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Analysis of Foreign Direct Investment Environment in Malaysia

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Abstract: Globalization and exponential growth in technology have made worldwide mobility of money extremely easy and fast. Investors prefer to invest in places that offer attractive returns and are relatively less risky. The inflow of Foreign Direct Investment (FDI) gives developing countries access to capital that would otherwise be not available. FDI also provides much needed foreign exchange and therefore helps to adjust some of the macroeconomic imbalances in developing countries. Every country is trying to attract investors by providing a business-friendly environment. The main objectives of this study are to find out the status of Malaysia as a destination for FDI; the factors that attract FDI into Malaysia and how these can be enhanced, and the factors that hinder the flow of FDI into Malaysia and how these can be reduced. The study covers a period of five years from 2014-2015 to 2018-2019. The study analysis various determinants of FDI like market size, economic growth, infrastructure, political risk, corruption, labor market, technological readiness, innovation, financial system, taxation, cost of capital, ease of doing business, and government policies. The study shows that Malaysia's performance in attracting FDI relative to both earlier decades and the rest of the Association of Southeast Asian Nations (ASEAN) had slowed. But thebusiness climate in Malaysia is generally conducive to investment.

Keywords: Foreign Direct Investment, Malaysia, Market size, Multinational Companies, Growth rate

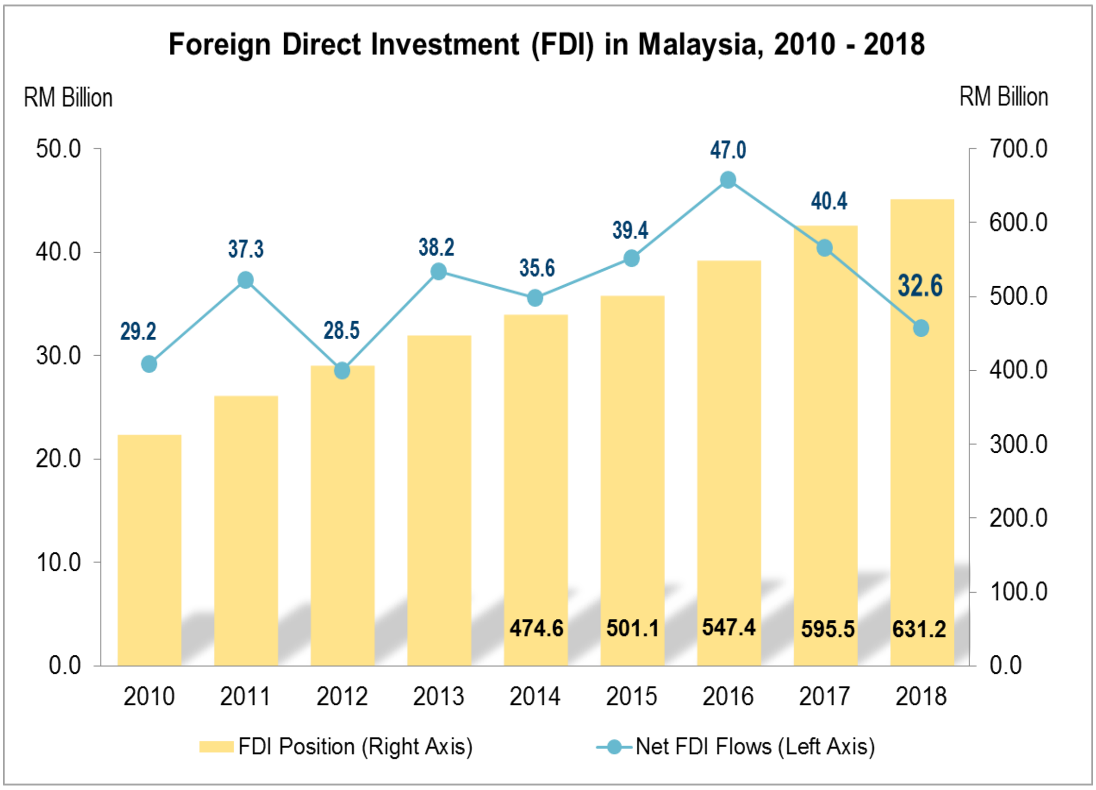
I. Introduction

Globalization and modern technologies have made the movement of money across continents quite fast and cheap. Investors are in search of investment-friendly destinations to invest quite heavily and collect handsome returns on investments. Asian countries have become very prominent in this regard because of the vast investment opportunities, cheap labor, geographical facilities,and are less risky with higher returns. Each country has its characteristics and investorsinvest in countries that match their requirements and are investor-friendly. The reason for choosing a particular country for investment and trade is always backed by several factors and these factors determine the attractiveness of the destination.

Foreign Direct Investment (FDI) is the type of investment where the host country provides the opportunities of investment to the investor country to invest. The nature and the type of investment could be an acquisition or joint venturing or establishment of a new company in the host country. Globally the competition to attract FDI is increasing because of the potential benefits for the economy of the host countries and of course the better returns for the investors.

