

Foreign Direct Investment in Malaysia – Findings of the Quarterly Survey of International Investment and Services

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Abstract

This paper highlights the findings of the Quarterly Survey of International Investment and Services (QSIIS) in relation to foreign direct investment (FDI) statistics. The results from the survey indicated that there was a continuous upward trend of FDI for Malaysia. Four elements of FDI statistics were analysed namely, the share of each component of investment, countries of origin of foreign investors, economic sectors where the investment mainly channelled and the investment income generated according to sectors.

Keywords: Foreign Direct Investment (FDI)

Introduction

Commencing first quarter of 1999, the Department of Statistics, Malaysia (DOSM) conducted the QSIIS as an effort to measure international transactions of financial assets and liabilities including FDI statistics. The collection through the QSIIS is in conformity with the 5th edition of the Balance of Payments Manual (BPM5), International Monetary Fund (IMF). The survey canvassed companies with significant international transactions in financial assets, liabilities or services incorporated or registered in Malaysia. Approximately 1,300 of the total 2,500 companies surveyed were classified as FDI companies.

The data collected from this survey are used as the main inputs in the compilation of financial and investment income accounts of the balance of payments (BOP) and international investment position (IIP) statistics. These two statistics measure the openness of Malaysian economy with the rest of the world and its net worth. In addition, FDI is shown as part of the statistics.

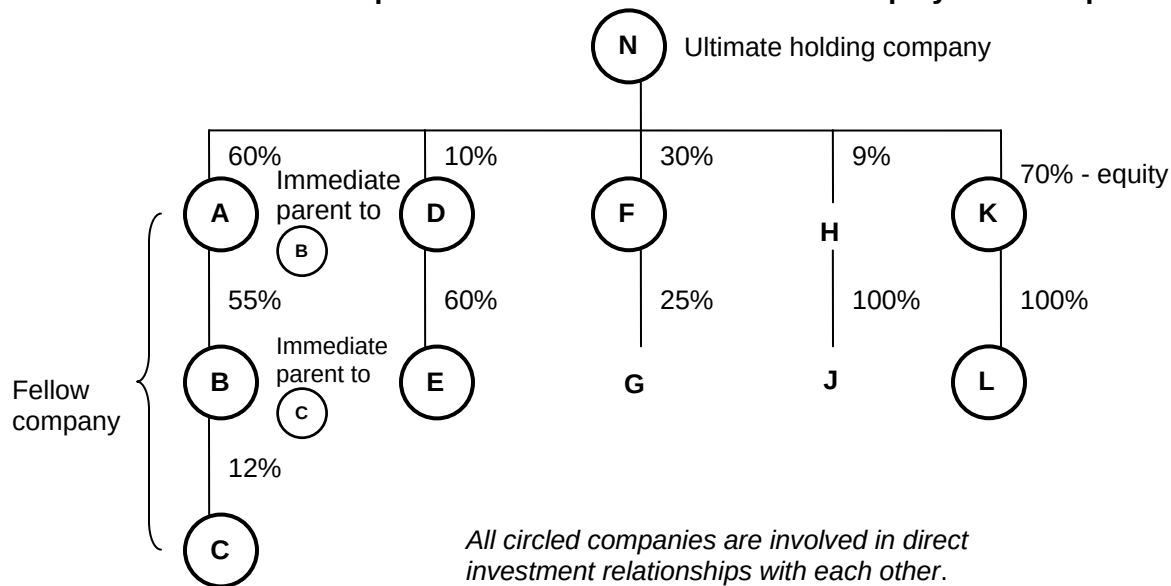
The compilation of FDI through survey is commonly practiced in other countries. United States of America, Canada, Australia, New Zealand, Hong Kong and Singapore are among other countries that adopt survey approach in collecting FDI data.

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Concept and Definition of FDI

FDI in a country is established following the holding of at least 10 per cent of the total equity in a resident company by a non-resident direct investor. Any subsequent transactions in financial assets or liabilities that occur between non-resident direct investors and resident companies that are linked by a foreign direct investment relationship (FDIR) are also classified as FDI. The transactions could be between the companies in Malaysia with its immediate parent, ultimate parent or fellow companies as shown in the diagram below. Besides Malaysia, Canada also adopts FDIR to determine FDI transactions. In other words, direct investment can also be established by the existence of lasting interest between the direct investors and the enterprises and a significant degree of influence by the investors on the management of the enterprises.

