



Malaysian Investment in the Global Economy: A Study on the Foreign Affiliates Performance

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Paper prepared for the 16th Conference of IAOS
OECD Headquarters, Paris, France, 19-21 September 2018

Session 3.D, 2, 20/09, 10h30: Globalisation: country case studies

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FINAL VERSION 31/08/2018

Prepared for the 16th Conference of the
International Association of Official Statisticians (IAOS)
OECD Headquarters, Paris, France, 19-21 September 2018

Note (*optional*):

This Working Paper should not be reported as representing the views of the Department of Statistics Malaysia. The views expressed are those of the author(s).

ABSTRACT

The rapid expansion in the globalisation of the world economy, supported by better communications, transport facilities and trade liberalisation policies leads to expansion of multinational enterprises to set up affiliate companies in foreign countries. This paper aims to study the performance of foreign affiliate inside and outside of Malaysia. In the case of Malaysia, Inward and Outward Foreign Affiliates refer to the activity of foreign affiliates' resident in and abroad that controlled by parent companies which owns more than 50 per cent of the equity as recommended in the Manual on Statistics of International Trade in Services 2010 (MSITS 2010). In recognising the importance of multinational enterprises contribution to Malaysia's economy, it is crucial to gauge the performance of these enterprises, especially in terms of their competitiveness and effectiveness in domestic market. Thus, in 2009, Malaysia developed the Inward Foreign Affiliates Statistics while Outward Foreign Affiliates statistics was in 2010. The number of foreign affiliates inside and outside of Malaysia have been on the increasing trend, whereby there were 2,964 inward affiliates in 2016 compared to 2,742 affiliates in 2010. Meanwhile, outward affiliates recorded 1,712 in 2010 and increased to 2,125 affiliates in 2015. Most of the inward and outward foreign affiliates of Malaysia were involved in manufacturing and services sectors.

Keywords: Inward, Outward, Foreign Affiliates

1. INTRODUCTION

Malaysia is recognised as one of the fastest growing economies in this region. The nation's Gross Domestic Products recorded a value of RM1,353 billion in 2017 with domestic market and external trade continue to gear up the economic momentum. The impressive economic growth of Malaysia was also contributed by international trade as one of the key factors. Total trade of Malaysia was more than RM1.7 trillion in 2017 signifying the open economic policy. Malaysia's economic transition from agrarian activity in 1970s to manufacturing in 1990s and subsequently to services in 2000s was largely influenced by the economic policy implemented by the government. One of the most significant policy implemented by Malaysia was Look East Policy introduced in 1981. This reaffirmed the Malaysia's status as an open economy. Malaysia has become the major beneficiaries of trade openness and globalisation.

The advance and rapid spread of technologies in terms of communications and transportation provide excellent platforms for countries to develop the economy at a faster pace via cross border transactions with the rest of the world. Hence, in a world of increasing global competitiveness, foreign investment is crucial for nation's economy development. Foreign investment is distinguished into Foreign Direct Investment (FDI) and Direct Investment Abroad (DIA) which have direct or indirect ownership of 10 per cent or more voting power. Malaysia is open to foreign markets for financial transactions besides its trading activities of goods and services. In the early 1970s, Malaysia was known as a major destination for FDI mostly in the manufacturing sector. One of the FDI strategy adopted by Government of Malaysia was to develop FDI location for specific industry. As a result, many cities in Malaysia have been transformed into a thriving manufacturing hub. Over the years, over the years foreign investment were more diversified into other industries precisely in wholesale, retail, finance, real estate, mining and agriculture.

1.1 FDI in Malaysia

The data on FDI in terms of flows and stocks are recorded in a country's Financial Account of the Balance of Payments (BOP) or International Investment Position (IIP). Based on the recent statistics of FDI published by the Department of Statistics Malaysia (DOSM), the net FDI flows recorded RM41.0 billion in 2017. The FDI flows in Malaysia have been on the upward trend since 2001. However, the dropped in 2009 were due to the global financial crisis. As at end of 2017, the FDI position expanded to a value of RM570.3 billion as shown in **Figure 1**.