World Economy has seen a rapid rise in foreign direct investment for more than three and a half decades. World Investment Report (2018) stated that there has been a decline in global FDI by 23%, i.e. $1.43 trillion. Even with this decline, the FDI to developing economies remained stable at $671 billion in 2017. The inflow of FDI gives developing countries access to capital that would otherwise be not available, as Transnational Corporations (TNCs) often have privileged access to capital from the international banking sector. Similarly, FDI provides needed foreign exchange and therefore helps to adjust some of the macroeconomic imbalances in developing countries. Many countries in Asia, Africa, and the Middle East are in the growth mode but the resources available for development with them are limited and insufficient, hence all these nations are competing against each other to make the investment climate better and project itself as the best FDI friendly destination. At the same time, FDI is extremely important for corporate profitability and competitiveness, as the overseas facilities may be able to obtain superior or less costly access to the inputs of production (capital, labor, natural resources, and land) than at home. Investing provides companies with new markets for products and merchandise for foreign companies, especially to market a large surplus of stagnant goods that these companies cannot market in their home country. Finally, investing overseas helps the companies to expand their business in other counties, which leads to making more profits and revenues for the company itself. The contributions of FDI to corporate profitability and competitiveness has been significant and has grown steadily over the past several years, from just 26% in 2016 to 32% in 2019 (FDI Confidence Index Report, 2019).

Asia is considered the largest continental economy in the world which is growing at a fast pace. Asia has sited many modern economic booms from Japan to China and India at present. The Asian economy is seeing variations inside the region and between the states due to the factors like environment, cultural differences, and the political structure perused by the countries. In Asia, the climate and geographical location are very much attractive for the investors. Asian countries can provide a gateway for the trade of many countries, but the scarcity of the resource is one of the major hurdles in the fuller developmentof some of these countries. Malaysia is a developing economy in Asia which, in recent years, has successfully transformed from an exporter of raw materials into a diversified economy. The largest sector of the economy services, accounting for around 54 percent of GDP. The manufacturing sector has been growing in recent years and now accounts for 25 percent of GDP and more than 60 percent of total exports. Mining and quarrying constitute nine percent of GDP and agriculture nine percent. Malaysia is a Southeast Asian country, it is the sixty-sixth largest country by total land area. It has land borders with Thailand in West Malaysia, and Indonesia and Brunei in East Malaysia. It is linked to Singapore by a narrow causeway and a bridge. The country has maritime boundaries with Vietnam and the Philippines.The Foreign Investment in Malaysia has been wavering between USD 10 billion and USD 12 billion since 2010, making the nation perhaps one of the highest beneficiaries of FDI in the region.



Source: Department of Statistics Malaysia Official Portal

Figure 1: Foreign Direct Investment in Malaysia

Figure 1 gives the picture of FDI flow during 2010 to 2018 in local currency the Malaysian ringgit (RM), and Table 1 gives the data on the inflow of FDI into Malaysia during the period 2014 to 2019 in US dollar terms.

Table 1:Foreign Direct Investment in Malaysia: Net Inflows (US$ in Million)

	2014	2015	2016	2017	2018	2019
Net inflows	10,877	10,082	11,336	9,399	7,618	7,650
Increase		-795	1,254	-1,937	-1,781	32
Y-O-Y Growth		-7.31%	12.44%	-17.09%	-18.95%	0.42%
World FDI (%)*	0.58%	0.39%	0.52%	0.47%	0.69%	

*Source:Compiled from World Investment Report, 2020;*World Bank*

The inflow of FDI had increased from US$ 10,877 million in 2014 to a high level of US$ 11,336 million in 2016. But in 2017 and 2018 it was declining, however, a sign of recovery is observed in 2019. Moreover, the percent of world foreign direct investment into Malaysia is showing an increasing trend.

The main objectives of this study are to find out the status of Malaysiaas a destination for FDI; the factors that attract FDI into Malaysiaand how these can be enhanced; and the factors that hinder the flow of FDI into Malaysiaand how these can be reduced. The findings of the study would help the investors to arrive at a better decision regarding FDI into Malaysia, and similarly, help the regulators and other stakeholders to formulate appropriate policies and take necessary steps to enhance the FDI attractiveness of Malaysia. Theremaining part of this paper is structured as follows: Section 2 presents a literature review on FDI. Section 3 states the methodology. Section 4 focuses on analysis and discussions, and Section 5 concludes the paper.

II. Literature Review

Foreign direct investment is widely perceived as a powerful development engine for many receiving (host) countries. The study by Osunkwo (2020) attempted to estimate the impact of Foreign Direct Investment on Economic Growth of Nigeria for the period 1980-2018, it was found that FDI has a positive and significant impact on GDP. Virtually all countries are actively seeking to attract FDI, because of its expected favorable effect on income generation from capital inflows, advanced technology, management skills, and market know-how (Cho, 2003). The motivational factors such as natural resources, market resources, strategic resources, efficiency resources, locational advantages, etc., influenced Multinational Enterprises (MNEs) to perform various activities in the host countries. Initially MNEs search for the customers in host countries and conclude by encompassing productive activities when the foreign market confers higher value to the firm (Bhattacheryay, 2018).

A large number of studies on FDI have been conducted in different parts of the world and the majority of the studies have been mainly concerned with various host-country determinants that are associated with attracting firms to specific locations (Balasubramanyam*et al*, 1996, 1999; Borensztein*et al*, 1998; Alguacil*et al*, 2002; Chakraborty &Basu, 2002; Liu *et al*, 2002; Baharumshah&Thanoon, 2006). The most frequently investigated determinants include market size, growth rate, government policies, entry barriers, cost of production, wage rate, infrastructure, geographical location, cost of capital, etc. (Loree&Guisinger, 1995;Reiljan, 2003; Fernandez *et al*, 2020; Alshamlan *et al*, 2021).

