

THE RATE OF RETURN ON DIRECT INVESTMENT: MALAYSIA



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INTRODUCTION



INTRODUCTION

Foreign Direct Investment (FDI)

INWARD FDI

- ➔ Refers to investment of **Foreign** company that **owned** at least 10% of equity in **Malaysia's company**.
- ➔ Government main policy is to bind FDI as a part of the economic development as a strategy to acquire foreign technology, capital and skills.
- ➔ Policies that have been set up to attract foreign investors:
 - business friendly environment
 - liberal economic policies
 - liberalize the services sectors and equity quotas
 - reducing the cost of doing business



Direct Investment Abroad (DIA)

OUTWARD FDI

- ➡ Refers to investment of **Malaysian** company that **owned** at least 10% of equity in **company abroad**.
- ➡ MATRADE as the Government body is active in promoting Malaysia's enterprises to the world
- ★ **Aim** - to position Malaysia as globally competitive trading nation.
- Result:**
 - ★ (i) Malaysian subsidiaries abroad in more than 100 countries.
 - (ii) Increase of profits and dividends accruing to the Malaysian investors

PROBLEM STATEMENT



Malaysia's government have strived to attract FDI by offering more generous incentive packages and promoting Malaysia's enterprises to the world. This effort is mainly to stimulate more investment either inward or outward.

As such it is the aim of this study to find out, the trend and pattern of FDI & DIA for stock and income, the rate of return on FDI & DIA and the highest rate of return by sector on FDI & DIA.




RESEARCH QUESTION

What are the trend and pattern of FDI & DIA for stock and income ?

What is the rate of return on FDI & DIA?

What are the highest rates of return by sector for FDI & DIA?




RESEARCH OBJECTIVE

To study the trend and pattern of FDI & DIA for stock and income time

To identify the rate of return on FDI & DIA

To identify the highest rates of return by sector for FDI & DIA



SIGNIFICANT OF STUDY

- This study is to provide some insights and information on the rate of return for direct investment to Malaysia's economic growth.
- This study is expected to serve as input for Malaysia's government to evaluate and to identify the best actions that needs to be taken to achieve the Malaysia's vision to become high-income country by 2020.



METHODOLOGY



DATA DESCRIPTION & METHODOLOGY

Variables Name	Description of the Variables	Values	Time Series
FDI Stock	Stock on Foreign Direct Investment	RM	2008 until 2014
FDI Income	Income on Foreign Direct Investment		
DIA Stock	Stock on Direct Investment Abroad		
DIA Income	Income on Direct Investment Abroad		
Rate of Return	Income / Stock		