Diagram 1: The relationship of companies in one group within the corporate structure and their share of equity ownership



The FDI position analysed in this paper is based on IIP statistics, which represents stocks of external financial assets and liabilities at a particular point of time, usually at the end of the year. In this regard, emphasis is given to relevant indicators namely component, sector and country, of the FDI position. In addition, this paper also illustrates the investment income of FDI by component and sector.

Guidelines provided by IMF (BPM5) describe FDI components as equity capital, reinvested earnings and other capital. The explanations are as follows:

- Equity Capital - comprises equity in branches, all shares in subsidiaries and associate companies (except non-participating preference shares),

- Reinvested Earnings (RE) - consists of direct investors' shares of earnings not distributed as dividends by subsidiaries or associates and earnings of branches not remitted to direct investors, and
- Other Capital - consists of debt securities, trade credits, loans, deposits and others.

FDI Position by Component

Malaysia remained as a favourable economy to foreign investors as implied by the FDI position which grew two fold since 2001 as shown in Table 1 and Chart 1. The continuous reinvestment as well as new capital injection among the existing foreign companies indicated their confidence in the investment climate of Malaysia.

Total stock of FDI which increased substantially in the period of 2006 and 2007 was mainly due to mergers & acquisitions (M&A) of existing multinational companies (MNCs), joint ventures and new investment activities. This showed that Malaysia remained as a profitable centre for global MNCs.

Over the years, equity capital formed the largest component of FDI. The value expanded from RM63.2 billion in 2001 to RM135.7 billion in 2007, an increase of RM72.5 billion (114.7%). This growth is contributed by Greenfield investments or new investments and expansionary investments in existing companies.

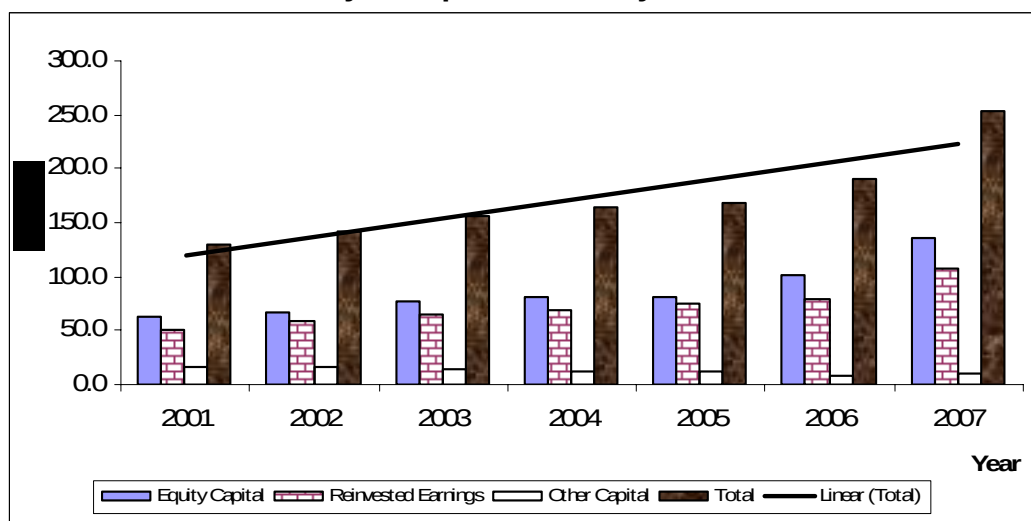
RE constituted the second largest component of FDI, accumulating from RM49.9 billion in 2001 to RM107.1 billion in 2007. The increase of RM57.2 billion or 114.6 per cent was in tandem with equity capital's expansion. This marked the trends of retaining bigger portion of profits in Malaysia by foreign investors.

Other capital however, experienced a downward trend following net repayments of various instruments to the holdings or affiliated companies abroad. A decrease of 31.3 per cent was registered during the period, from RM16.0 billion in 2001 to RM11.0 billion in 2007.