The presentation of the literature review is sequenced in such a manner that the literature relating to market size is presented first, followed by political stability and then all literature relating to all other factors is arranged sequentially.

Market size is expected to have a positive relationship with FDI. Market-oriented FDI aims to set up enterprises to supply goods and services to the local market. The general inference is that host countries with larger market size, faster economic growth, and a higher degree of economic development will provide more and better opportunities for these industries to exploit their ownership advantages and therefore, will attract more market-oriented FDI (OECD, 2000). Several studies such as that of Schmitz &Bieri (1972), Dunning (1980), Lunn (1980), Kravis &Lipsey (1982), Nigh (1985), Culem (1988), and Agyenim*et al*, (2015) gauged that high rate of FDI is highly associated with a lower cost of production and enormous potential demand, which is further supported by the findings of the studies of Tsai (1994), Billington (1999), and Pistoresi (2000), that indicated that market size has positive effects on the inflow of FDI. The study by Makki*et al*, (2004) on the US food processing industry found that market size, per-capita income, and openness significantly affected the US food processing firms' decisions to invest abroad. The study by Reiljan (2003), of foreign direct investment determinants in Estonia, found that most foreign investors in Estonia have a market-seeking nature.

Thus one may presume that large host countries with high growth rates and higher per capita income attract higher foreign direct investment due to larger potential demand.

Political stabilityand reliability determine the FDI inflows. TNCs prefer a stable government so that their investment is protected. Political instability may be in the form of the negative attitude of the government towards TNCs, non-allowance of fund transfer, currency convertibility, war, bureaucracy, and corruption. The study by Root & Ahmed (1979), and Schneider & Frey (1985), looking at aggregate investment flows into developing economies found that political instability significantly affects FDI inflows.

The study by Okwu*et al*, (2020), analyzed the effects of foreign direct investment inflows on the economic growth of 30 leading global economies during the period between 1998 and 2017 and concluded that FDI inflows enhanced economic growth. Balasubramanyam*et al,* (1999), analyzed the role of FDI in promoting economic growth and found that an important role is exerted by both the size of the domestic market and the competitive climate in relation to local producers. It also reported that interactions between FDI and human capital exert an especially important influence upon growth performance. Baharumshah&Thanoon, (2006), carried out a quantitative assessment of the effect of various types of capital flow on the growth process of the East Asian countries and found that FDI is growth-enhancing and that its impact is felt both in the short and long run. Moreover, the study found that countries that are successful in attracting FDI can finance more investments and grow faster than those that deter FDI.

Borenszteinet *al*, (1998), tested the effect of FDI on economic growth in a cross-country regression framework, utilizing data on FDI flows from industrial countries to 69 developing countries over the two decades in the late nineteen nineties, and the results suggest that FDI is an important vehicle for the transfer of technology, contributing relatively more to growth than domestic investment. But, FDI contributes to economic growth only when a sufficient absorptive capability of the advanced technologies is available in the host economy. Chakraborty &Basu (2002) explored the link between foreign direct investment and growth for India using a structural cointegration model with vector error correction mechanism and found that there is a long-run relationship between FDI and GDP. The study also found that the trade liberalization policy of the government had some positive short-run impact on the FDI flow.

The study by Bouchoucha&Benammou (2020) examined the effect of governance on the attractiveness of FDI through a sample of 41 African countries to identify the institutional quality aspects that affect the attractiveness of FDI in African countries, using both the static panel data approach and the dynamic panel approach. The empirical results showed that the attractiveness of FDI to African countries is positively correlated with the control of corruption, the effectiveness of governments, the quality of regulation, and the voice and accountability.

Tax policiesincluding corporate and personal tax rates influence inward FDI. Hajkova*et al,*(2006) explored the impact of taxation on FDI while controlling several, policy and non-policy, factors, and found that taxation and the business environment are the main drivers of FDI in OECD (Organization for Economic Co-operation and Development) countries. Mutti&Grubert (2004) examined empirical asymmetries associated with the effects of taxation on foreign operations by U.S. MNEs and validated that the tax rate in the host country can have a negative effect on subsidiary profit. Other things being equal a country with lower tax rates should stand a greater chance of attracting FDI projects than a country with higher rates (Chandal, 2003).

According to Milner (2013), the presence of a productive labor force is one of the determinants that influence the scope of FDI in a country. Moreover, cheap labour with more skills attracts foreign investors as seen in the Asian countries. (de Mello, 1997)

Numerous studies have been conducted on FDI in different parts of the world, but most of them have been focusing on a few of the determinates of the FDI, moreover, studies focusing on Malaysia are few and are constrained by focusing only on a few factors. Hence, this study is undertaken with the intent of analyzing the FDI environment in Malaysia from a holistic perspective.

In brief, the trend in FDI flows differs by region and country. Although FDI has innumerable effects on the economy of host countries and most countries are trying hard to attract FDI, the inflow of FDI continues to be uneven, with some countries getting the lion’s share and others barely getting any.

