Multinationals from Emerging Economies: Trends, Patterns and Determinants of Outward Direct Investment Made by Malaysian firms

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ABSTRACT

One significant change in the direction of international investment since the 1980s has been the growth of outward foreign direct investment (OFDI) by multinational firms from Asian developing countries, and in particular firms from Malaysia. Although Malaysian firms are still small, relatively new in some industries, and young in the international market, however, their emerging development in cross-border economic activities appears to justify an adjustment of the conventional perspective, and their presence and growth are pressing concerns among their competitors. Some of these firms have become excellent international competitors. This provided the backdrop for the present study that conceptually examined the trends, patterns and determinants of OFDI made by Malaysian firms that have increased notably since the 1990s. This paper suggested a variety of theoretical and empirical issues for future research on outward foreign direct investment.
Keywords: *Internationalisation, multinational firms, outward foreign direct investments, Malaysia*

INTRODUCTION

Growing outward foreign direct investment (OFDI) from some developing countries especially in Asia over the past decade represent another and perhaps more dynamic aspect of their growing economic integration with the world economy besides their deepening trade linkages and foreign direct investment (FDI) inflows. In the UNCTAD's World Investment Report 2008 (as shown in Table 1) has noted that Malaysia stood out among Asian developing countries because of recent and significant increase in the OFDI flows made by its corporations (UNCTAD, 2008). A growing number of Malaysian corporations are beginning to see outward investments as important aspects of their corporate strategy and an emerging as multinationals in their own right. In the world's top 100 multinational corporations, based on their foreign assets (see Table 2), one of the Malaysian multinational corporations – Petroliam Nasional Berhad (Petronas) was ranked fifty-sixth overall, and second among developing country multinationals. The corporation is also ranked among the Top Fortune Global 500 companies. Of the top 50 largest multinational corporations from developing countries as registered by the UNCTAD (2008), Petroliam Nasional Berhad was listed again, followed by YTL Corporations Berhad, Genting Berhad, TM Berhad, Berjaya Group, Sime Darby Berhad and Maxis representing Malaysia (UNCTAD, 2008). These figures prove the presence of Malaysia as a leading contributor of outbound foreign direct investment (FDI) by its multinational corporations in Asia and the Pacific, with a significant impact on the regional economy.

Table 1: Top 10 Ranking of Foreign Direct Investment Outflows: Developing Asia and the Pacific 2000-2007 (Billions of US dollars)

Countries	2000	2001	2002	2003	2004	2005	2006	2007
Hong Kong, China	59.0	11.0	18.0	5.8	40.0	27.2	45.0	53.2
Singapore	5.0	9.8	4.1	3.9	11.0	5.0	12.1	12.2
Taiwan Province of China	6.7	5.4	5.0	5.9	7.0	6.0	6.8	11.0
Republic of Korea	5.0	2.7	2.9	3.7	4.5	4.2	8.1	15.0
India	0.4	0.7	0.8	0.7	2.2	2.4	13.0	13.8
Malaysia	**2.0**	**0.25**	**0.9**	**1.8**	**2.1**	**3.0**	**2.0**	**11.0**
China	0.9	7.0	3.2	(0.1)	1.9	12.3	21.2	22.5

Bahrain	n.a.	n.a.	n.a.	0.9	1.0	n.a	n.a	n.a
Turkey	0.9	0.5	n.a.	0.7	0.9	n.a	n.a	n.a
Philippines	n.a.	n.a.	n.a.	0.3	0.5	n.a	0.1	2.8
Republic of Iran	0.5	2.8	1.0	n.a.	n.a.	n.a	n.a	n.a
United Arab Emirates	n.a	0.2	0.2	n.a.	n.a.	n.a	n.a	n.a
Thailand	n.a	n.a	n.a.	n.a.	0.1	0.3	0.5	0.8

Sources: UNCTAD World Investment Report, 2003, 2004, 2005, 2006, 2007, 2008

Table 2: Ranking of Malaysian MNCs by Foreign Assets in Developing Countries 2006

			Millions of US Dollars			
			Assets		**Sales**	
Ranking in Developing Countries	**Corporation**	**Industry***	**Foreign**	**Total**	**Foreign**	**Total**
2	Petronas	Petroleum	30 668	85 201	14 937	50 984
27	YTL Corp Bhd	Utilities	5 273	8 423	726	1 556
43	Genting Berhad	Hotels	3 536	7 988	364	1 966
53	TM Berhad	Telecommunications	2 748	11 849	1 221	4 644
43	Berjaya Group	Diversified	832	3 352	954	2 052
61	Sime Darby	Diversified	2 245	4 966	3 941	5 709
68	Maxis	Telecommunications	2 024	4 367	341	2 182

Source: UNCTAD World Investment Report, 2008

Although a few Malaysian were investing abroad in the mid-1960s, outward foreign direct investment activity became significant only since the 1990s (Ahmad, 2008; Ragayah, 1997). It has undergone a considerable change in terms not only of the magnitude but also the geographical focus and sectoral composition of flows. It has been argued that this change in the geographical and sectoral composition of investment activity has been in tune with their changing motivation from essentially market-seeking operations to more export supporting ones with local presence.