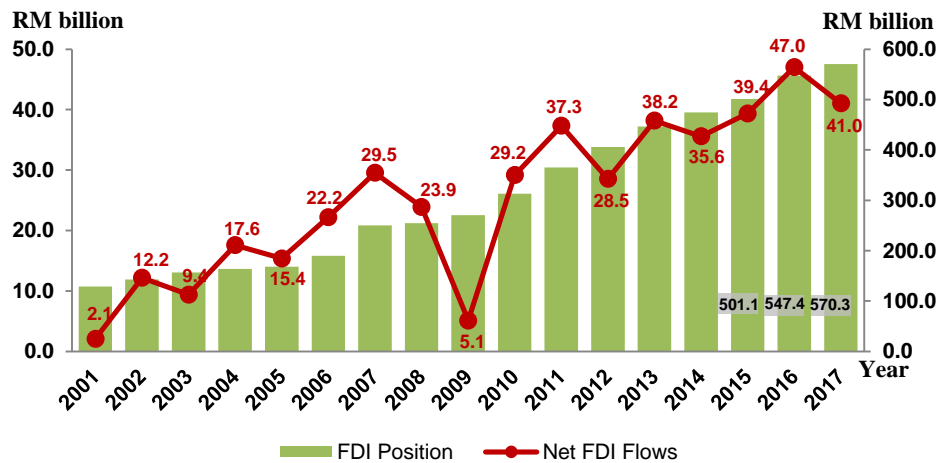


Figure 1: Performance of FDI in Malaysia, 2001- 2017
Source : Statistics of Foreign Direct Investment (FDI), DOSM

1.2 DIA of Malaysia

The role of DIA is regarded as one of the most important contributor of economic growth. DIA is important for multinational enterprises to seek advantage abroad through financial gain. DIA in the early 1970s was not as prominent as FDI, as the outflow was relatively less than the inflow (Tham, 2007). However since 1990s, Malaysia began to actively invest in overseas precisely in services and mining activities.

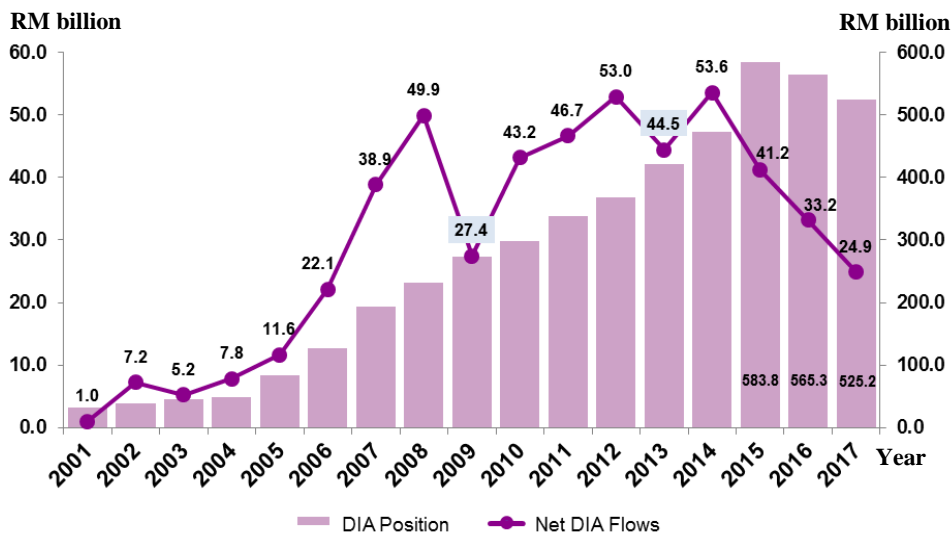


Figure 2: Performance of DIA in Abroad, 2001- 2017
Source : Statistics of Malaysia's Direct Investment Abroad (DIA), DOSM

Figure 2 shows that the net DIA flows recorded an increasing trend since 2003 with the highest flow in 2008 before dropped to RM27.4 billion in 2009 due to the economic downturn. However, for the later years, due to uncertainty in the global environment and subdued crude oil prices, DIA performance began

to record lower investments. For year 2017, the net DIA flows registered lower net outflow of RM24.9 billion. Since 2016, the DIA position has been on the downward trend following lower DIA flows which stood at RM525.2 billion in 2017.

FDI is a tool for economic development in the form of job creation and transfer of technology while DIA benefits from return on investments and generate domestic exports. Nevertheless, it is a challenge for the host country to measure the positive impacts of FDI and DIA especially their competitiveness and effectiveness in the domestic market. The lower threshold of 10 per cent ownership of FDI and DIA is insufficient to reflect the influence of foreign controlled affiliates' contribution to the economy. Thus, Foreign Affiliates Statistics (FATS) is recommended as the tool to measure the performance of FDI and DIA, subject to 50 per cent of equity ownership by foreign affiliates. By having the majority shares, the companies have the influence on the operation of the affiliates.