III. Methodology

The main objectives of this study are to find out the status of Malaysiaas a destination for FDI; the factors that attract FDI into Malaysiaand how these can be enhanced, and the factors that hinder the flow of FDI into Malaysiaand how these can be reduced. The study is solely based on secondary data collected from local, regional, and international agencies like Government of Malaysia, Central Bank of Malaysia, World Economic Forum, International Monetary Fund, Transparency International, World Bank Group, United Nations, and various publications of the statistical departments, governments, and the press. The study covers a period of five years from 2014-2015 to 2018-2019. The collected data are analyzed using appropriate analytical tools.

IV. Analysis and Discussions

The Global Competitiveness Report 2019 published by the World Economic Forum assesses the competitiveness landscape of 141 economies, providing insight into the drivers of their productivity and prosperity. These 141 economies account for 99% of the world's GDP. The competitiveness ranking is based on indicators organized into 12 pillars: Institutions; Infrastructure; ICT adoption; Macroeconomic stability; Health; Skills; Product market; Labor market; Financial system; Market size; Business dynamism; and Innovation capability. Each indicator or 'pillar' uses a scale from 0 to 100, to show how close an economy is to the ideal state or frontier of competitiveness in that area (Global Competitiveness Report, 2019). The Report series remains the most comprehensive assessment of national competitiveness worldwide. Table 2 presents the year-wise ranking, of Malaysiaby global competitiveness index for the year 2014 to 2019.

Table 2: Global Competitiveness Index: Ranking of Malaysia - 2014 to 2019

Year	2014	2015	2016	2017	2018	2019
Global rank	20	18	25	23	25	27

Source: World Economic Forum, Global Competitiveness Report 2014 to 2019

The data in Table 2 show the relative ranking of Malaysia has declined from rank 20 in the year 2014 to rank 27 in the year 2019, which could be either Malaysiais going back in competitiveness or other countries are boosting their competitiveness and leaping forward which is pushing Malaysiaback in the relative ranking. The analysis of various determinants of FDI begins here, starting with the market size.

4.1. Market Size

Market size, growth in market size, and market efficiency are important determinants of FDI. The market size and the growth prospects of the market of the host country are important pull factors and are positively related to the level of FDI flows (Chandalert, 2000). A huge market size allows the attainment of economies of scale, and transaction costs are lower in countries with higher levels of economic development (Caves, 1971; Zhao & Zhu, 2000).

Malaysia is a market with a total population of approximately 32 million. The market size can be measured by the population and the population growth of the country. Table 3 gives the population, the growth of population, and the global ranking of Malaysia from 2015 to 2020.

Table 3: Population growth and ranking of Malaysia - 2015 to 2020.

Year	Population	Yearly Change	Global Rank
2020	32,365,999	1.30%	45
2019	31,949,777	1.34%	44
2018	31,528,033	1.36%	44
2017	31,104,646	1.37%	44
2016	30,684,654	1.37%	44
2015	30,270,962	1.42%	44

Source: Compiled from worldometers.info

A larger population means a better domestic market that can consume goods and services provided by investors. For Malaysia, this is not a positive as the total population is increasing only at a very low pace and the population growth rate is decreasing,very marginally, in the recent past. Table 4 gives the global ranking for Malaysia on the market size from 2014 to 2019.

Table 4: Market Size: Global Competitiveness Index Ranking of Malaysia – 2014 to 2019

Year	2014	2015	2016	2017	2018	2019
Global Rank	26	26	24	24	23	24

Source: Compiled from Global competitiveness reports from 2014 to 2019

Malaysia's market size has marginally improved from rank 26 in 2014 to 24 by the year 2019, which is not substantial but encouraging.

4.2. Economic Growth

Over the past decade, growth in advanced economies has been very weak. Many emerging economies - including Argentina, Brazil, Russia, India, and China - are experiencing some slowdown or stagnation. In least-developed economies, growth remains well below potential and highly volatile. Productivity growth started slowing down well before the financial crisis of 2008. Between 2000 and 2007, total factor productivity (TFP) annual growth averaged just 1% in advanced economies and 2.8% in emerging and developing economies. TFP then plummeted during the crisis. Between 2011 and 2016, TFP grew by 0.3% in advanced economies and 1.3% in emerging and developing economies (Obstfeld &Duval, 2018). Corporates do not operate in a vacuum, they are highly influenced and attracted by the environmental factors and economic growth of the economy in which they do business. Corporates in high growth economies can envisage growth at a higher rate than those in the low growth countries as the environment highly influences the entity (Fernandez*et al*, 2020). For emerging economies like Malaysia FDI is often referred to as the most effective way to transfer capital and technology from other economies especially the developed ones. Developed economies look at emerging economies like Malaysia as an economy with immense growth potential. Table 5 shows the GDP, the annual percentage growth rate of GDP at market prices based on constant local currency, for Malaysia from 2014 to 2019.

Table 5:Economic Growth of Malaysia - 2014 to 2019

Year	2014	2015	2016	2017	2018	2019	Average
Growth rate	6.01%	5.09%	4.45%	5.74%	4.73%	4.33%	5.06%
Global Rank	34	41	53	29	48	54	

Source: Compiled from theGlobalEconomy.com, reports 2014 to 2019

The global average growth rate for 2019 was 2.77%. In 2019Malaysia had the 54th highest growth rate of 4.33%. During the last six years, Malaysia was growing at an annual average rate of 5.06%, which is far ahead of the global average growth rate. The Gross Domestic Product (GDP) in Malaysia was worth 364.70 billion US dollars in 2019, according to official data from the World Bank and projections from Trading Economics. The GDP value of Malaysia represents 0.30% of the world economy. The GDP is growing steadily in the recent past. This is a good sign and makes the country an attractive destination for the FDI.