The theory of international investment of firms, evolved over the years with the contributions of Hymer (1976), Caves (1971), Dunning (1979, 1995, 2000) among many others posits that ownership of some unique advantages having revenue productivity abroad subject to the presence of internalization and locational advantages leads to outward investment. Firms based in the industrialized countries have emerged as multinational corporations on the strength of ownership advantages derived from the innovative activity that is largely concentrated in these countries in addition to other resources and account for the bulk of FDI outflows. Very little is known about the sources of strength of firms based in developing countries such as Malaysia that leads to their overseas investments. It is of potential analytical and policy interest to examine the determinants of outward investment activity of Malaysian firms. However, lack of corporate statistics in Malaysia giving information on outward investments has prevented such an analysis. The purpose of this conceptual paper is to provide an exploratory and broad examination of the trends, patterns and determinants of outward investment activity of Malaysian corporations.

Rest of the paper is organized as follows: Next section explain the trends and pattern of outward investment by Malaysian corporations and determinants of outward investment. The motives for the rising trend in Malaysia overseas investments are then described, followed by the challenges and future research opportunities. The paper concludes by highlighting some common themes emerge from the discussion.

Trends and Patterns of Outward Investments Made by Malaysian Corporations

Unlike foreign direct investment (FDI) into Malaysia, not much is known about the magnitude, motives, and performance of Malaysian firms investing abroad. Although the country began to have its own corporations that could be considered multinationals in the mid-1970s through the nationalisation programme by which the Malaysian government via its state corporations and trust agencies began to acquire foreign companies operating in the country, particularly those in the tin-mining and rubber industries, the trend of overseas direct investments was a new phenomenon and only became noticeable in the early 1990s. In examining this event, there were indications that between 1990 and 1996, there was a 534% increase in overseas projects, and the overseas investments had increased consistently over the years (Malaysian Business, 16 January 2003). Prior to that, Malaysia's experience with foreign direct investment had principally been as a recipient (Angel, 1998). FDI has played, and continues to play a pivotal role in the transition of Malaysia from an agriculturally based to an industrially based economy in a mere 30 years. The Malaysian government has undertaken a serious drive towards industrialization during this period. In an effort to accelerate the industrialization process, the Malaysian government has encouraged investors from many parts of the world to invest in Malaysia. The country has become one of the leading recipients of foreign direct investment in ASEAN since 1991. Malaysia has led ASEAN countries in attracting investment, and every year since 1980, Malaysia (see Table 3) has been among the 10 top destinations of FDI in the region (Asia Pacific Economics Group, 1997; UNCTAD, 2008).

Table 3: South, East and South-East Asia: Top 10 Recipients of FDI inflows, 2006-2007 (Billions of dollars)

Countries	2006	2007
China	72.7	83.5
Hong Kong, China	45.1	59.9
Singapore	24.9	24.0
India	19.7	23.0
Thailand	8.5	9.7
Malaysia	**6.0**	**8.2**
Taiwan Province of China	7.1	8.0
Indonesia	5.0	7.0
Vietnam	2.1	6.9
Pakistan	4.1	5.2

Sources: UNCTAD World Investment Report, 2008

Starting from being a recipient country of FDI since the 1960s, and especially from the 1970s to the 1980s, Malaysia joined other Asian investors in investing abroad extensively only in the early 1990s. As shown in Table 4, Malaysian overseas investments prior to 1990 were insignificant, contributing almost nothing in generating earnings for the country. However, the figure started to improve from 1991 onwards, and made up US$ 1.9 billion by 2004 (Central Bank of Malaysia, 2005). Although the published figures were still rather low, the rapid increase of overseas investment in the 1990s shows a new episode in the history of Malaysian economic development towards an export-led growth orientation.