Table 1: FDI Position by Component, Malaysia, 2001- 2007 (in RM Billion)

Component	2001	2002	2003	2004	2005	2006	2007
FDI in Malaysia	129.1	142.7	156.5	163.6	168.1	190.1	253.8
Equity Capital	63.2	67.6	77.6	81.5	81.9	101.7	135.7
Reinvested Earnings	49.9	59.0	64.1	69.5	74.4	79.8	107.1
Other Capital	16.0	16.1	14.7	12.5	11.8	8.6	11.0

Chart 1: FDI Position by Component, Malaysia, 2001- 2007

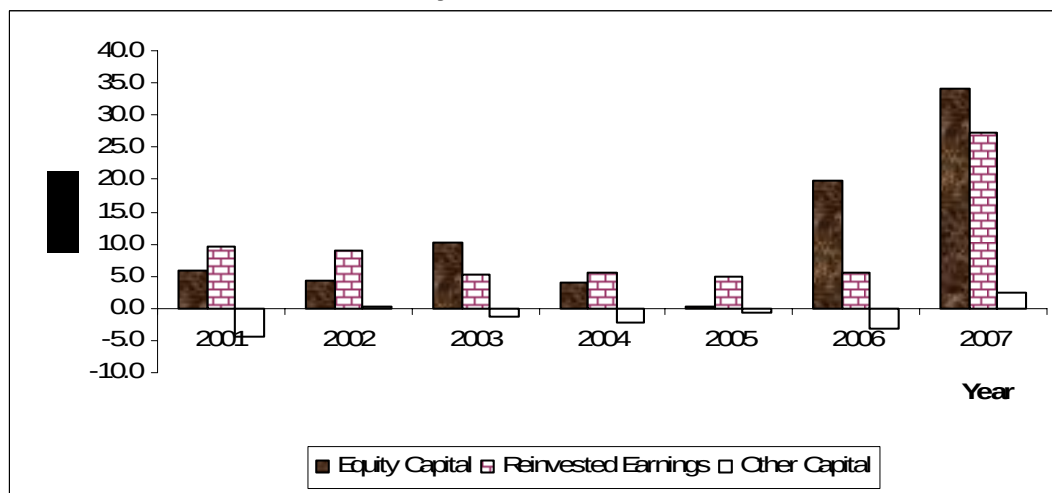


FDI Movement

FDI movement is basically derived from financial transactions and non transaction factors such as price changes, foreign exchanges and other changes during the reference period. In other words, the movement is derived from the differences between the closing and opening positions of the year.

Chart 2 showed the movements of FDI components for the year 2001 to 2007. Equity capital and RE were always positive, resulting in bigger closing positions for both components. However, component of other capital experienced net outflows over the period except those in 2002 and 2007. The equity capital rose sharply in 2006 and 2007, mainly attributable to M&A activities.

Chart 2: FDI Movement, Malaysia, 2001- 2007



FDI Position by Economic Sector

For the period of 2003 – 2007, manufacturing, financial intermediation, mining and services² were the main four sectors of FDI recipients (See Table 2). Manufacturing sector remained dominant, accounted for more than half of the total FDI. This was followed by financial intermediation. However, as at December 2007 both manufacturing and financial intermediation shares declined: manufacturing, from 57.9 per cent to 52.6 per cent and financial intermediation, from 29.3 per cent to 15.6 per cent. On the contrary, the value and shares of services and mining sectors increased in 2007.

The FDI in the agriculture sector surged tremendously over the period of four years following M&A activities. The value of this sector increased sharply from RM0.4 billion in 2003 to RM9.3 billion in 2007 (+2,225.0%). The services (+1,306.3%) and real estate sectors (+311.1%) experienced similar upward trend, albeit relatively smaller FDIs.

During the period, the value of FDI in trade/commerce increased more than two fold. This is mainly due to the influx of hypermarkets and International Procurement Centres (IPC) in the country.

Table 2: FDI Position by Sectors, Malaysia, 2003 - 2007

Sector	2003		2004		2005		2006		2007	
	RM (Bil.)	%	RM (Bil.)	%	RM (Bil.)	%	RM (Bil.)	%	RM (Bil.)	%
Agriculture	0.4	0.3	0.5	0.3	0.6	0.4	1.1	0.6	9.3	3.7
Mining (Oil & Gas)	8.3	5.3	6.5	4.0	7.1	4.2	15.7	8.3	20.7	8.2
Manufacturing	90.6	57.9	98.7	60.3	102.4	60.9	108.9	57.3	133.6	52.6
Construction	0.0	0.0	0.0	0.0	0.3	0.2	1.2	0.6	1.9	0.7
Trade/Commerce	7.7	4.9	7.9	4.8	10.0	5.9	15.1	7.9	19.0	7.5
Financial Intermediation (including Insurance)	45.8	29.3	45.3	27.7	41.7	24.8	28.5	15.0	39.6	15.6
Real Estate	1.8	1.2	2.0	1.2	1.8	1.1	5.9	3.1	7.4	2.9
Services	1.6	1.0	2.5	1.5	3.8	2.3	13.7	7.2	22.5	8.9
Others (Not Elsewhere Classified)	0.3	0.2	0.2	0.1	0.4	0.2	0.0	0.0	-0.1	0.0
Total	156.5	100.0	163.6	100.0	168.1	100.0	190.1	100.0	253.8	100.0

² Services sector consists of trade/commerce, financial intermediation, real estate, transportation and communication.

