

## MALAYSIA'S FOREIGN DIRECT INVESTMENT RELATIONS WITHIN THE ORGANISATION DEVELOPING EIGHT ECONOMIC COOPERATION (D8) WITHIN COUNTERPARTS

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**Abstract:** Malaysia is a member of Developing-8 (D-8), which facilitated the formation of bilateral trade relations among member countries. This study focuses on Malaysia's foreign direct investments (FDIs) within D-8. The purpose of this study is to strengthen the FDI ties with D-8 member states, where Malaysia must focus on cooperating for long-term investments and examining the existing FDI policies under Malaysia and its D-8 counterparts, as well as studying the opportunity of interdependence between Malaysia's FDIs with D-8 member states. The main issue is the imbalance of Malaysia's FDI preference with D-8 member states, which is followed by the weakness of Malaysia's FDI outwards policy, specialised among the D-8 counterparts. Thus, Malaysia's FFDI lacks penetration with D-8 member states. The qualitative research method, data collection, interviews, and content analysis method are used for this study. The respondents' agencies for interviews are experts from the Ministry of Foreign Affairs (MOFA), The Bilateral Economic and Trade Relations Division of the Ministry of International Trade and Industry (MITI) and the Foreign Investment Promotion Division of the Malaysian Investment Development Authority (MIDA). Coding techniques are applied for the coding process of the content analysis. This study also uses the theories of interdependence and political economy with SWOT analysis to examine the implementation of Malaysia's FDI with D-8 counterparts. The findings of the study show that Malaysia is looking for quality investments without choosing where the investments come from, and FDIs with D-8 counterparts in several sectors can still be implemented if the D-8 counterparts are offering quality investments for Malaysia.

*Keywords: Foreign Direct Investments, Outward and Inward Direct Investments, Incentives, D-8*

### Introduction

One of the measures of economic globalisation is the inflow of foreign direct investments (FDIs). FDI is an investment made by a firm or individual in one country into the business interests of another country (Chen, 2018). FDI is critical

for developing emerging market countries. In other words, companies need multinationals' funding and expertise to expand and achieve international sales. It promotes a competitive business environment and contributes to higher economic growth.



Figure 1: The flow of foreign direct investments into main regions of the world. Most FDIs in Southeast Asia come from Hong Kong and China.

Source: The Department of Statistics, 2018

Figure 1 shows that the imbalance of the FDI policy preference with Developing-8 (D-8) countries is due to Malaysia's focus on investors from the Asian and European regions. Although Malaysia has the benefit of increased economic growth from developed countries, some economic challenges also need to be faced as the developing countries will become victims of globalisation. Because of this, D-8 aims to facilitate economic cooperation among member states to boost economic growth, sustain development and promote the well-being of citizens (Shaari, 2018).

The Ministry of International Trade and Industry (MITI) states that Malaysia is a country that is moving away from being dependent on agriculture and primary commodities; Malaysia has today become an export-led growth economy, which focuses a trade and economic policies aiming at speeding up the industrialisation process of the country by exporting goods for which the nation has a comparative advantage. Moreover, the location of the country offers a lower cost compared with other similar product or services, and it is supported by the economy, where people can buy and sell freely, instead of most companies not being owned by the state, as well as pro-business government policies that will benefit investors.

The Malaysian Investment Development Authority (MIDA) is responsible for promoting foreign and local investments in the manufacturing and services sectors. Moreover, MIDA implements its own decision after spending time looking at the ISO management system standards to state that it has met all the specified requirements for allowing import duty exemption for machinery, equipment and spare parts, among other things. It has the duty of enhancing the organisation of the different elements of a complex body and forming a united whole among the regional corridors and others agencies in the country that is related to the promotion of investments (Mahmud, 2018).

The purpose is for economic relations to strengthen and provides the forward step for economic incorporation among the D-8 countries. In recent years, D-8 members have expanded and strengthened their economic cooperation. The clear efforts have been made to enhance trade within D-8 so that member countries' economy can develop and are empowered to participate more actively in the globalisation process (Shaari, 2018).