Table 4: Malaysia: Net Capital Inflows (US dollar billion) 1988-2008

	1988	1989	1990	1991	1992	1993	1994	1995
Total	-2.0	1.4	1.7	5.5	8.3	10.1	0.2	4.2
Net direct foreign investment	0.7	1.7	2.3	3.8	4.7	4.3	3.0	3.8
Direct investment abroad	-	-	-	0.2	0.5	0.7	1.3	1.4
Direct investment in Malaysia	0.7	1.7	2.3	4.0	5.2	5.0	4.3	5.2
Net portfolio investment	-0.4	-0.1	-0.3	0.2	-1.1	-0.7	-1.6	-1.7
Net other investment	-2.3	-0.2	-0.3	1.5	4.7	6.5	-1.2	2.1
	2001	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	
Total	-3.9	-3.1	-3.2	4.0	-10.8	-12.4	-10.5	
Net direct foreign investment	0.3	1.3	1.4	1.9	-2.9	0	-2.5	
Direct investment abroad	0.3	1.9	1.1	2.8	1.1	6.3	8.3	
Direct investment in Malaysia	0.6	3.2	2.5	4.7	-4.0	-6.3	-10.8	
Net portfolio investment	-0.7	-1.7	1.1	8.7	-4.0	3.6	5.2	
Net other investment	-3.5	-2.7	-5.4	-7.5	-7.6	-16.1	-13.3	

Source: Asia Pacific Economic Group, 1997; Bank Negara Annual Report 1989-2008

The international expansion of Malaysian-based MNCs was driven by the need to overcome the limited size of the domestic market and to expand production and service capacity, as well as by the need to acquire further advanced technologies. Overseas investments from Malaysia were also favored by a shift in governmental policy away from a focus on attracting inward FDI to the active encouragement of outward investment, given its key role in domestic industrial upgrading and meeting the desire for economic growth. This process had to be carried out by private corporations with strong support from the government to facilitate the process.

Motives for the Rising Trend in Malaysia Overseas Investments

Table 5, based on the balance of payment (BOP) Central Bank of Malaysia data, shows the details of the top five destinations of gross overseas investment by Malaysia. Singapore, Hong Kong, the United Kingdom and the United States have always been the most important export destinations, while the South-South cooperation initiated by the Malaysian Government has resulted in investments in the African continent. Currently, Malaysian investors are concentrating more on regional niche markets. The shift of focus to regional markets was led by increasing business opportunities in developing economies. As can be seen from the table, from 1993 to 1999, the direction of Malaysia FDI shifted to the main four leading ASEAN countries, namely Singapore, Thailand, Indonesia, and the Philippines (hereafter known as ASEAN-4). Among these four, Singapore has been Malaysia's most important trading partner. This is due to geographical reasons and to the long-standing historical ties that they have enjoyed for more than forty years. The existence of Malaysian corporations in Singapore and vice versa has had a long history, given the close historical and economic links between the two countries, reflected in the formation and spatial extension of business network connections among their firms (Yeung, 1998).

Table 5: Top Five Destinations of Gross Malaysian Investment Abroad[1] 1992-2007 (RM million)

1992		1993		1994		1995	
Country	**RM Million**	**Country**	**RM Million**	**Country**	**RM Million**	**Country**	**RM Million**
Hong Kong	337	ASEAN-4: (Total)	784	ASEAN-4: (Total)	1,341	ASEAN-4: (Total)	3,284
ASEAN-4: (Total)	299	Singapore	686	Singapore	987	Singapore	2,185
Singapore	259	Thailand	33	Thailand	43	Thailand	89
Thailand	24	Indonesia	11	Indonesia	88	Indonesia	328
Indonesia	10	Philippines	54	Philippine	223	Philippine	646
Philippines	6	Hong Kong	734	s	1,486	s	816
Japan	111	United States	628	Hong Kong	461	Hong Kong	793
Australia	100	United Kingdom	372	Australia	445	United Kingdom	592
United States	94	Germany	138	United States	437	Australia	544
				United Kingdom		United States	
1996		**1997**		**1998**		**1999**	
Country	**RM Million**	**Country**	**RM Million**	**Country**	**RM Million**	**Country**	**RM Million**
ASEAN-4: (Total)	2,724	ASEAN-4: (Total)	2,655	ASEAN-4: (Total)	2,971	ASEAN-4: (Total)	2,284
Singapore	1,806	Singapore	1,783	Singapore	2,096	Singapore	1,635
Thailand	129	Thailand	133	Thailand	540	Thailand	151
Indonesia	414	Indonesia	649	Indonesia	229	Indonesia	398
Philippines	375	Philippines	90	Philippine	106	Philippine	100
United States	1,416	United Kingdom	1,716	s	2,748	s	790
United Kingdom	1,308	United States	1,334	Australia	1,654	Mauritius	568
Hong Kong	769	Hong Kong	936	United States	822	United Kingdom	547
Japan	641	Australia	505	United Kingdom	266	United States	435
				Netherlands		Hong Kong	
2000		**2001**		**2002**		**2003**	
Country	**RM Million**	**Country**	**RM Million**	**Country**	**RM Million**	**Country**	**RM Million**
United States	3,930	United States	4,014	United States	5,714	United States	994
ASEAN-4: (Total)	3,799	ASEAN-4: (Total)	3,953	ASEAN-4: (Total)	2,061	ASEAN-4: (Total)	1,491
Singapore	2,865	Singapore	2,082	Singapore	1,057	Singapore	844
Thailand	292	Thailand	134	Thailand	45	Thailand	225
Indonesia	533	Indonesia	1,683	Indonesia	900	Indonesia	356
Philippines	109	Philippines	54	Philippine	59	Philippine	66
United Kingdom	538	Iran (Islamic Rep of)	695	s	1,099	s	492