FDI Position by Country

At the end of 2007, FDI originated from four regions; namely Europe (Netherlands, UK, Norway, Germany and Switzerland), Asia (Singapore and Japan), Caribbean Islands (British Virgin Island and Bermuda) and North America (USA).

Ten (10) countries in those regions were observed contributing more than 85.0 per cent of the total FDI in Malaysia for the period of 2003 - 2007 (See Table 3). Of these, three countries emerged as the leading direct investors namely, Japan (2003 & 2004), USA (2005 & 2006) and Singapore (2007). Thus, it is clearly seen that the FDI in Malaysia was not dominated by any single country. Singapore has shown the largest increase in FDI position (+RM30.1 billion), followed by USA (+RM21.3 billion) and Norway (+RM10.5 billion).

Table 3: FDI Position by Top 10 Countries, Malaysia, 2003 - 2007 (in RM Billion)

Country	2003	2004	2005	2006	2007
Singapore	25.6	30.1	25.8	30.0	55.7
USA	27.9	29.3	41.1	43.2	49.2
Japan	32.1	33.7	31.7	29.2	33.7
Netherlands	24.9	18.2	21.4	19.4	20.3
United Kingdom	13.9	16.6	12.4	17.2	19.4
Norway	0.4	0.4	0.6	8.7	10.9
British Virgin Island	0.6	1.0	1.2	0.8	10.7
Germany	6.4	7.4	5.3	9.8	9.4
Switzerland	9.8	11.5	10.6	14.5	9.2
Bermuda	-1.1	-1.1	0.0	1.2	3.1
Others	16.0	16.5	18.0	16.1	32.2
TOTAL	156.5	163.6	168.1	190.1	253.8

Note: Negative sign indicates accumulated losses of FDI companies operating in Malaysia.

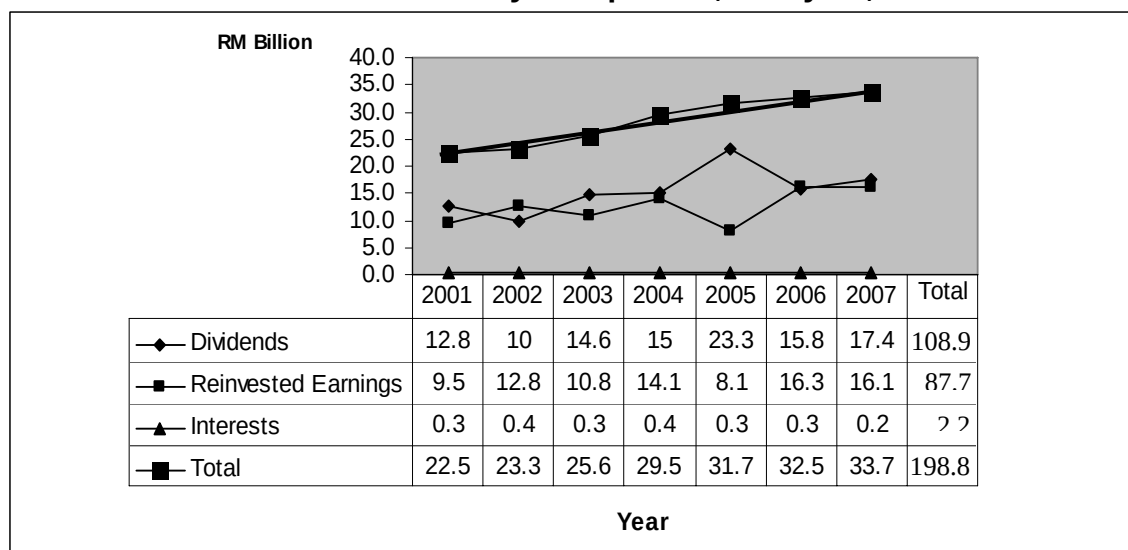
FDI Investment Income by Component

Investment Income of FDI constitutes of three components namely dividends, reinvested earnings and interests. Dividends are distributed earnings allocated to shares and other forms of participation in the equity of incorporated private enterprises, cooperatives and public corporations. Interests comprise income on loans and debt securities.