To achieve the FDI policy, especially among D-8 countries, all authority parties that are involved must understand that FDIs

are needed to achieve the country's goal of becoming a high-income nation. FDIs are needed in Malaysia to bring capital investment, technology and management knowledge. Therefore, MIDA is the first point of contact for investors who intend to set up projects in the manufacturing and services sectors in Malaysia. Malaysia needs to maintain a stable political environment to avoid investors refusing to invest in the country. Hence, external industries, be it the private sector or government sector, must play their roles in attracting investors among D-8 countries.

## Literature Review

### *Foreign Direct Investment (FDI)*

Based on the year in terms of development of FDIs, in 1995, authors Maxwell J. Fry, Peter Burrige and Marie-Christine Blanchet focused on the foreign exchange system. In 1997, Luiz R. De Mello Jr. conducted a research on scope inflow of FDIs. In 2001, Usha Nair-Reichert and Diana Weinhold researched the scope of sectors. The following year, the scope of study shifted to policy by Elizabeth Aseidu and supported by the others authors, such as Zdenek Drabek and Warren Payne.

In 2003 and 2005, the authors conducted a research on the scope of sectors and policy. The following year, Ismail Cevis and Burak Camurdan researched the scope of inflows of FDIs, and were followed by other authors, such as Erdal Demirhan and Mahmut Masca. Authors Micah Masuku and Thula Dlamini conducted a research on policy again in 2009, and this was supported by authors such as George Owusu-Antwi, James Antwi, and Peter K. Poku in 2013. In the same year, Cezanne Samuel researched the current account as an important signal to investors investing in the host country.

The research on the theory of FDI began with the research by Patricia Lindelwa Makoni in 2015 and the following year Laura Alfaro, and Jasmina Chauvin researched the development of the financial sector. Other authors, such as Steven Poelhekke, also conducted researches

in the same scope. The scope of study is continued by other researchers, such as Sailesh Tanna, Chengchun Li, and Glauco De Vita. The development of the financial sector seems to be an area of research needed for the country in order to attract investors from other country in 2018. The growing financial development can reduce the negative influence of high external debt on growth.

### *Outward/Inward Foreign Direct Investment (FDI)*

Based on year in terms of development of outward/inward FDIs, in 2006, authors Gaute Ellingsen, Winfried Likumuwa, and Peter Nunnenkamp focused on the manufacturing sector. Daisuke Hiratsuka, meanwhile, focused more on the role of enterprises, which is also a trend in attracting FDIs to Malaysia. Local firms are one of the main reason investors would like to invest in a host country and provide benefits to the domestic sector. In 2007, t authors Jonathan E. Haskel, Sonia C. Pereira, Matthew J. Slaughter also focused on local firms, where they discussed how inward foreign direct investments boosted the productivity of domestic firms. There is also a study on country export and income inequality.

In 2009, K. C. Fung, Alicia Garcia-Herrero, and Alan Siu conducted a research on market seeking, where they discussed about the motivation to look for natural resources. Next, in the same year, other authors focused on macroeconomics, such as Jerome Swee-Hui Kueh, Chin-Hong Pua, Shazali and Abu Mansor, and a study on the role of the home country was conducted Yin-Wong Cheung and Xingwang Qian. Authors also discussed the use of outsourced policies, and how the Malaysian government can promote OFDI by implementing a liberal policy on capital outflows (Soo Khoon Goh, and Koi Nyen Wong, 2011). Other authors focused more on economic development to promote long-term sustainable growth.

Author M. Palat discussed the impact of foreign direct investments on unemployment in 2011. The scope of the research in location

selection for outward FDIs was conducted by Ibrahim Anıl, Ozgur Cakir, Cem Canel, and Rebecca Porterfield. There is also research discussing the relationship of inward foreign direct investments and poverty in developing countries. In 2013 and 2014, an author conducted a research similar to the one conducted earlier, which focuses on the role of the home country, as well as the economic and macro-economic roles.