4.3. Infrastructure

Infrastructure is a major determinant of FDI. Excellent infrastructure plays a major role in the productivity and profitability of Multinational Corporations (MNCs), and thus, their decision about FDI location. Table 6 gives the global ranking of Malaysiafor the period 2014 to 2019 based on road connectivity, quality of road infrastructure, railroad density, the efficiency of train services, airport connectivity, the efficiency of air transport services, liner shipping connectivity, the efficiency of seaport services, utility infrastructure, electricity access, electricity supply quality, exposure to unsafe drinking water and reliability of water supply.

Table 6: Infrastructure: Global Competitiveness Index Ranking of Malaysia - 2014 to 2019

Year	2014	2015	2016	2017	2018	2019
Global Rank	25	24	24	22	32	35

Source: Compiled from Global competitiveness reports from 2014 to 2019

Infrastructure is vital for the long-term growth and competitiveness of emerging economies. It helps create jobs and improves standards of living. and the Government is continuously investing in infrastructure projects and is keen on initiating policies encouraging the private sector players to heavily invest in the infrastructure projects, that would ensure time-bound creation of a world-class infrastructure in the country. However, many Asian countries are still facing constraints in developing and funding infrastructure projects. In 2019 Malaysia is ranked 35 in the Global competitiveness report, whereas in 2017 the rank was higher at 25, which shows that even though Malaysia's infrastructure is developing at a high rate, but other nations have grown at a higher rate and thus Malaysiagot pushed to a lower rank. For getting a clearer picture let us browse into the Logistics Performance Index.

4.3.1. Logistics Performance Index

Logistics is the backbone of trade, and good logistics can reduce trade costs and make countries compete globally. Getting logistics right, means improving infrastructure, skills, customs and regulations, policies, and governance at the right proportion. The Logistics Performance Index (LPI) is reported by the World Bank once every two years, based on qualitative and quantitative data on six core performance components: (1) The efficiency of customs and border clearance, (2) The quality of trade and transport infrastructure, (3) The ease of arranging competitively priced shipments, (4) The competence and quality of logistics services, (5) The ability to track and trace consignments, (6) The frequency with which shipments reach consignees within scheduled or expected delivery time. Table 7 gives the ranking of Malaysiafrom 2014 to 2018.

Table 7: Logistics Performance Index: Ranking of Malaysia - 2014 to 2018

Year	LPI Global Rank	Parameter-wise Global ranks					
		Customs	Infrastructure	International shipments	Logistics competence	Tracking & tracing	Timeliness
2014	25	27	26	10	32	23	31
2016	32	40	33	32	35	36	47
2018	41	43	40	32	36	47	53

Source: Compiled from Logistics Performance Index, 2014 - 2018

Malaysia's ranking in the World Bank's Logistics Performance Index (LPI) deteriorated from 25 in 2014 to 41 in 2018 globally among 160 countries based on six different parameters. The position of Malaysia among the emerging markets is quite appreciable as it is ranked fifth in the 2020 Agility Emerging Markets Logistics Index. To stay competitive, the policymakers, have to take steps to strengthen the logistic sector, and investments in this sector are highly recommended and will be beneficial not only for the investor and the country but also for the international trade.

4.4. Productive Labor Market

The vibrant diversified labor force attracts foreign direct investments. When international investors look for an investment destination, considerations about the skilled nature of the labor force are a matter of priority that determines their scope of success in a country (Brakman*et al*, 2008).Table 8 gives the data for the labor force which comprises people ages 15 and older who supply labor for the production of goods and services during the period of study. It includes people who are currently employed and people who are unemployed but seeking work as well as first-time job-seekers.

Table 8: Labor Force in Malaysia - 2014 to 2019

Year	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Labor Force (million)	14.28	14.61	14.85	15.11	15.38	15.67
Global Rank	39	39	39	40	40	40

Source: Compiled from TheGlobalEconomy.com reports 2014 to 2019

Throughout the period of study, Malaysiahad been retaining the 39th and 40thposition globally. Malaysia's total median age is 30.3 years (2020 estimate, CIA World Factbook), which indicates that 50% of the population is younger than 30.3 years. Such numbers indicate that, from a demographic perspective, there is great potential for both productivity and creativity in Malaysia.Now let us look at the labor market efficiency, Table 9 gives the ranking for Malaysiaon labor market efficiency from 2014 to 2019 based on cooperation in labor-employer relations, the flexibility of wage determination, hiring and firing practices, redundancy costs, active labor market policies, workers' rights, ease of hiring foreign labor, internal labor mobility, the effect of taxation on incentives to work, pay and productivity, reliance on professional management, and the ratio of women in the labor force.

Table 9: Labor Market Efficiency: Global Competitiveness Index Ranking of Malaysia - 2014 to 2019

Year	2014	2015	2016	2017	2018	2019
Global Rank	19	19	24	26	20	20

Source: Compiled from Global competitiveness reports from 2014 to 2019

An efficient labor market, easy availability of skilled labor, the ready availability of training facility and capacity to attract and retain the right talent from within the country and other parts of the globe are the most important factors that attract international investors. Malaysia is ranked 20 out of 141 nations ranked which is highly appreciable and is one of the prime factors attracting FDI.

