the process of liberalization of existing policies with regard to foreign trade and direct investment should be maintained. Malaysia should continue to maintain liberal investment regimes with liberal of globalization of the world economies. There exists strong competition among developing countries for foreign investment especially with the emergence of China and India as new and attractive host economies. Malaysia will have to take additional measures to enhance its investment policies, promote dialogue with foreign investors, and continually review existing investment regulations.

6.2 Policy Recommendations

The results allow me to draw several policy recommendations. It is interesting to note that the growth rate of the economy is an important determinant of FDI inflows to Malaysia. an implication of this observation is that if the current growth rate can be sustained into the future, Fdi will continue to flow into the economy. This is a challenge to the Malaysian economy since this will continue to exert additional upward pressures on wages and possible prices. From a policy perspective, this suggests that domestic priorities should continue to emphasize on education to better insure that productivity increases along with wages.

It is also interesting to note that in particular, the degree of openness and infrastructure investment play important complementary roles in determining the inflows of FDI. Since FDI was found to have a positive effect on domestic investment but not consumption, the

implication is that FDI can be an important catalyst in per capita GDP increases. The government, therefore, should continue to invest in sufficient, competent basic infrastructure. In addition to new infrastructure, it is also important to improve existing networks of transportation, public utilities and communication.

With regard to openness, my findings suggest that the policies that favor trade and FDI act as an incentive for FDI inflows. Therefore, since FDI is found to be a plus for Malaysia, the process of liberalization of existing policies with regard to foreign trade and direct investment should be maintained. Malaysia should continue to maintain liberal investment regimes with liberal foreign equity ownership policies. This is very important, especially in the era of globalization of the world economies. There exists strong competition among developing countries for foreign investment especially with the emergence of China and India as new and attractive host economies. Malaysia will have to take additional measures to enhance its investment policies. Promote dialogue with foreign investors. And continually review existing investment regulations.

A stable economy is also found to be important in maintaining a high inflow of FDI into Malaysia. This is an additional reason why sound fiscal and monetary policies should be implemented to maintain a stable price level and economic environment in the country.

On the other hand, labor costs are not a statistically significant determinant of FDI, which suggests that increasing relative labor costs should not be taken as a threat to FDI growth.

FDI does need, however, a competent labor force, thus concrete efforts should be made to improve the skills of the labor force in order to face the future challenges of technology and requirement of the further development.

6.3 Limitation of study

In order to understand fully the effects and determinants of FDI in a host country, a comprehensive empirical study is needed at both the micro and macro levels. Available knowledge and information are quite insufficient, making an ideal study impossible. This study is from a macro perspective, and given the data constraints, the results should be interpreted with caution. At the same time, these shortcomings should not undermine the significance of the findings of this study to the effects of and determinants of FDI inflows into Malaysia. Especially important is my statistically significant support for government policies that provide infrastructure expansion and provide a stable and open environment in which a multinational enterprise can be sustained and expanded.

Possible further research includes constructing a more comprehensive macroeconomic model by taking other factors into consideration such as the exchange rate. Another related area of research is to compare the effects of FDI on several of the countries in the South East Asian region. In this type of extension, one could look for spillover effects between the neighboring countries in the region. Finally the interesting support for the policy variables in determining the inflows of FDI in Malaysia should be examined further.

At the micro lever, one might analyze the FDI that has come into Malaysia to identify industry or firm-specific effects or determinants. Since investment in some industries produces more external economies, both positive and negative, than others, industry-specific analyses could be important in refining public policy toward FDI. Another avenue for inquiry could be the relationship of public investment in education to FDI flows. Again industry or firm-specific analyses could yield interesting results.