2. LITERATURE REVIEW

According to Tattawasart (2011), data on transactions and positions between direct investors and their affiliates could not adequately reflect the detailed information on the activities of these multinational enterprises (MNEs). Therefore, FATS are initiated to identified the gaps between multinational enterprises' activities and networks with the rest of the world. Data on FATS provide comprehensive information on the economic impact that MNEs investments have on the economy of the affiliates' country of residence. The influence of MNEs investment are such as job creation, turnover, shares of other economic activities such as investment, trade, value added, technological and managerial skill transfers, etc. FATS also portray the significance of MNEs to the host country in terms of benefits and risks associated with investors' countries, which creates interest to analysts and economists to study on investment promotion and trade negotiation. The FATS also used by macroeconomic analysts, policy makers and researchers to measure sectoral vulnerability and spill over effects of these foreign affiliates.

In addition, Yamaguchi (2005) highlighted that FATS statistics are useful in gauging the influence of foreign direct investment and the impact of entry barriers levied on foreign companies. As in the case of foreign direct investment, FATS is categorised into outward FATS and inward FATS which enable to gauge the economic impact of inward and outward direct investments on the host country. Moreover, the FATS statistics that consist of various data is led to the comparison of foreign affiliates and domestic companies performances. It also provides data for verifying the effectiveness of barriers to entry and domestic policies for protecting domestic industries. FATS statistics can be established by expanding and developing the existing statistical surveys.

3. CONCEPTS AND DEFINITIONS

Concepts and definitions used in this publication are in accordance with the recommendations of the Manual on Statistics of International Trade in Services 2010 (MSITS 2010) by United Nation Statistics Division. FATS in this Manual defined as the statistics describing the activities of overseas affiliates that controlled by multinational companies. In accordance, DOSM produces both the Statistics on Foreign Affiliates in Malaysia (Inward FATS) and Statistics on Malaysia Affiliates Abroad (Outward FATS). Inward FATS portrays the performance of foreign controlled companies in Malaysia and the Outward FATS illuminates the performance of the affiliates' located abroad which are controlled by Malaysian

companies. “Affiliate” in this context considered to be the resident of the economy, which the subsidiary or branch is located for a longer period of more than a year. The term “controlled” refers to a company which owns the majority of the share and have the direct influence on the operation of the affiliate.

Inward FATS provide the information on number of affiliates, number of employees, value added, gross capital fixed formation (GFCF), imports and exports. Number of affiliates covered in this statistics are foreign controlled affiliates in Malaysia with more than 50 per cent of the equity. The number of employees refers to workers on the payrolls of foreign affiliates, including contract workers and the value added refers to the amount by which the value of the outputs produced exceeds the value of the intermediate inputs consumed. Meanwhile, GFCF is measured by the total value of a producer’s acquisition, less disposal of fixed assets during the accounting period, plus certain additions to the value of non-produced assets realised by productive activity. Exports refer to transactions in goods and services from resident to non-resident, while imports consist of those transactions from non-resident to resident. As for goods, an element of ownership principle is taken into consideration.

Meanwhile, Outward FATS consist of number of affiliates, number of employees, turnover, compensation of employees (COE) and assets. It covers those affiliates in abroad controlled by the Malaysia’s companies with an ownership equity of more than 50 per cent. The number of employees are workers on the payrolls of Malaysia’s affiliates abroad including contract workers. The turnover is defined as the amount of goods or services sold in a given time period by an affiliate, while for construction, it refers to the value of work done. The remaining variables are COE which refers to the total remuneration, in cash or in kind, payable by an enterprise to an employee in return for work done by the employee during the accounting period; and assets are the accumulative value representing the benefits accruing to the economic owner by holding or using the entity over a period of time. These include both financial and nonfinancial assets, whether produced or non-produced.

4. DATA SOURCES AND METHODOLOGY

The FATS statistics compilation is conforms to the recommendation of MSITS 2010 and Balance of Payments and International Investment Position Manual (BPM6). The first edition of the manual was issued in 2002 and revised in 2010 in tandem with the sixth edition of the BPM6 2008, the System of National Accounts 2008 and the revised OECD Benchmark Definition of Foreign Direct Investment (4th Ed.,2008). MSITS chapter 4 provides comprehensive guidelines on the compilation of FATS. It also recommended FATS variables to be classified by economic activity in accordance with International Standard Industrial Classification of All Economic Activities (ISIC) REV 4 to ensure the data is comparable internationally. Hence, the Malaysia Standard Industrial Classification (MSIC) 2008 Ver.1.0 is used to classify the inward and outward statistics by economic sector.

