

TECHNICAL NOTES

A. CONCEPTS

Concepts used in this publication are in accordance with the recommendations of the Balance of Payments and International Investment Position Manual, 6th Edition (BPM6) by the International Monetary Fund (IMF).

1. Foreign Direct Investment (FDI)

FDI refers to investment in the form of financial instruments namely equity & investment fund shares, (include reinvestment of earnings) and debt instruments (inter-company loans, trade credit, advances, etc.) by foreign direct investors in direct investment enterprises in Malaysia.

2. Direct Investors (DI)

A direct investor (DI) is a foreign entity (individual or company) that is able to exercise control (DI owns more than 50 per cent of the voting power) or a significant degree of influence (DI owns from 10 to 50 per cent of the voting power) over an enterprise in

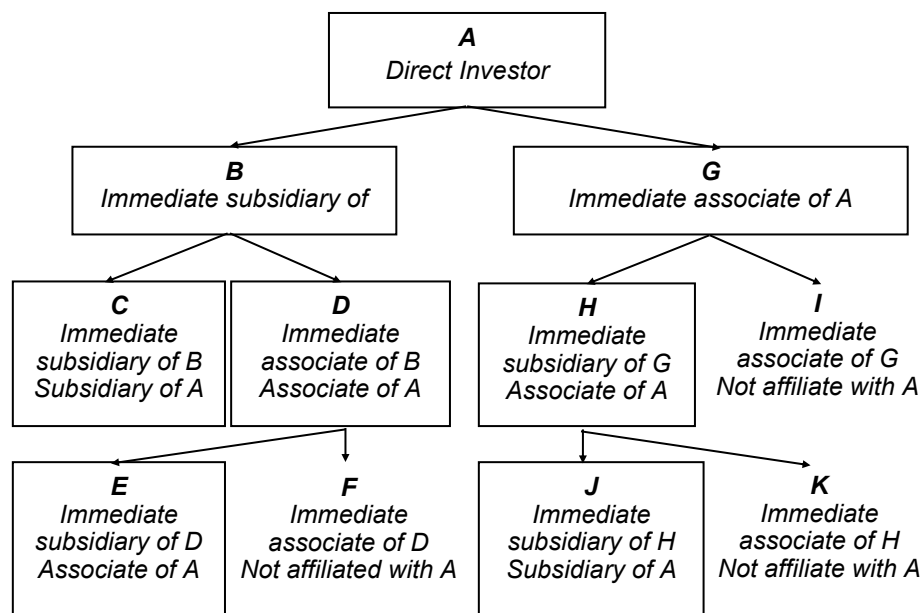
3. Direct Investment Enterprises (DIE)

A Direct Investment Enterprise (DIE) is either a subsidiary (ownership of more than 50 per cent), an associate (10 per cent to 50 per cent ownership) or a branch (100 per cent ownership) of foreign parent companies/ headquarters. In the case of FDI, DIEs refer to companies that operate in Malaysia. The equity ownership can be owned either directly or indirectly and within the Framework for Direct Investment Relationship (FDIR).

4. Framework for Direct Investment Relationship (FDIR)

FDIR is a generalised methodology for identifying and determining the extent and type of direct investment relationships between DI and DIE. FDIR provides criteria for determining whether cross-border ownership results in a direct investment relationship based on control and influence.

The following diagram shows an example of identification of direct investment relationships under FDIR.



Each enterprise is a resident in Malaysia economy. All companies in box are Direct Investment Enterprise (DIE) of the Direct Investor (DI) A.

Meanwhile, no DI-DIE relationship exists in cases in which the entity is an associate of an associate of the DI. The ability of the investor to influence is considered to have become too diluted to be significant.

Under the concept of FDIR, a DIE is either a subsidiary or an associate:

- a) *A subsidiary is a DIE over which the DI is able to exercise control,*
- b) *An associate is a DIE over which the DI is able to exercise a significant degree of influence, but not control.*

Control or influence may be achieved directly by owning equity that gives voting power in the enterprise, or indirectly by having voting power through another enterprise. Two ways of having control or influence are identified:

- a) **Immediate direct investment** relationships arise when a DI directly owns equity that entitles it to 10 percent or more of the voting power in the DIE
 - **Control** is exist if the DI owns more than 50 per cent of voting power in the DIE
 - **Influence** is exist if the DI owns from 10 to 50 per cent of the voting power in the DIE
- b) **Indirect direct investment** relationship arise through the ownership of voting power in one DIE that owns voting power in another enterprise(s).