4.5. Political Risk

TNCs usually assess political risk before investing in any country. There are many forms of political risks, but the extreme form is the possibility that the host country will take over a subsidiary. However, this form of political risk is an extreme case and not very common in today's global world. The more common forms of political risk include the negative attitude of the host government to TNCs, blockage of fund transfer, currency inconvertibility, war, bureaucracy, and corruption. Credendo Group provides business and economic data for 200 countries and has classified country risk under different indicators like political risk short term, political risk medium/long term, special transactions risk, transfer risk, expropriation risk, and political violence risk; under each of these indicators countries are classified into seven categories: from 1 (low risk) to 7 (high risk); among them, those related to direct investments is probed into a little bite.

4.5.1. Transfer Risk

The currency inconvertibility and transfer restriction risk refer to the inability to convert and transfer out of the host country any funds related to the investment. The average value for Malaysia during the period of study was 2 in 2014 and 2015, but since then it is 3. This indicates that currency inconvertibility and transfer restriction risk is low for Malaysia.

4.5.2. Expropriation Risk

The risk of expropriation encompasses all discriminatory measures taken by a host government which deprive the investor of its investment without any adequate compensation; and also includes events of embargo, change of (legal) regime and denial of justice, and the probability of a negative change in attitude towards foreign investments.The average value for Malaysia during the period of study is 2 for each year from 2014 to 2019. This indicates that expropriation risk is low in Malaysia. Table 10 gives the consolidated ranking for the period 2014 to 2019.

Table 10:Country Risk: Credendo Group Index Ranking of Malaysia - 2014 to 2019

Year	2014	2015	2016	2017	2018	2019
Transfer risk	2	2	3	3	3	3
Expropriation risk	2	2	2	2	2	2

Source: Compiled from Credendo Group index reports 2014 to 2019

Hence the international investors can be sure that they will get a warm welcome in Malaysia, their funds will not be blocked, enjoy easy convertibility, and fewer bureaucracy bottlenecks. Now let us go deeper into the level of corruption in Malaysia, as US$1.75 trillion changes hands globally in bribes every year

4.5.3. Corruption

Corruption distorts competition and investment and hinders free and fair trade. The study by Mauro (1995) found that corruption lowers investment and thereby economic growth. Corruption erodes trust, weakens democracy, hampers economic development, and further exacerbates inequality, poverty, social division, and the environmental crisis. When the corruption level is sufficiently high no investment will take place. Malaysia is one of the less corrupt countries in Southeast Asia and offers a business-friendly environment, with an effective and efficient public administration. Transparency International has published the Corruption Perceptions Index (CPI) since 1995, annually ranking countries by their perceived levels of corruption, as determined by expert assessments and opinion surveys. The CPI generally defines corruption as 'the misuse of public power for private benefit.' Table 11 displays the ranks assigned to Malaysia during the last six years.

Table 11:Corruption: Global Ranking of Malaysia - 2014 to 2019

Year	2014	2015	2016	2017	2018	2019
Global Rank	51	54	55	62	61	51

Source: Compiled from the Corruption Perceptions Index 2014 to 2019

The ranking by the Corruption Perceptions Index shows that the nation has to improve a lot in containing and controlling corruption, the data in the table do not confirm much improvement year by year in reducing corruption. Hope the steps taken by the current government sees positive results soon.

4.6. Interest Rates

High-interest rates tend to slow the growth of an economy and reduce the demand for the TNC's products and thus can negatively impact the flow of FDI. High loan interests translate into the cost burden of a company and have been evidenced by the companies that decide to halt operations and move to other regions with low-interest rates. From the perspective of an investor, low-interest rates are better as compared to high rates because returns are high when the interest charges are low. Destinations with low-interest rates are bound to attract more investors than destinations with high-interest rates.

The lending rate is the bank rate that usually meets the short- and medium-term financing needs of the private sector. This rate is normally differentiated according to the creditworthiness of borrowers and objectives of financing. Table 12 gives the lending interest rates in Malaysiaduring the period 2014 to 2019

Table 12: Lending Interest Rates in Malaysia - 2014 to 2019

	2014	2015	2016	2017	2018	2019
Interest Rate	4.59%	4.57%	4.53%	4.61%	4.93%	4.88%
Global Rank	125	116	113	111	91	80

Source: Compiled from TheGlobalEconomy.com reports 2014 to 2019

The global average lending interest rate for 2019 was 11.5%. The lending rate in Malaysiais lower than the global average, which is a good sign as the lenders can avail loans at a lower cost, as the cost of capital impacts the corporate decisions and return on investment measuring parameters.

4.6.1. Developed Financial System

The presence of financial institutions with sufficient liquidity and transparency to grant quick loans at competitive rates is an important determinant. The banking system consists of Bank Negara Malaysia (Central Bank of Malaysia), banking institutions (commercial banks, finance companies, merchant banks, and Islamic banks), and a miscellaneous group (discount houses and representative offices of foreign banks). The banking system is the largest component of the financial system, accounting for about 67% of the total assets of the financial system. The Malaysian banking sector consists of 27 commercial banks (including 19 licensed foreign banks), 11 investment banks, 18 Islamic banks as well as non-bank financial institutions. The investors, market participants, and analysts have been comfortable with the Malaysian banking system. Table 13 gives the ranking for financial system of Malaysia from 2014 to 2019 based on the availability of domestic credit to the private sector, financing of SMEs, venture capital availability, market capitalization, insurance premium, soundness of banks, non-performing loans as a percentage of loan portfolio value, credit gap and banks' regulatory capital ratio.