### ***Empowerment***

In 2001, a research was conducted on workforce empowerment by Khutso Madubanya. The research examines foreign direct investments (FDIs) in the form of water privatisation involving public-private partnerships (PPPs). In 2001 and also 2008, Vagner Veloso Jr conducted studies on the broad-based black economic empowerment. It was on foreign direct investment inflows into South Africa. The research evaluated the impact of the broad-based bee programme on South Africa's capability to attract FDIs.

In year 2011-2012, there are four scholars on the dominant development of empowerment, including women empowerment by Eric Neumayer and Indra De Soysa, and national economic empowerment by Abdu Ja'afaru Bambale. The paper about national economic empowerment investigates the extent to which the goal of poverty reduction has been achieved after the first phase of its implementation. Other than that, a research on broad-based black economic empowerment by Booker Magure, similar to the one conducted earlier, and community empowerment by Peter Kragelund. Meanwhile, in 2013-2014, there is one research that is related to the broad-based black economic empowerment by Ewert P.J. Kleynhans and Melinda C. Kruger.

Furthermore, in 2015-2016, there were four scholars that are related to women empowerment in the United States, self-empowerment of real estate developers in India, and community empowerment in Sumbawa. There is one scholar in 2018 on gender empowerment by Amleset

Girmany. It is of the view that foreign direct investment (FDI) inflows can often lead to an increase in gap between sexes in unequal gender developing countries, and transnational corporations (TNCs) have the responsibility to increase their FDI activities with additional policies and investments to ensure that the disadvantages that women face do not worsen.

### ***Incentive***

The findings from literature review were collected from 1993 to 2013. The collected literature was from 18 journals. The scopes of studies for the development of incentive began in 1993, where Robert J. Rolfe, David A. Ricks, Martha M. Pointer and Mark McCarthy focused on the importance of FDIs. In 1998, Jan I. Haaland and Ian Wooton also discussed the same scope of study. However, in 1999, Andreas Haufler and Wooton conduct a research on tax incentives and the following years, authors such as Jacques Morisset and Neda Pimia focused on the same scope.

In 2002, Pedro P. Barros and Luis Cabral researched subsidy competition. Meanwhile, author Chiara Fumagalli conducted a research on the location of subsidies in 2003, which is a different scope of study than in the previous year. In 2006, Andreas Haufler and Ian Wooton also conducted a study on the location of subsidies. Similarly, the following year, the authors discussed the same scope of study. Studies related to subsidies were conducted in 2009 by Facundo Albornoz, Gregory Corcos and Toby Kendall. Finally, in 2013, the government incentive was discussed by Magdalena Owczarczuk.

Most authors are still conducting researches in the same scope of studies related to tax incentives, as well as the importance of incentives to FDIs. The scope of the studies dealing with incentives did not changed much from year to. The need for research is important to know if government initiatives attract FDIs in boosting the country's economic growth. Furthermore, researchers conducted a study based on the needs of the study during the year.

### Developing-8 countries (D-8)

In 2011 – 2012, Sarwat Razzaqi, Faiz Bilquees and Saadia Sherbaz studied the energy sector. The following years, in 2013 – 2014, there are two scholar scope of study on intra-trade relation and inflow of FDIs. The authors were Dr. Jamal Othman, Mustafa Acar, and Yaghoob Jafari, who focus on enhancing intra-trade relations to provide better standards of living for citizens, while Shekoofe Nagheli, Elham Nagheli, and Behruz Sadeghi focused on a scope of study related to the inflow of FDIs and it mentioned poverty reduction experiences.

In the year 2015 – 2016, authors were still focuses on the inflow of FDIs, but Marzieh Esfandyari conducted a research on financial development, which has an important role in observing FDIs in achieving economic growth. In 2016 as well, there is a scholar on the information and communication technology by Parisa Khodayari, and Naser Sanoubar, followed by a scholar on stock return by Majid Alizadeh, M.K. Samani, and G.R. Nemati. The scholar in scope of study on the energy sector and stock returns was continued again in the years 2017 – 2018 by other authors.