[1] Malaysian Investment Abroad refers to direct equity investment, purchase of real estate abroad and extension of loans to non-residents (effected through the domestic banking system). Does not include retained earnings overseas.

Cayman Islands	349	Netherlands	531	Chad	928	United Kingdom	1,622
Hong Kong	158	United Kingdom	313	Netherlands	906	Cayman Island	666
				Cayman Island		Chinese Taipei	
2004		**2005**		**2006**		**2007**	
Country	**RM Million**	**Country**	**RM Million**	**Country**	**RM Million**	**Country**	**RM Million**
United States	772	United States	1,050	United States	1,106	United States	945
ASEAN-4: (Total)	3,604	ASEAN-4: (Total)	1,319	ASEAN-4: (Total)	1,525	ASEAN-4: (Total)	1,543
Singapore	2,529	Singapore	833	Singapore	-	Singapore	-
Thailand	686	Thailand	287	Thailand	-	Thailand	-
Indonesia	389	Indonesia	125	Indonesia	-	Indonesia	-
Philippines	-	Philippines	74	Philippine	-	Philippine	-
Hong Kong China	1,126	Hong Kong China	312	s	291	s	280
Chad	956	Chinese, Taipei	148	Hong Kong China	160	Hong Kong China	165
People Republic of China	407	People Republic of China	352	Chinese, Taipei	427	Chinese, Taipei	530
				People Republic of China		People Republic of China	

Source: Bank Negara Malaysia (Central Bank of Malaysia), 1992-2008

The bulk of Malaysia's investment in Hong Kong aims to take advantage of the China market. Recently, the aviation industry in the United States has been attracting Malaysian funds and it remains among the favorite destinations. In general, Malaysia's direct investment abroad is determined by two sets of phenomena: first, the objective conditions of profitability for capital as determined largely by factor prices; and second, a set of subjective determinants (Samuel et al., 1999).

Developing Asia is the largest and fastest growing outward investor in the developing world (UNCTAD, 2006; 2007; 2008). Outflows from South, East and South-East Asia in 2007 surged to USD150 billion – their highest level ever and these sub-regions together continued to account for the bulk of outflows originating from developing countries (59%). Table 6 shows the data to support this contention.

Table 6: South, East and South-East Asia: Distribution of FDI flows among economies, by Range, 2007

Range	Inflows	Outflows
Over USD50 billion	China and Hong Kong (China)	Hong Kong (China)
USD10 billion to USD49 billion	Singapore and India	China, Republic of Korea, India, Singapore, Taiwan Province of China, and Malaysia
USD1.0 billion to USD9.9 billion	Thailand, Malaysia, Taiwan Province of China, Indonesia, Vietnam, Pakistan, Philippines, Republic of Korea and Macao (China)	Indonesia, Philippines and Thailand
USD0.1 billion to USD0.9 billion	Cambodia, Islamic Republic of Iran, Bangladesh, Sri Lanka, Myanmar, Mongolia, Lao People's Democratic republic, Afghanistan and Brunei Darussalam	Macao (China), Islamic Republic of Iran and Vietnam
Less than USD0.1 billion	Bhutan, Democratic People's Republic of Korea, Maldives, Nepal and Timor-Leste	Pakistan, Sri Lanka, Brunei Darussalam, Bangladesh and Cambodia