The data for inward FATS is obtained from Economics Census (EC), which is conducted once in every five years, the Census of Distributive Trade is once in every two years and other economic surveys conducted by DOSM. The Economic Census and Survey questionnaires enclose questions on equity ownership by resident or non-resident in Malaysia. Those establishments that reported on equity ownership by non-residents of more than 50 per cent are classified as foreign affiliates. The information on country of an ultimate/ immediate parent company of the establishments is extracted mainly from the EC. Other sources used to collect the data were from Joint International Investment Position survey by the

Central Bank and DOSM, custom declaration data for exports and imports of goods, Companies' Commission of Malaysia as well as companies' websites.

In the meantime, the data source for outward FATS is solely from the Survey of Outward Foreign Affiliates (SOFA) and was conducted by DOSM since 2010 with the reference year of 2008. The questionnaire and system of SOFA were developed in 2010. This survey collects data from parent/ultimate parent companies in Malaysia on economic statistics of their affiliates operating abroad once in every two years. The questionnaire comprises information on the name of affiliates, country located, operation status, year of incorporation, relationship, equity ownership, principal business activity, number of employees, turnover, total expenditure, total exports, total imports, percentage of exports and imports through e-Commerce, total assets and liability.

5. ANALYSIS AND FINDINGS OF INWARD FATS

Malaysia has begun to develop the Inward FATS since 2009 for reference year of 2005 in tandem with ASEAN group meeting and requirements from stakeholders and policy makers. It presents information on foreign affiliates by economic activity such as Agriculture, Mining, Manufacturing, Construction and Services. It was published for public in 2016 for the reference year 2015 with the time series data from 2010 to 2015. Subsequently, the second publication was published in 2017 for the reference year 2016.

5.1 Performance of Inward FATS

In 2016, Malaysia registered 2,964 foreign affiliates compared to 2,742 affiliates in 2010. The affiliates were largely involved in the manufacturing sector with the highest share of 57.1 per cent, followed by 34.4 per cent in the services sector (**Figure 3**). The remaining affiliates with a share of 8.5 per cent were involved in the construction, agriculture and mining sector. By regional basis, Asia region had the highest foreign affiliates in Malaysia with a share of 64.6 per cent (1,914 affiliates), followed by Europe and America, which contributed 21.0 per cent and 12.2 per cent for the year 2016.

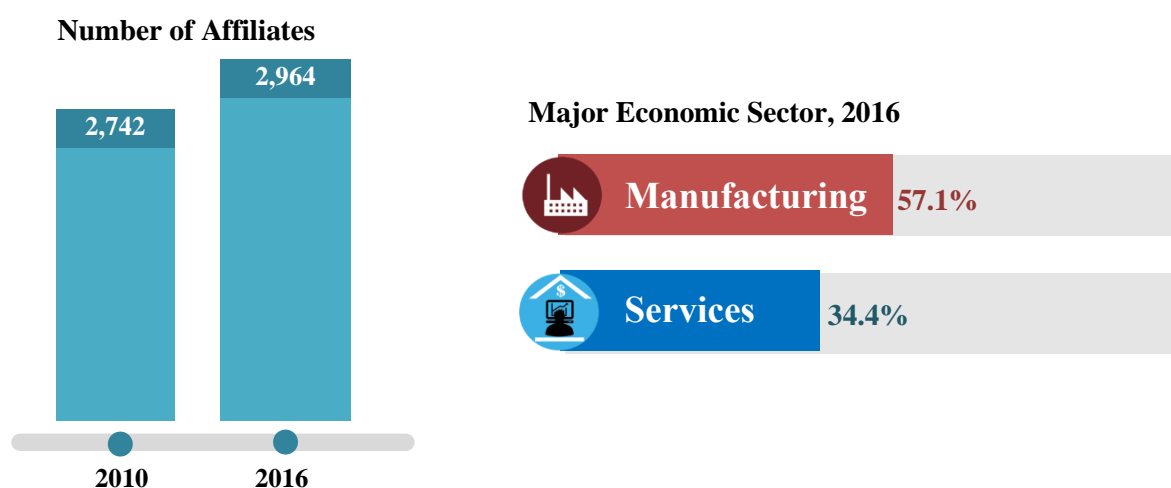


Figure 3: Number of affiliates and percentage share by major economic sector, 2016

In total 847,269 persons were employed by foreign affiliates in the reference year 2016, increased from 798,895 persons in 2010. The highest numbers of persons were engaged in the manufacturing sector, which recorded 640,760 persons (**Figure 4**).