Data Sources : Quarterly Joint International Investment Position Survey



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Methodology

DESCRIPTIVE STATISTIC



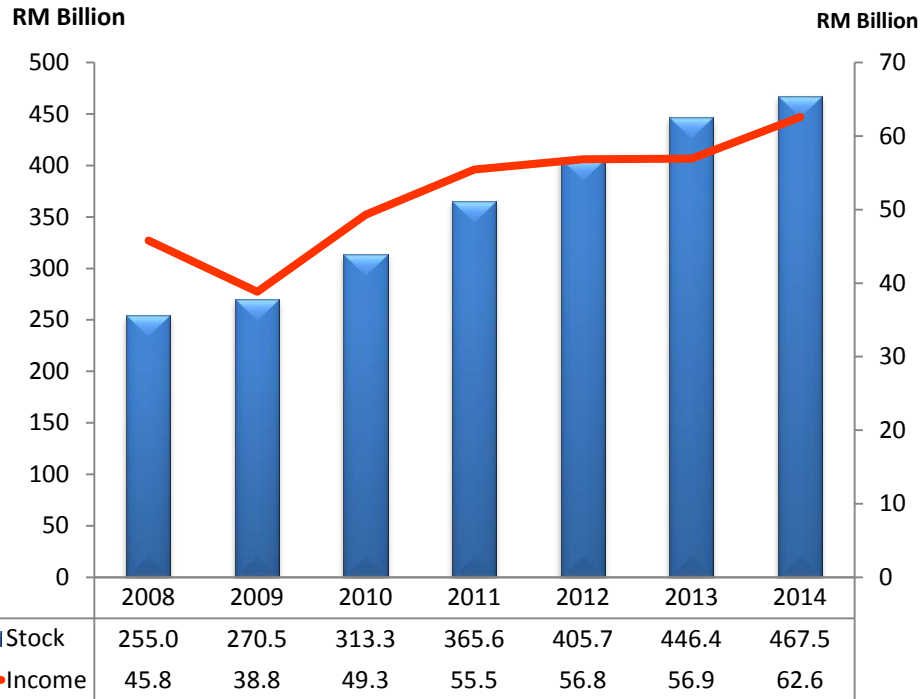


ANALYSIS & FINDINGS



TIME SERIES

Chart 1 : FDI - Stock and Income

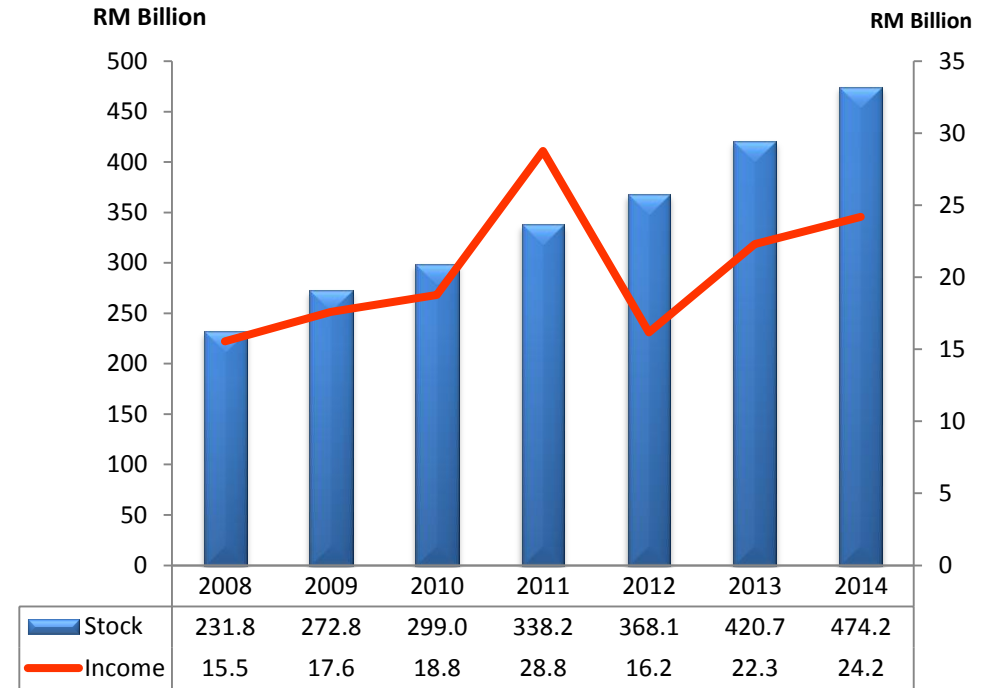


The values of FDI stock grew 83.3% in six years time.

FDI income showed a growth of 36.7% over the analysed period.

The movement of income was decelerated in 2009 due to the impact of the sub-prime mortgage financial crisis.

Chart 2 : DIA - Stock and Income



The growth rate of DIA stock has increased significantly for almost two fold.

DIA income showed an increase with the growth rate of 56.1% from 2008 to 2014.

The significant decrease in DIA income in 2012 was resulted from Arab spring phenomena.