The value of income in 2001 amounting to RM22.5 billion surged to RM33.7 billion in 2007, an increase of RM11.2 billion or 49.8 per cent (See Chart 3). The chart also illustrates that the total investment income improved gradually over the years and peaked in 2007.

At the end of the period, dividends and RE formed 98.9 per cent of the total FDI income amounting to RM196.6 billion. Of this amount, dividends accounted for 55.4 per cent whilst the remaining RE was 44.6 per cent. The total profit repatriated in the forms of dividends RM108.9 billion in the period of seven (7) years. While the RE which is meant for expansionary activities in Malaysia.

Chart 3: FDI Investment Income by Component, Malaysia, 2001- 2007



FDI Investment Income by Sector

In the four-year period (2004 – 2007), the largest FDI investment income came from the manufacturing sector accounting for RM62.0 billion. This was followed by financial intermediation (RM25.5 billion) and mining (RM24.8 billion) sectors. The investment income of these sectors were in tandem with the position of FDI by sector.

Table 4: FDI Investment Income by Sector, Malaysia, 2004 - 2007 (in RM Billion)

Sector	2004	2005	2006	2007	Total
Agriculture	0.0	0.1	0.1	0.3	0.5
Mining (Oil & Gas)	5.3	6.3	6.3	6.9	24.8
Manufacturing	14.9	15.9	15.8	15.4	62.0
Construction	-0.1	0.0	0.6	0.3	0.8
Trade/Commerce	1.8	2.0	2.9	2.7	9.4
Financial Intermediation (incl. insurance)	7.1	6.3	6.2	5.9	25.5
Real Estate	0.0	0.6	0.0	0.8	1.4
Services	0.3	0.3	0.5	1.2	2.3
Others (Not Elsewhere Classified)	0.1	0.2	0.1	0.1	0.5
Total	29.5	31.7	32.5	33.7	127.4

The rate of FDI return refers to the ratio of income on FDI relative to the amount of FDI invested. Mining sector generated the highest average rate of investment return of RM0.58 per RM1 invested within four years period as shown in Table 5 below. However, the yield of investment declined significantly in 2006 and 2007. This was followed by trade/commerce which registered an average of RM0.19 and financial intermediation RM0.17.

For manufacturing sector, the average rate of investment return was moderate, RM0.14 despite receiving the highest value of FDI (2007: RM128.7 billion) as well as investment income (2004-2007: RM62.0 billion).

On yearly basis, the highest yield of investment was reflected in 2005 (RM0.27). The mining sector generated the highest rate at RM0.89 and RM0.33 for real estate.

Table 5: Rate of FDI Return by Sector, Malaysia, 2004-2007 (RM)

Sectors	2004	2005	2006	2007	Average
Agriculture	0.00	0.17	0.09	0.03	0.07
Mining (Oil & Gas)	0.82	0.89	0.40	0.21	0.58
Manufacturing	0.15	0.16	0.15	0.12	0.14
Construction	-0.10	0.00	0.50	0.19	0.15
Trade/Commerce	0.23	0.20	0.19	0.14	0.19
Financial Intermediation (incl. insurance)	0.16	0.15	0.22	0.15	0.17
Real Estate	0.00	0.33	0.00	0.10	0.11
Services	0.12	0.08	0.04	0.09	0.08
Others (Not Elsewhere Classified)	0.50	0.50	0.10	0.10	0.30
Average	0.21	0.27	0.19	0.13	0.20

Conclusion

Manufacturing sector contributed to the largest proportion of FDI in Malaysia. Most of the FDI came from Singapore, USA and Japan. Equity capital and reinvested earnings were the major component of FDI. Dividends income formed the largest portion of investment return. On the whole, mining sector earned highest rate of FDI return.

Statistics on FDI are used by policy makers as a tool to formulate foreign investment policy. As the demand for more timely and comprehensive FDI data become increasingly crucial, the QSIIS was regarded as one of the reliable input for measuring FDI. In strengthening the compilation of FDI statistics through survey approach especially at the micro level and to optimise resources, the joint survey between DOSM and Bank Negara Malaysia is carried out as an effort to further enhance the capability in providing detailed analysis.

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