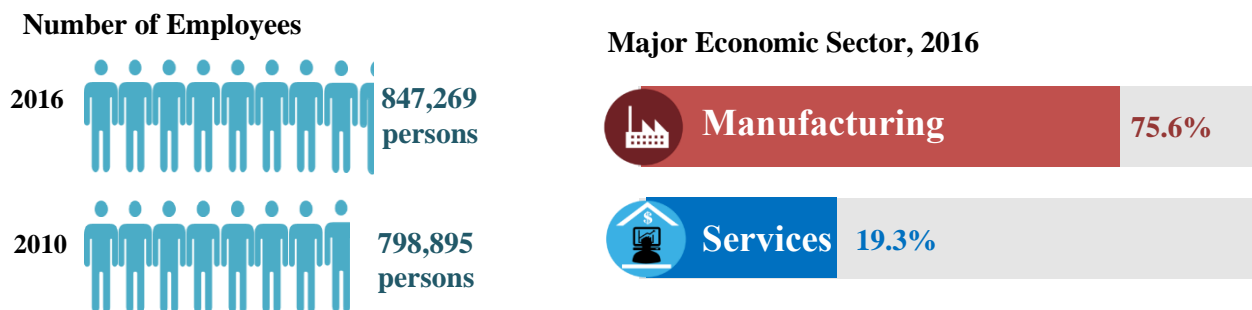


Figure 4: Number of employees and percentage share by major economic sector, 2016

The foreign affiliates in Malaysia generated a value added of RM222.7 billion in 2016 (2010: RM159.8 billion). The value added share accounted for 18.1 per cent of Gross Domestic Product (GDP) in 2016. In terms of contribution by economic sector, manufacturing was the highest contributor with RM105.1 billion (2010: RM60.8 billion) or 47.2 per cent of total value added (**Figure 5**) mainly in Electrical and transport equipment. Meanwhile, Mining recorded the second highest value added of RM61.7 billion (2010: RM62.4 billion), despite hiring the least number of employee among other sectors.

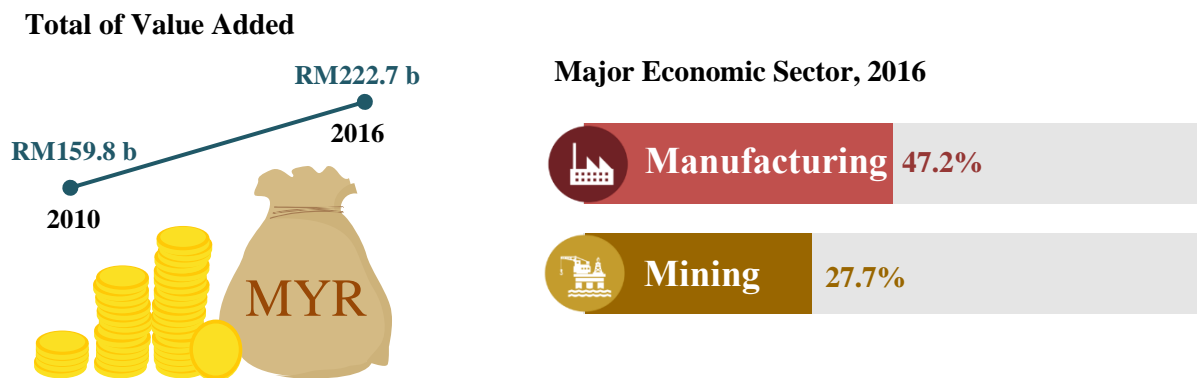


Figure 5: Value added and percentage share by major economic sector, 2016

In 2016, GFCF recorded RM63.8 billion as compared to RM41.3 billion in 2010. These affiliates had generated a value exports of RM292.8 billion in 2016 with 35.1 per cent of Malaysia's total exports (2014: RM296.8 billion, total exports: 36.4%), while imports recorded RM255.3 billion with 34.0 per cent of the total exports (2014: RM238.0 billion, total exports: 33.3%).

6. ANALYSIS AND FINDINGS OF OUTWARD FATS

DOSM had published Outward FATS internally in 2013 and 2016, whereas in 2017 the first publication was released to public with time series data from 2010 to 2015. It presents information on Malaysian foreign affiliates in abroad by economic activity and countries.