B. SCOPE AND COVERAGE

The scope of FDI statistics refers to foreign enterprise in Malaysia. It comprises three major accounts namely flows, position and direct investment income. This publication also presents statistics on flows and position of portfolio investment.

1. FDI flows

FDI flows refers to acquisitions and disposals of financial assets and liabilities during a reference period. It comprises of transactions in the form of financial instrument namely equity & investment fund shares and debt instruments. Negative value (-) indicate an outflow or the decrease in investment.

2. FDI position

FDI position refers to total stock of foreign direct investment in Malaysia as at end of reference period. The end position is derived from opening stock plus financial flows plus other changes (price changes, exchange rate changes and other changes).

3. FDI investment income

FDI investment income refers to repatriation of earnings to foreign direct investors from their DIEs in Malaysia. The income consists of distributed earnings (dividends and interest) and undistributed earnings (reinvested earnings).

4. Portfolio Investment

Portfolio investment involves international transactions in equity securities (e.g. shares) and debt securities (e.g. bonds and notes, sukuk and money market instruments), apart from those included in direct investment and reserve assets.

C. DEFINITIONS

Definitions used in this publication are in accordance with the recommendations of the BPM6.

1. Resident

A resident is any individual, enterprise or other organisation ordinarily domiciled in Malaysia for a period of at least one year. Enterprises incorporated in Labuan are also regarded as residents. Branches and / or subsidiaries of foreign companies operating in Malaysia are regarded as residents.

2. Non-resident (NR)

A non-resident is any individual, enterprise or other organisation ordinarily domiciled in a country other than Malaysia. Branches and / or subsidiaries of Malaysian companies operating abroad are regarded as non-residents.

3. Financial instruments

The types of financial instruments covered under FDI include equity & investment fund shares (include reinvestment of earnings) and debt instruments (includes debt securities, inter-company loans, trade credits, currency & deposit, and others).

3.1 Equity & investment fund shares

Equity & investment fund shares is comprised of equity and reinvestment of earnings. Equity referd to all classes of shares issued (such as ordinary shares, premium shares, and participating preference shares) held by non-residents in subsidiaries or associate companies in Malaysia. In the case of branches, the value of equity & investment fund shares is calculated by using the net assets of the branch. Meanwhile, reinvestment of earning refers to direct investors' shares of earnings that are not distributed as dividends by subsidiaries, associates or branches, instead reinvested back in the DIE.

3.2 Debt instruments

Debt instruments consist of various instruments such as:

3.2.1 Debt securities

3.2.1.1 Long-term debt securities

Debt securities (namely: bonds, debentures, notes, certificate of deposits) which have an original contractual maturity of more than one year.

3.2.1.2 Short-term debt securities

Debt securities (namely: promissory notes, bills of exchange, commercial or financial paper and certificate of deposits) which have an original contractual maturity of less than or equal to one year.

3.2.2 Trade credit

Trade credit consists of claims and liabilities arising from direct extension by exporters to importers for transaction in goods and services. They are usually in short term period.

3.2.3 Loans

Loans are financial assets that are created when a creditor lends funds directly to a debtor through an instrument that is not intended to be traded. This includes all loans and advances (except account receivable and payable). It also covers financial leases and repurchase agreement. Loans are subdivided in two categories; long term and short term which distinct by maturity period of one year.

3.2.4 Currencies and deposits

Currency consists of notes and coins that are in circulation and commonly used to make payment. Deposits refers to typical form of deposit include savings deposits, term deposits, transferable and non-transferable deposits in either local or foreign currencies.

3.2.5 Others

Include all other financial assets/ liabilities, such as arrears i.e. amounts that are past due-for-payments and unpaid, including amounts of scheduled debt service payments to non-resident creditors.