FDI STOCK & INCOME BY COMPONENT

Stock of FDI as at end 2014

RM 467.5 billion

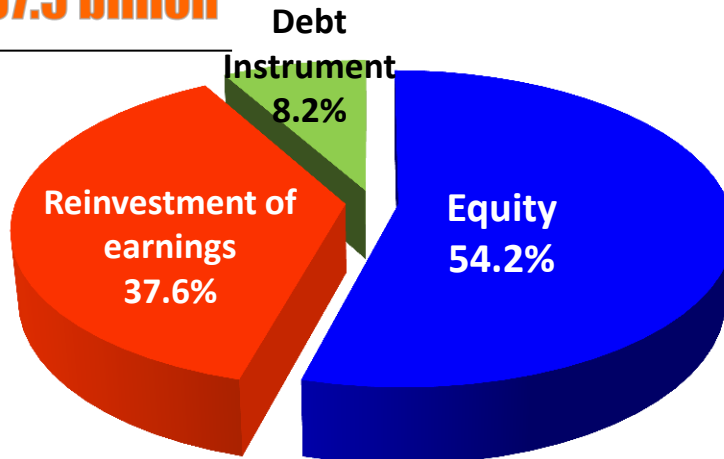


Chart 3 : FDI Stock as at end 2014

FDI Income 2014

RM 62.6 billion

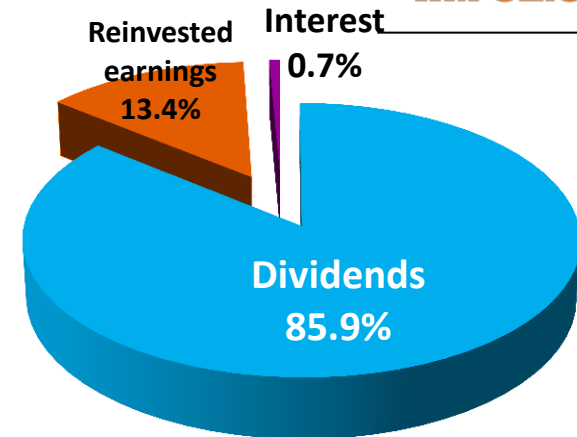


Chart 4 : FDI Income 2014

- ★ As at end 2014, Equity component indicates the highest percentage of share in FDI Stock which amounted RM253.39 billion, followed by reinvestment of earnings RM175.78 billion and debt instruments of RM38.33.
- ★ From the distribution of component, it can be said that other than equity, the operation and expansion of FDI are well supported by its reinvestment of earnings.
- ★ For FDI Income 2014, dividends contributed the biggest proportion of RM53.77 billion. FDI companies in Malaysia tend to repatriate most of their profit to the parent .