Source: UNCTAD, 2008

The United Nations (1993), Bell and Young (1998), and Mirza (1999) have identified four primary motives for MNCs from developing countries in undertaking international investment activities: market-seeking, export-oriented, resource-seeking, and technology-seeking. These motives depend on various factors and differ from one country to another. Referring to this view, empirical studies by the United Nations (1985), Ragayah (1997, 1999), have identified three main factors motivating the rising trend of Malaysian overseas investments. Firstly, sustained high economic growth for past decades has increased returns to the corporate sector. Malaysia has exhibited excellent economic performance from 1970 to the present except during the three-year period from 1985 to 1987, when the country faced a recession, and during the Asian financial economic crisis in 1997/98 and world 2009 economic financial crisis. The average growth rate of the economy from 1988, the year in which Malaysia recovered from its recession to 2002 has been high 10.0%. Profitable Malaysian corporations that are flush with excess funds have diversified their cross flow investments to more lucrative business ventures abroad. It is likely that these investments are to seek high-end technology development facilities in more advanced developed countries in order to accumulate knowledge in this area.

Second, the liberalisation of certain economies, particularly in East Asia, the Middle East and Africa, has to a certain extent decreased the tariff and non-tariff barriers to capital flows to these countries. The formation of the ASEAN Free Trade Area (AFTA) for instance, which was to link the Southeast Asian countries into one united market with few trade and investment barriers among members, has increased opportunities for overseas investments by Malaysian corporations. These factors have driven Malaysian corporations to speed international expansion and take advantage of trade liberalisation to spread out abroad. The motive behind such investment is to gain access to a market driven by locational advantages arising, primarily, from the need to bypass existing or potential barriers of trade and to establish a local presence and enlarge international production (Dunning, 1993a).

Third, the rapid industrialisation process has resulted in an increasingly tight labour market and rising cost of labour. Malaysia is, therefore, no longer attractive as a cheap labour country and this has encouraged corporations to invest in the potentially large untapped markets of developing countries where resources, particularly labour, are abundant. Such investment is the classic edge of low-cost labour in the host country, with investors being forced to bases that are more economical to service established export markets as costs rise in the home country (United Nations, 1993; Ozawa, 1995). In the writings of Dunning (1993a and 1993b), such investment is known as resource-seeking FDI.

All of these have acted as the push and pull factors for Malaysian corporations to look beyond Malaysian shores. Their growing capabilities, their strong export orientation and their need to access technology, brand names and strategic assets abroad have acted as key drivers to expand beyond the national jurisdiction. Although the 1997/98 Asian economic crisis and the world 2009 economic financial crisis caused some corporations to give up or suspend some overseas projects and developments, international expansion looks set to be part of the growth strategy for most Malaysian corporations.

Challenges and Research Opportunities

International business has long been the domain of large corporations (Delacroix, 1984, Ahmad and Kitchen, 2008). Yet the United Nations (UNCTAD 1993: 38) has pointed out that internationalisation is "by no means the exclusive province of large firms". Compared to firms from well-established developed countries and newly industrialised countries, Malaysian firms are still small, relatively new in some industries, and young in the international market. However, as explained in this conceptual paper, their emerging development in cross-border economic activities appears to justify an adjustment of the conventional perspective, and their presence and growth are pressing concerns among their competitors. Some of these firms have become excellent international competitors (UNCTAD, 2007, 2008). However, until now, very little empirical research has looked deeply into the dynamic aspects of the internationalisation and emergence of Malaysian-based firms. Indeed, the lack of research is particularly apparent in examining the characteristics and the rising international development of these corporations (Ragayah, 1997, 1999). The existing literature lacks concrete and convincing evidence to explain how these firms emerged from the domestic realm, and undertook international expansion.

In light of these developments, the following areas of research could be undertaken:

(a) explain the emergence of developing country MNCs in general, and Malaysian multinational firms in particular.
(b) explore the international expansion and business strategies of Malaysian firms, and identify the form and behaviour of these corporations in streamlining their expansion i.e. their motives for international investment, competitive strategy, and selection for foreign entry modes.
(c) delineate to what extent the traditional internationalisation process theories apply to Malaysian firm's internationalisation strategy and therefore may provide some new empirical evidence to the current set of literature.
(d) examine the behaviour of corporations and the comparison of international expansion among multinational firms from both developed and developing countries.

CONCLUSION

This paper attempts to explain the Malaysia context of international investment development made by its multinational firms. As indicated, there is still a wide theoretical and empirical research gap on Malaysian outward direct investments to be filled to provide further evidence and answers to many issues raised in this paper. Research into these and related areas as suggested above will provide a better and more comprehensive understanding of Asian multinationals and in particular, Malaysia multinational firms.

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