### Methodology

#### Qualitative Research Method

##### Interview

There are a lot of reasons to use interviews for collecting data and as a research instrument. It becomes an applicable option that has limited respondents, and a good return rate is important, and also where respondents are not fluent in the native language of a country, or where they have difficulties with the written language (Gray, 2004). The government agencies involved are also selected for this study. They are;

1. **The Malaysian Investment Development Authority** (Foreign Investment Promotion Division)
2. **The Ministry of International Trade and Industry** (Bilateral Economic and Trade Relations Division)

### 3. The Ministry of Foreign Affairs (Bilateral Relation Policy Division)

#### SWOT Analysis

The definition of SWOT is an acronym for strength, weaknesses, opportunities and threats from the company's external environment. According to Fred R. David, all organisations have strengths and weaknesses in the area of functional business. No company is as strong or weak in all business areas. Internal strengths/weaknesses, combined with external strengths/weaknesses, combined with external opportunities threats and clear mission statements become the basis for goal setting and strategy. Objectives and strategies are set with the intent to take advantage of internal strengths and overcome weaknesses (Willy Pratama Widharta & Sugiono Sugiharto, 2013).

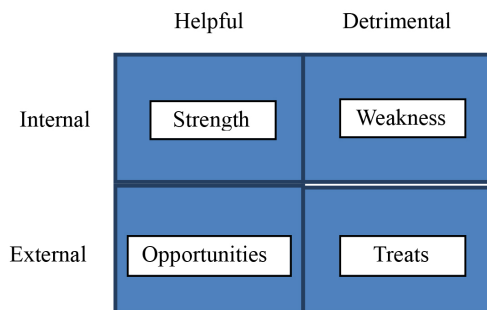


Figure 4.1.1: SWOT analysis

### Results

#### Strength

Based on the research objective, which is to strengthen the foreign direct investment (FDI) ties with D-8 member states, the SWOT Analysis has been applied for this discussion. According to the interview with expert from MOFA:

*“...In my opinion, our relationship is already close as we were able to form D-8. So the relationship with D-8 member state, most of the time, is more of a bilateral relationship with Iran and with Turkey and is strong enough...”*



The existence of close relations among D-8 member states is a strength. It is also supported with the statement from MITI:

*"...At the beginning of this D-8 relationship, Tun (Dr Mahathir Mohamad) did support, our prime minister now, he does support these small organisations, and he likes to develop the country and small countries..."*

The prime minister, which is Tun Dr. Mahathir, as the head of the Malaysian government, supports this organisation as shown in the above statement shows, and it is another strength in terms of boosting FDI ties within D-8 counterparts. In addition, the expert from MITI also stated:

*"...Malaysia itself, we have bilateral, bilateral (ties) among OIC countries, D-8..."*

The close bilateral ties between D-8 countries have further strengthened bilateral cooperation between member states, where it is able to open trade opportunities to member countries. Statement by experts is supported by a previous research by Dr. Jamal Othman, Mustafa Acar, and Yaghoob Jafari (2013), in which it stated that D-8 creates new opportunities and enhances intra-trade relations, while providing better standards of living amongst citizens. Expert from MOFA said:

*"...we cooperate with all countries, as long as the country does not threaten other countries and does not interfere in other countries' affairs. So we confirm there will be a relationship with that country..."*

The statement from the expert shows Malaysia does not limit cooperation with any country, except if the country is repressing and interfering in the host country's affairs. Hence, there is an opportunity to strengthen Malaysia's collaboration with other D-8 countries.

*"...The D-8 is made up of developing countries, so that means we want to grow together, that is the concept..."*

The statement from the MOFA expert shows that the D-8 state organisation is made up of developing and Islamic countries, and helps each other grow together economically. Based on previous researches, the growth-led OFDI is the theory of potential investment development pathways to internationalise business activities of Malaysian firms abroad (Wong, 2010).

### **Weakness**

However, there is a weakness that is one of the constraints of the D-8 state, which is finance, which is referred to in a statement from the MOFA expert:

*"...financial constraints, I think because these D-8 countries already have all United Nation members and they are also OIC members and a lot and OIC also have a lot of meetings. So when D-8 wants to hold a consensus meeting for D-8 only, this is an additional burden..."*

The limited resources from the developing countries were the weakness in achieving the first objective. Finance is the most important thing in generating the outward and inward foreign direct investments. The strength of the finance helps the host country to growth.