DIA STOCK & INCOME BY COMPONENT

Stock of DIA as at end 2014

RM 474.2 billion

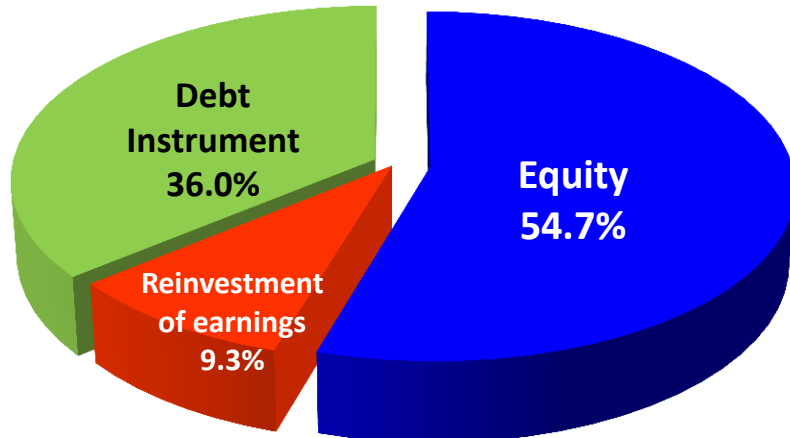


Chart 5 : DIA Stock as at end 2014

DIA Income 2014

RM 24.2 billion

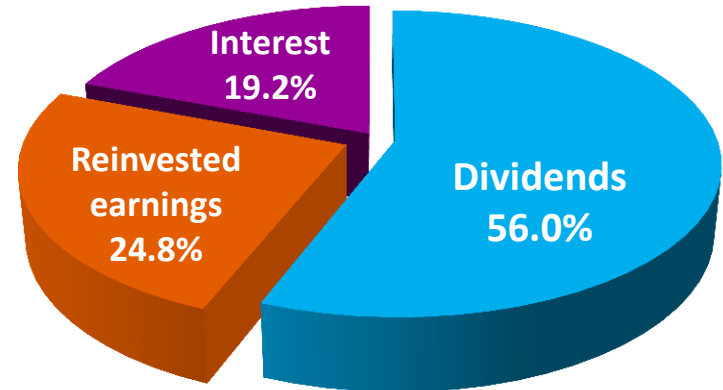


Chart 6 : DIA Income 2014

- ★ As at end 2014, equity contribute as the largest component in DIA stock of RM259.39 billion, followed by debt instrument of RM170.71 billion and reinvestment of earnings RM44.1 billion.
- ★ It can be said that other than equity, DIA is much more dependent on the debt instruments extended by Malaysia's parent company to running their business.
- ★ For DIA Income, dividends is the largest component which amounted RM13.55 billion in 2014.

FDI STOCK & INCOME BY SECTOR

Top 5 FDI *by Sector*

Stock of FDI as at end 2014

RM 467.5 billion

TOTAL FDI Income 2014

RM 62.6 billion

RM 204.1 bil

Manufacturing



RM 27.6 bil

Manufacturing



RM 98.0 bil

Financial &
Insurance



RM 12.1 bil

Financial &
Insurance



RM45.0 bil

Information &
Communication



RM 9.2 bil

Mining &
Quarrying



RM35.8 bil

Mining &
Quarrying



RM 7.0 bil

Wholesale &
Retail



RM 34.5 bil

Wholesale &
Retail



RM 2.8 bil

Information &
Communication



DIA STOCK & INCOME BY SECTOR

Top 5 DIA *by Sector*

Stock of DIA as at end 2014

RM 474.2 billion

TOTAL DIA Income 2014

RM 24.2 billion

RM 145.5 bil

Financial & Insurance



RM 130.6 bil

Mining & Quarrying



RM 52.1 bil

Information & Communication



RM 33.6 bil

Agriculture



RM 26.1 bil

Manufacturing



RM 9.1 bil

Mining & Quarrying



RM 7.3 bil

Financial & Insurance



RM 1.4 bil

Agriculture



RM 1.3 bil

Transportation



RM 1.2 bil

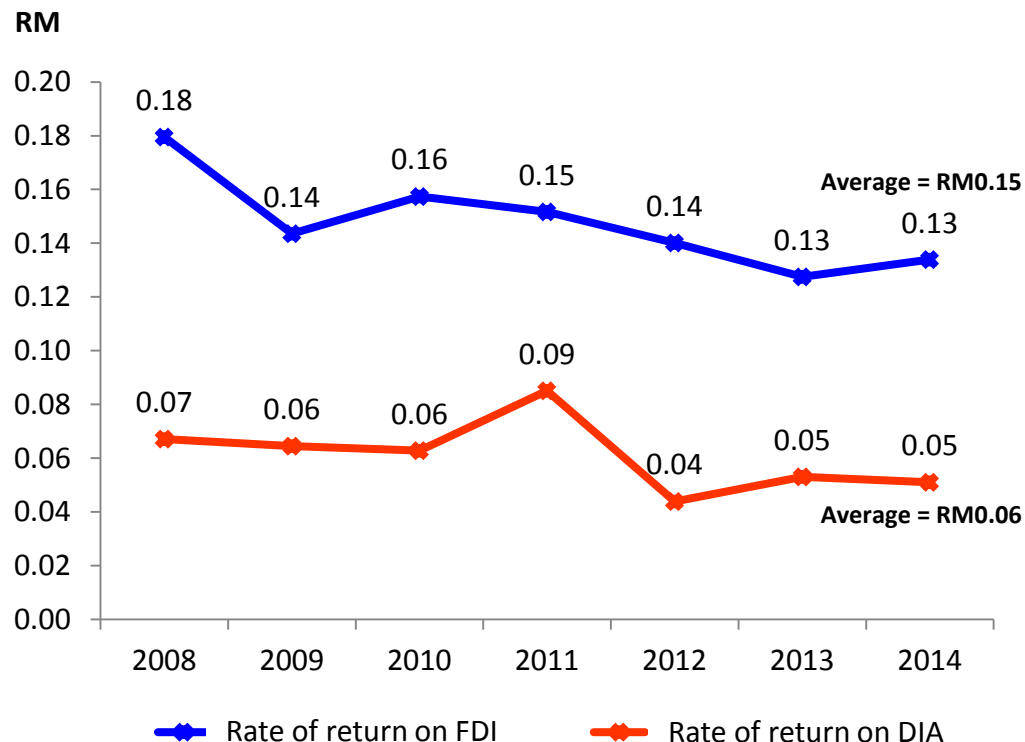
Electricity, Gas, Steam & Air Conditioning Supply