Table 13: Financial System: Global Competitiveness Index Ranking of Malaysia - 2014 to 2019

Year	2014	2015	2016	2017	2018	2019
Global Rank	4	9	13	16	15	15

Source: Compiled from Global competitiveness reports from 2014 to 2019

Malaysia was ranked at 4 in 2014 and has gradually dropped to 15 in 2019, which calls the attention of policymakers and regulators to take a special interest in strengthening the financial system. A modernized technology-driven financial system is the need of the hour. Today we are in a world where payments can be sent with a click of a button from the most basic cell phone, countries must have financial sectors that ensure stability while offering deep, well-regulated markets and being agile enough to respond to rapid innovation in the industry. Thus the Malaysia financial sector offers plenty of investment opportunities that can be availed by both domestic and international investors, who can make the Malaysia financial sector stronger and investor-friendly.

4.7. Tax Rates and Clarity of Taxation Policies

Lower tax will give corporates and individuals more after-tax income that could enhance the wealth of the corporates and individuals could use for buying more goods and services, or for saving. Investors prefer lower-tax locations to locate or relocate their businesses.

4.7.1. Corporate Tax

Table 14 gives the corporate tax rates for a few selected Southeast Asian Countries and the averages.

Table 14: Corporate Tax Rates (in %) for select Southeast Asian Countries - 2014 to 2019

	2014	2015	2016	2017	2018	2019
Indonesia	25	25	25	25	25	25
Malaysia	25	24	24	24	24	24
Philippines	30	30	30	30	30	30
Singapore	17	17	17	17	17	17
Thailand	20	20	20	20	20	20
Vietnam	22	22	22	20	20	20
Asia average	22	21.98	21.41	21.08	21.21	21.09
Global average	23.88	23.77	23.62	24.06	24.02	23.79

Source: Compiled from KPMG data

The corporate tax rates are relatively high in Malaysia. During the period of study, the corporate tax rates in Malaysia is higher than most of the other Southeast Asian countries, it is also higher than the Asian and the global average. The policymakers will have to reduce the tax rates to make Malaysiafriendlier to the corporates operating in Malaysia and to attract MNCs from around the globe to invest in Malaysia.

4.7.2. Income Tax

Table 15 gives the individual income tax rates for a few selected Southeast Asian Countries and the averages.

Table 15: Income Tax Rates (in %) for select Southeast Asian Countries - 2014 to 2019

	2014	2015	2016	2017	2018	2019
Indonesia	30	30	30	30	30	30
Malaysia	26	25	28	28	28	28
Philippines	32	32	32	32	35	35
Singapore	20	20	22	22	22	22
Thailand	35	35	35	35	35	35
Vietnam	35	35	35	35	35	35
Asia average	27.2	27.09	27.35	27.65	27.67	27.99
Global average	31.08	30.8	30.97	31.41	31.39	31.23

Source: Compiled from KPMG data

The individual income tax rates are quite reasonable in Malaysia. During the period of study, the individual income tax rates in Malaysia is one of the lowest among the Southeast Asian countries.Lower-income tax reduces the cost of running a business because at the time of salary negotiations the prospective employee looks at the after-tax annual pay package offered. A countrywith a lower income tax can attract a highly talented and skilled workforce needed for the domestic and MNCs operating in the country.

4.8. Technology Adoption and Innovation

Technology is an important consideration made by foreign investors because it determines the scope of operational efficiency. From an investment perspective, the lack of efficient technology systems implies that operations would be slow and costly, and, thus, there will be a need for choosing destinations with a higher level of technology. Table 16 gives the ranking for Malaysia on ICT adoption from 2014 to 2019 based on mobile-cellular telephone subscriptions, mobile-broadband subscriptions, fixed broadband internet subscriptions, fiber internet subscriptions, and internet users.

Table 16: ICT Adoption: Global Competitiveness Index Ranking of Malaysia - 2014 to 2019

Year	2014	2015	2016	2017	2018	2019
Global Rank	60	47	43	46	32	33

Source: Compiled from Global competitiveness reports from 2014 to 2019

In ICT adoption Malaysia is ranked relatively better, but the policymakers will have to do more to make the country more competitive. Table 17 gives the ranking for Malaysia on innovation friendliness during 2014 to 2019 based on diversity of the workforce, state of cluster development, international co-invention, multi-stakeholder collaboration, scientific publications, patent applications, R&D expenditures, prominence of research institutions, buyer sophistication, and applications made for trademark.