### **Opportunity**

The opportunities to achieve strengthened FDI ties within the eight developed countries was explained by expert from the MOFA:

*"...we have indeed cooperated with D-8. Engku Jaffar Engku Johari was, from January 2018 to the end of 2021, is the secretary-general. So there is a Malaysian opportunity because for the first time, the Malaysian representative was appointed the secretary-general*

*of D-8. When he entered, he did use the opportunity to further expand cooperation..."*

This statement further reinforces the objective of further strengthening the FDI bonds with D-8 member states, where the secretary-general of D-8 is a Malaysian citizen. The role he will play will affect foreign direct investments in Malaysia. This is one of Malaysia's strengths in strengthening cooperation with D-8 countries. Another statement that shows the opportunity for the objective of this research is in a statement by the MOFA expert:

*"...we are also drafting maps for the 10-year plan with D-8 for 2020 to 2030, so there are many more opportunities we have achieved in D-8 based on the cooperation of all parties..."*

It shows that D-8 cooperation have the opportunity to further cooperation in the long term, which is good for planning and helps each other to growth. The maps can be seen as a guideline for achieving the goals and objectives of the organisation. It is supported by the statement by the MOFA expert for the opportunity to achieve the objective of this research, which is:

*"...Now we are ratifying the D-8 charter; so this charter is a D-8 guideline for cooperation with member countries, and we are still in the process of ratifying and are still in the process..."*

### **Threat**

There is a threat, which is the currency of the country. It is also important to make sure the currency transfer between the countries, as stated the example by the MITI expert:

*"...it has a Malaysian ambassador with Tehran, cannot use Iranian currency..."*

It shows the threat because of the currency of the country. Every country has a different currency. Foreign exchange is the trading of different national currencies or units of account. It is important because of the exchange rate and the price of one currency in terms of another helps to determine a nation's economic health and, hence, the well-being of all the people residing in it. As an example, Iran and Malaysia facing currency issues, where the expert from MITI said:

*"...CIMB, do not want to accept the Iranian currency, so the company already knows in their deal with Malaysians, his people will change to Singapore to..."*

In addition, geographical factors are also a constraint for cooperation between D-8 countries. It is so important to absorb foreign investments with an emphasis on economic health, but the factors of geography threatens the achievement of the first objective. As stated by the expert from MITI:

*"...D-8 has geographical factors, too far to want to compare geographical factors of D-8..."*

The SWOT Analysis for the first objective shows that the weaknesses and threat in achieving the strengthening FDI ties among D-8 counterparts can be overcome with the strengthening and the opportunity from this analysis.

### **Conclusion**

Investment with D-8 member countries is a good initiative in developing the economy of a developing Islamic state. Strengthening cooperation between these eight countries will help D-8 achieve the objectives of its establishment. This collaboration will improve the position of D-8 members in the global economy. Additionally, it can diversify and create new opportunities in trade relations between D-8 members. Therefore, people in

the D-8 countries can improve their standard of living.

There are several sectors that will benefit from this collaboration: agriculture and food security, trade, transportation, industrial cooperation, energy and minerals and others. Six sectors have been mutually agreed upon by D-8 state experts. The main sector will be supported by the local industry for the continued activity of the main activities. Therefore, the industry will also benefit from the strengthening of FDIs with D-8 countries. However, there are also weaknesses in this collaboration due to geographical factors, as well as financial constraints from D-8 member countries. Strengthening yjr cooperation involves various aspects.

The roles of MOFA, MITI and MIDA in ensuring the inclusion of foreign direct investments and the quality of incoming goods or services are very encouraging. Various initiatives are implemented to ensure Malaysia's economic development and that the country is able to compete with other countries. Malaysia is constantly looking for opportunities to expand the market internationally and it is actively being promoted by every responsible authority. Draft and implementation of national policies to attract investors to invest in Malaysia are constantly updated from time to time. Due attention should be given to weaknesses in D-8.

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