Note: Sector refer to the company's sector in Malaysia

Rate of Return on FDI & DIA

Chart 7 : Rate of return on FDI and DIA










The average rate of return on FDI for the past seven years was **RM0.15 per year**. This can be interpreted as on the average, for every **RM1.00** of foreign investment in Malaysia the **foreign investor gained RM0.15 per year**.

The average rate of return on DIA for the past seven years was **RM0.06 per year**. This can be interpreted as on the average, for every **RM1.00** of Malaysian investment abroad the **Malaysia's investor received RM0.06 per year**.

The rate of return on **FDI** was **higher** than DIA with more than two fold mainly attributed to larger profit earned by FDI companies in Malaysia.








Both data series shows similar downward trend due to the **expansion of stock data faster** than that of investment income.

Rate of Return on FDI by Sector (Top six)

Sector	2008	2009	2010	2011	2012	2013	2014	Avr
1  Mining & Quarrying	0.68	0.51	0.45	0.39	0.35	0.26	0.26	0.41
2  Wholesale & Retail Trade	0.12	0.15	0.17	0.14	0.13	0.12	0.20	0.15
3  Manufacturing	0.16	0.14	0.17	0.14	0.14	0.14	0.14	0.15
4  Transportation & Storage	0.13	0.15	0.12	0.13	0.18	0.10	0.10	0.13
5  Financial & Insurance	0.17	0.10	0.12	0.15	0.12	0.09	0.12	0.13
6  Information & Commuation	0.06	0.07	0.05	0.06	0.09	0.11	0.06	0.07
 Others	0.10	0.01	0.06	0.10	0.05	0.07	0.08	0.07
Rate for the Year	0.18	0.14	0.16	0.15	0.14	0.13	0.13	0.15

Mining sector generated the highest average rate of return on FDI with RM0.41 per RM1.00 invested within seven years period.

Rate of Return on DIA by Sector (Top six)

Sector	2008	2009	2010	2011	2012	2013	2014	Avr
1  Mining & Quarrying	0.11	0.12	0.11	0.21	0.09	0.10	0.07	0.12
2  Wholesale & Retail Trade	0.02	0.06	0.03	0.07	0.02	0.20	0.22	0.09
3  Electricity, Gas, Steam & Air Conditioning Supply	0.04	0.08	0.11	0.06	0.01	0.02	0.08	0.06
4  Professional, Scientific & Technical Activities	0.05	0.05	0.05	0.07	0.03	0.05	0.03	0.05
5  Financial & Insurance	0.06	0.02	0.05	0.05	0.04	0.05	0.05	0.05
6  Manufacturing	0.06	0.11	0.06	0.03	-0.02	0.02	0.04	0.04
 Others	0.03	0.04	0.03	0.01	0.02	0.01	0.03	0.02
Rate for the Year	0.07	0.06	0.06	0.09	0.04	0.05	0.05	0.06

The highest average rate of return on DIA was recorded by mining sector with every RM1.00 invested abroad produced RM0.12 investment income per year.



CONCLUSION



CONCLUSION

Over the entire period analysed:

The values of FDI and DIA stock showed a consistent increasing trend through time. Income on FDI and DIA also had been increasingly generated over years which are in tandem with the growth of FDI and DIA stock, although at slower phase.

Equity and Dividend component indicates the highest percentage of share of FDI & DIA for Stock & Income.

The rate of return on FDI was higher than rate of DIA return with average RM0.15 per year for FDI and RM0.06 per year for DIA.

Mining became the highest rate of return for both FDI and DIA.



