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**AN ASSESSMENT OF THE MALAYSIAN GOVERNMENT POLICIES TO  
PROMOTE FOREIGN DIRECT INVESTMENT**

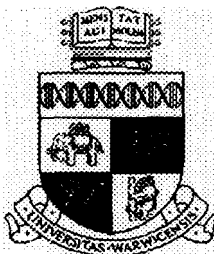
BY

ASRAR OMAR

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DISSERTATION SUPERVISOR : DR. DIANE STONE

UNIVERSITY OF WARWICK



DEPARTMENT OF POLITICS AND INTERNATIONAL STUDIES

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### **Declaration**

I hereby declare that the work presented in this dissertation is entirely my own and was conducted under the supervision of Dr. Diane Stone. All sources of quoted information have been acknowledged by means of references.



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Asrar Omar  
16 September 1996

## Abstract

Experiences of most developing countries show that the initial stage of development has to be engineered by the government. In the case of Malaysia, state-managed policy of the “structuralist approach” has become a yardstick for its development. Government in Malaysia work hand in hand with private sectors to accelerate the pace of industrialisation embodied in the Malaysia’s “Vision 2020”. This objective cannot be fulfilled without any contribution from foreign direct investment (FDI) and Malaysian economic experience has proven that FDI is vital for its development. This in part, indicates how vulnerable Malaysia is to the trends at international level. However, the country’s heavy reliance on FDI is not the sole choice of the Malaysian Government, nor does the decision of the capital-exporting countries, but the real mechanism which determines this is the market power. In this sense, the ‘wave’ of FDI is not a phenomenon in Malaysia only, but also to other part of the world, especially the ASEAN countries. In fact, Malaysia was not the first to promote FDI in this region, but it was rather a follower of this policy that proved successful in its neighbouring countries. Looking at these issues this paper examines the policies approached by the Malaysian Government in its different phases of development from three different views of development economics (neo-classical, dependency and structuralist).

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## Glossary

<b>AFTA</b>	ASEAN Free Trade Area
<b>ASEAN</b>	The Association of South East Asian Nations
<b>APEC</b>	Asian Pacific Economic Cooperation
<b>BOI</b>	Thai Board of Investment
<b>CEPT</b>	Common Effective Preferential Tariffs
<b>DOP</b>	Department of Statistics
<b>EAEC</b>	East Asian Economic Caucus
<b>EPZs</b>	Export Processing Zones
<b>EU</b>	European Union
<b>FDI</b>	Foreign Direct Investment
<b>FELDA</b>	Federal Land Development Authority
<b>GDP</b>	Gross Domestic Product
<b>GNP</b>	Gross National Product
<b>ICA</b>	Industrial Coordination Act
<b>IGAs</b>	Investment Guarantee Agreements
<b>IMP</b>	Industrial Master Plan
<b>ISI</b>	Import-Substituting <b>Industrialisation</b>
<b>LDCs</b>	Less Developing Countries
<b>MARA</b>	Majlis Amanah Rakyat
<b>MIDA</b>	Malaysia Industrial Development Authority
<b>MITI</b>	Ministry of International Trade and Industry
<b>MNCs</b>	Multinational Corporations
<b>NEP</b>	New Economic Policy
<b>NDP</b>	New Development Policy
<b>NIEs</b>	Newly Industrialising Economies
<b>PDA</b>	Petroleum Development Act
<b>PETRONAS</b>	Petroleum National Berhad
<b>PERNAS</b>	Perbadanan Nasional Berhad

<b>PNB</b>	Permodalan Nasional Berhad
<b>R &amp; D</b>	Research and Development
<b>R M</b>	Ringgit Malaysia
<b>OECD</b>	Organisation for Economic Co-operation Development
<b>UNCTC</b>	United Nations Centre for Transnational Corporations

## Chapter 1

### **An Assessment of the Malaysian Government Policies to Promote Foreign Direct Investment**

#### **1.1 Introduction**

The importance of foreign direct investment (FDI) to the Malaysian economy can hardly be exaggerated. FDI has contributed significantly to the economic development of the country not only in terms of GDP (gross domestic product) growth but also in terms of structural changes that have transformed Malaysia from basically a primary producer to a rapidly industrialising economy. FDI has provided capital technology, marketing channels and managerial expertise which constitute the necessary ingredients for rapid industrialisation. To be sure, one must not take FDI for granted. That Malaysia has been quite successful in attracting foreign direct investments does not mean that the recent upward trends will continue indefinitely in the future. Much will depend on the domestic policies pursued and the changes taking place in the international economic environment.

Nevertheless, past experience has shown that Malaysian policies towards foreign investors has been favourable to its economic development. Since the early days of development planning in Malaysia, the Government<sup>2</sup> has recognised the important role which foreign investment can play in providing the impetus to economic growth and to attaining socio-economic advancement. Looking at Malaysia's enormous ability to adjust its socio-economic development in an abruptly changing world economy, the importance

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<sup>1</sup> 'Direct' implies that the investor has some direct control over the investment, and therefore FDI is investment where a foreign person or corporation not resident in Malaysia has an equity or voting share in the investment and therefore some element of managerial control over the investment.

<sup>2</sup> The term Government with a capital 'G', throughout this dissertation refers to Malaysian Government.



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