- 4. FDI investment income** *FDI investment income refers to returns on the direct investment that is the return on equity & investment fund shares and debt instruments which comprises the following components:*
- 4.1 Income on equity & investment fund shares** *Income on equity & investment fund shares is comprised of dividends and reinvestment of earnings. Dividends refer to the distribution of profit to DI in respect of equity & investment fund shares held in DIEs, while reinvestment of earning refers to direct investors' shares of earnings that are not distributed as dividends by subsidiaries, associates or branches, instead reinvested back in the DIE.*
- 4.2 Interest** *Interest refers to income payable/ receivable by DIEs to/from DI, arising from extension of various financial instruments, namely debt securities, loans and others.*
- 5. Sector classification** *The classifications of economic sector are based on main activities of DIE. The sectors are classified according to Malaysia Standard Industrial Classification (MSIC) 2008. For purpose of this report, the classification is broadly categorised into five main sectors as follows:*
- i. *Agriculture*
 - ii. *Mining and quarrying*
 - iii. *Manufacturing*
 - a. *Food, beverages and tobacco*
 - b. *Textiles, wearing apparel, leather and footwear*
 - c. *Wood products, furniture, paper products and printing*
 - d. *Petroleum, chemical, rubber and plastic*
 - e. *Non-metallic mineral products, basic metal and fabricated metal products*
 - f. *Electrical and electronic products*
 - g. *Transport equipment and other manufactures*
 - iv. *Construction*
 - v. *Services*
 - a. *Utilities - electricity, gas, water supply, sewerage and waste management*
 - b. *Wholesale and retail trade, repair of motor vehicles and motorcycles*
 - c. *Transportation and storage*
 - d. *Accommodation and food service activities*
 - e. *Information and communication*
 - f. *Financial and insurance / takaful activities*
 - g. *Human health and social work activities*
 - h. *Other services*
- Other sectors in matrix tables of country and sector were referred to Agriculture and Construction sectors.*
- 6. Country of direct investor** *The country of DI is based on the immediate investing country (for investment that involves the equity & investment fund shares). As for those that do not have equity & investment fund shares but have transactions in the form of debt instruments, the country is identified by following the concept of FDIR (refer to Item A(4)).*

D. DATA SOURCE

The data source for this publication is from quarterly Survey on IIP, jointly conducted between BNM and DOSM with effective from the first quarter of 2008. The survey was conducted on an enterprise basis. The survey on IIP records transaction flows and position of Malaysia's external financial assets and liabilities with the rest of the world which include DIA, FDI, portfolio investment, other investment and investment income.

E. TIME OF RECORDING

The time of recording of transactions in BOP and IIP is, in principle, the time of change of ownership (actual or imputed). Under the double-entry system, both sides of the transaction should be recorded in the same period. This is consistent with the principle of accrual accounting, which requires transactions to be recorded when economic value is created, transformed, exchanged, transferred or extinguished.

F. VALUATION

Conceptually, the valuation of FDI transactions are based on market price for flows, position and investment income. Market prices are defined as amount of money that the willing buyers pay to acquire goods and services from the willing sellers. The exchanges are made between independent parties and on the basis of commercial considerations.

In relation to FDI financial assets and liabilities, the market prices are usually determined according to their market value, fair value or nominal value. However in certain financial instruments, book values, face values, amortized values or historical costs from the balance sheet of DIEs are often used to determine the value of the direct investment.

In order to derive at the FDI position, the valuation that relates to non-transactions factors such as price changes (e.g. gain or loss due to fluctuation), exchange rate changes and other changes (e.g. write-offs, re-classifications, etc.) are also taken into account.

G. REVISIONS

The revisions to the estimates are done concurrently with the latest estimates in the quarterly BOP and annual IIP report. The revisions are largely due to latest or revised reporting by data providers.

H. ROUNDING

Any differences in the aggregated data are due to rounding.

I. ABBREVIATIONS

| | |
|-------------|--|
| <i>b</i> | <i>billion</i> |
| <i>BNM</i> | <i>Central Bank of Malaysia</i> |
| <i>BOP</i> | <i>Balance of Payments</i> |
| <i>BPM6</i> | <i>Balance of Payments and International Investment Position Manual, Sixth Edition</i> |
| <i>DI</i> | <i>Direct Investor</i> |
| <i>DIA</i> | <i>Direct Investment Abroad</i> |
| <i>DIE</i> | <i>Direct Investment Enterprise</i> |
| <i>DOSM</i> | <i>Department of Statistics Malaysia</i> |
| <i>e.g.</i> | <i>example</i> |
| <i>etc.</i> | <i>etcetera</i> |
| <i>FDI</i> | <i>Foreign Direct Investment</i> |
| <i>FDIR</i> | <i>Foreign Direct Investment Relationship</i> |
| <i>IIP</i> | <i>International Investment Position</i> |
| <i>IMF</i> | <i>International Monetary Fund</i> |
| <i>MSIC</i> | <i>Malaysian Standard Industrial Classification</i> |
| <i>NR</i> | <i>Non-resident</i> |
| <i>RM</i> | <i>Ringgit Malaysia</i> |
| <i>r</i> | <i>revised</i> |
| <i>-</i> | <i>nil</i> |
| <i>0</i> | <i>< RM500 thousand</i> |