Table 17:Innovation Capacity: Global Competitiveness Index Ranking of Malaysia - 2014 to 2019

Year	2014	2015	2016	2017	2018	2019
Global Rank	21	20	22	22	30	30

Source: Compiled from Global competitiveness reports from 2014 to 2019

In innovation friendliness, Malaysia was having a relatively better rank of 20 in 2015, but since 2016 it is decreasing and is ranked at 30 in the year 2019, which calls for immediate intervention from the part ofthe policymakers. Now let us look at the ranking of by Global Innovation Index (GII) co-published by Cornell University, INSEAD, and the World Intellectual Property Organization (WIPO, an agency of the United Nations). The Index is a ranking of the innovation capabilities and results of world economies. It measures innovation based on criteria that include institutions, human capital and research, infrastructure, credit, investment, linkages; the creation, absorption, and diffusion of knowledge; and creative outputs. Table 18 gives the ranking of Malaysiain the Global Innovation Index from 2014 to 2020.

Table 18: Global Innovation Index:Malaysia's Ranking - 2014 to 2020

Year	2014	2015	2016	2017	2018	2019	2020
GII	33	32	35	37	35	35	33
Innovation Inputs	30	31	32	36	34	34	34
Innovation Outputs	35	34	39	39	39	39	36

Source: Compiled from the Global Innovation Index 2014 to 2020

Over the last seven years, Malaysia has been linkering in and around the same position. The innovation inputs decreased from 30 in the year 2014 to 34 in the year 2020, similarly, the innovation outputs have decreased from 35 in the year 2014 to 39 in the year 2019, but has improved to 36 in the year 2020. The above data shows that Malaysia requires more investments and more friendly policies to further enhance technology adoption and innovations. This is a huge opportunity for both domestic and international investors to invest and reap high returns and at the same time make Malaysia a better place to live and do business.

4.9. Ease of Doing Business

The World Bank Group's Doing Business Report ranks economies based on their ease of doing business. These reports provide quantitative indicators on regulation for starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency. A high ease of doing business ranking means the regulatory environment is more conducive to the starting and operation of a local firm.Table 19 gives the ranking for Malaysiafrom 2014 to 2020.

Table 19: Ease ofDoing Business: Malaysia's Ranking - 2014 - 2020

Year	2014	2015	2016	2017	2018	2019	2020
Global Rank	6	18	18	23	24	15	12

Source: Compiled from the Doing Business Report 2014 to 2020

Doing Business data for the past seven years show that the position of Malaysia very good in 2014, since then it had been decreasing and reached a low of 24 in 2018, but for the last two years it is showing appreciable improvement and is at rank 12 in 2020, it is easier to file for a new business, get a construction permit and trade goods across the border. Still more has to be done to make Malaysia more investment-friendly and attractive to FDIs.

4.10. Government Initiatives in Making Malaysia Investment Friendly

FDI is a critical driver of economic growth and is a major source of non-debt financial resource for the economic development of any nation. The Malaysian government has traditionally encouraged foreign direct investment. The current Government has called for investments in high technology and research and development, focusing on artificial intelligence, Internet of Things device design and manufacturing, smart cities, electric vehicles, automation of the manufacturing industry, and telecommunications infrastructure, at the same time the government is also seeking for further development in traditional sectors such as oil and gas; palm oil and rubber; wholesale and retail operations, including e-commerce; financial services; tourism; electrical and electronics; business services; communications content and infrastructure; education; agriculture; and health care.

Moreover, the current global economic outlook is precarious due to the U.S.-China trade war and the Novel Coronavirus COVID-19. Malaysia is an attractive option for manufacturers fleeing China. In October 2019, the government introduced measures in its 2020 budget designed to streamline and further incentivize foreign investment, with special emphasis on investments being redirected from China as a result of shifting global supply chains. The Malaysian government established the China Special Channel to attract these investments, an initiative being managed by InvestKL, an investment promotion agency under the Ministry of International Trade and Industry. The government also established the National Committee on Investment, an investment approval body jointly chaired by the Minister of Finance and the Minister of International Trade and Industry, to expedite the regulatory process for approving new investments.

V. Conclusion

Malaysia keeps on being an appealing destination for FDI despite the strains over the world. The specialists try to position Malaysia as a door to the ASEAN market by offering different motivators to foreign investors. Several global business indexes and global ranking agencies have recognized the advantages offered by Malaysiaand have duly ranked Malaysiaas an attractive FDI destination. The nation is positioned 12 out of 190 economies by the World Bank in its Doing Business 2020 report, increasing three spots from the earlier year.

The other parameters making Malaysiaan attractive destination is the good economic growth rate which is quite above the global average, high-talented and English-talking workforce with 50% of the population being younger than 30.3 years, easy currency inconvertibility and low transfer restriction, low expropriation risk, low-interest rate, and relatively good ICT adoption. The parameters making Malaysiaunattractive is the slow infrastructure development, the decline in logistics performance, high level of corruption, high corporate tax rates, and low level of innovations. Moreover, the financial system requires plenty of developments incorporating the current cutting edge technologies which can enhance the efficiency and productivity of the system and make it easily and widely available to all in the society at a much lower cost.

Malaysia's performance in attracting FDI relative to both earlier decades and the rest of the Association of Southeast Asian Nations (ASEAN) had slowed. But thebusiness climate in Malaysia is generally conducive to investment. Increased transparency and structural reforms that will prevent future corrupt practices could make Malaysia a more attractive destination for FDI in the long run.

The limitation of this study is that the impact of current Novel Coronavirus COVID-19 is not factored into the study, as it is still an ongoing pandemic, hence the investors are requested to factor in that while making the investment decisions.

Exchange Rate: MYR 1 = US$ 0.24381 as on November 19, 2020.

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