

Chapter 6: Conclusion

6.1 Summary

The empirical study suggests that of foreign direct investment has a positive impact on the growth of the manufacturing sector. By using econometric models, the impact of foreign direct investment on manufacturing output growth, employment, exports and imports is assessed. The empirical results showed that although there is a positive link between manufacturing growth and foreign direct investment, the impact is not as critical as expected. This suggests that FDI is only one of the factors affecting manufacturing growth and the extent of its effect will depend on the performance of specific investment projects.

The study revealed that foreign direct investment is significantly related to both export and import demand in this sector with a relatively higher coefficient in the equation for export volume. The results are consistent with the hypotheses that foreign direct investment will increase exports and imports simultaneously. In contrast, the study failed to show a significant impact of foreign direct investment on local employment generation in the sector. This may be attributed to the relatively high capital intensity of the foreign direct investment stocks in Malaysia.

Policy implications suggest that the government should take the initiative to maximise the benefits from foreign direct investment. Foreign direct investment is no less important than other variables in ensuring that Malaysia

remains competitive internationally in terms of new products, processes and marketing networks (Ariff & Yokohama, 1992). This means that Malaysia should continue to adopt liberal policies towards FDI. Malaysia has extended another three years of permitting 100 per cent foreign equity ownership in selected manufacturing industries, this is considered a "liberal action" recently taken by the government to encourage inflows of foreign direct investment.

There is still room to increase the contribution of FDI towards economic development in Malaysia. The establishment of close linkage between MNCs and SMI takes priority since a strong local supplier network will decrease the import dependency of our country on production inputs. In this case, the establishment of intermediate goods industries needs to be encouraged through effective investment incentives.

Reappraisal of the quality of human capital in our country is timely. This is necessary when human resource is one of the important factors in attracting foreign direct investment. The cheap labour strategy adopted in the beginning stages of economic development is no longer suitable since labour wages are increasing in our country. The emerging trend of foreign direct investment seems to be service focused rather than manufacturing focused especially in the information technology and telecommunications industries, where knowledgeable workers are highly demanded. This study also supports the trend as relatively high capital intensity foreign direct investment has been flowing into Malaysia. Therefore, training of the existing work force and also the preparation for more knowledgeable workers or skilled workers through an appropriately designed education system is an urgent

need. Perhaps with such efforts we will be able to increase the capacity of our human resource, hence resulting in faster technology transfer from foreign corporations.

However, foreign direct investment should be seen only as a supplement to capital formation in this country, not as a substitute to local resources. Domestic capital formation still plays a major role in economic development in Malaysia as well as in manufacturing growth. Thus, this underscores the need to increase domestic capital formation through domestic savings.

On the other hand, foreign direct investment brought by MNC, is deemed to be important not only in the sense of capital alone but also in terms of the knowledge and skills incorporated in capital. Economists working on growth and productivity theory such as Solow (1957), Salter (1960), Kendrick (1960), Brown (1966) generally accept that technological progress, which incorporates both changes in the structure of capital and advances in human skills, has been the main cause of advances in the productivity of industrial economies in recent years.

Dunning, H. John (1970) emphasised the importance of knowledge incorporated capital by saying that *where a technological gap exists between two industrial countries which are broadly comparable in size and resource endowment, direct investment by corporations of the advanced country in the less advanced country are prima-facie likely to be productivity improving and growth stimulating.*

6.2 Areas for Further Improvement

The empirical results might understate the contributions of FDI or MNCs to manufacturing growth as well as technological progress in this country given the data constraints in the study. The situation seems to be more apparent than real, given that the FDI data does not capture the non-equity arrangement of MNCs, such as franchising, licensing, long-term subcontracting and other non-equity joint ventures. These are the additional and important channels in which MNCs may contribute new knowledge or management skills to local industry. Therefore, to look into detail the contribution of FDI in technology progress, it is suggested that more empirical work be carried out at the industry level instead of macro wide studies.

6.3 Major Contributions

This study uses econometric models to assess the impact of FDI on manufacturing growth in Malaysia. It quantified the impact of FDI on output growth, export, import and employment generation in the sector. This study provides support for the given hypotheses on FDI's impact on the host economies and confirms the positive linkage between FDI and overall manufacturing growth.

The study details the relationship between four economic variables with FDI using the most recent data. The analysis provides valuable insight for those who wish to understand emerging patterns and contribution of FDI in the present day.

Employment of cointegration tests also lends support for the use of multiple regression and statistical tools assist in verifying our findings.