6.1 Performance of Outward FATS

In 2010, Malaysia had 1,712 affiliates located in overseas. The number of affiliates increased to 2,125 affiliates in 2015 (**Figure 6**). It was observed that majority number of affiliates were involved in services sector which accounted for 74.2 per cent or 1,577 affiliates, followed by manufacturing sector with 14.1 per cent or 299 affiliates.

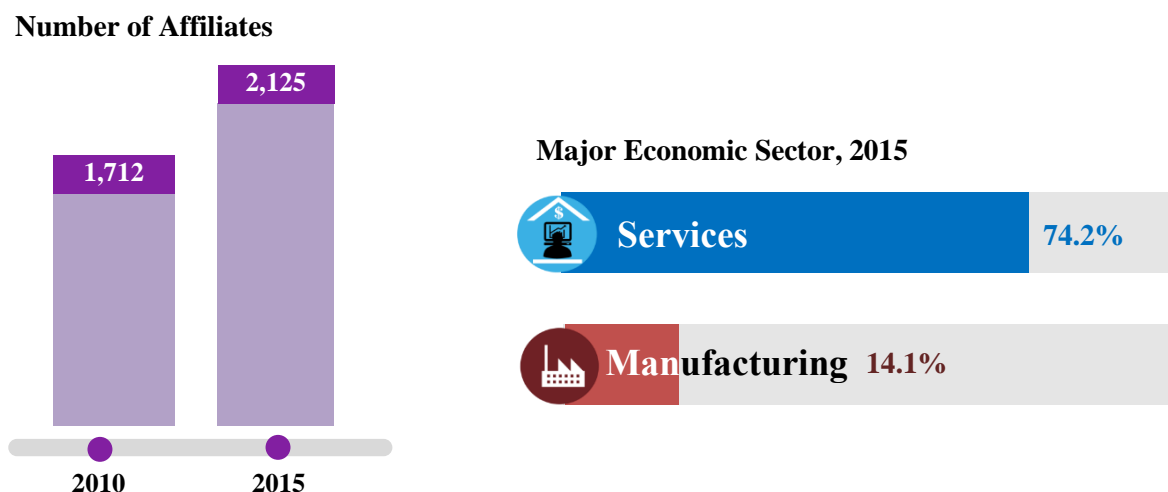


Figure 6: Number of affiliates and percentage share by major economic sector, 2015

The number of persons employed by Malaysia's outward affiliates accounted for 372,570 employees in 2015 as compared to 276,991 persons in 2010 (**Figure 7**). The services sector hired the highest number of persons with 38.5 per cent of total employment. Meanwhile, agriculture was the second top employer with a share of 30.8 per cent and followed by Manufacturing 26.4 per cent.

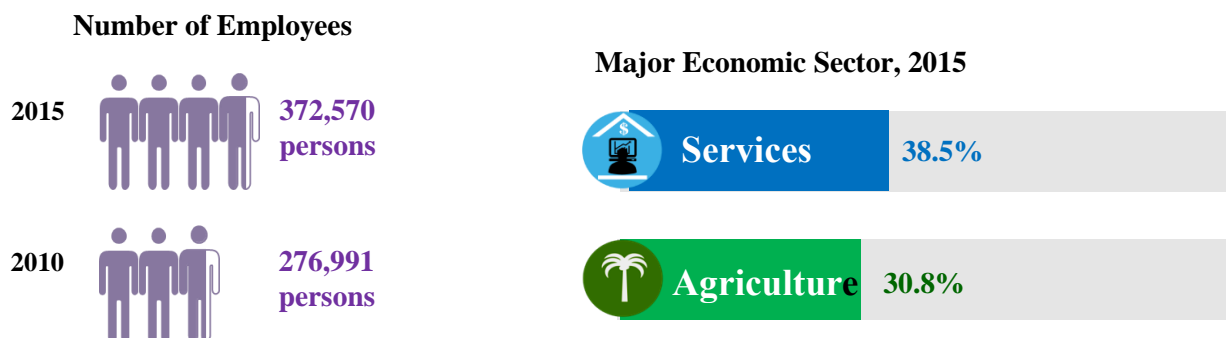


Figure 7: Number of employees and percentage share by major economic sector, 2015

Total Malaysian foreign affiliates turnover grew in the past five years to register a value of RM300.2 billion, which equals to 25.9 per cent of Malaysia's GDP in 2015 (2010: RM197.6 billion, GDP: 24.1%). Most of the affiliates were involved in services sector, which accounted for 62.2 per cent of total turnover, mainly in the subsector of wholesale and retail trade, food and beverages and accommodation as shown in **Figure 8**.

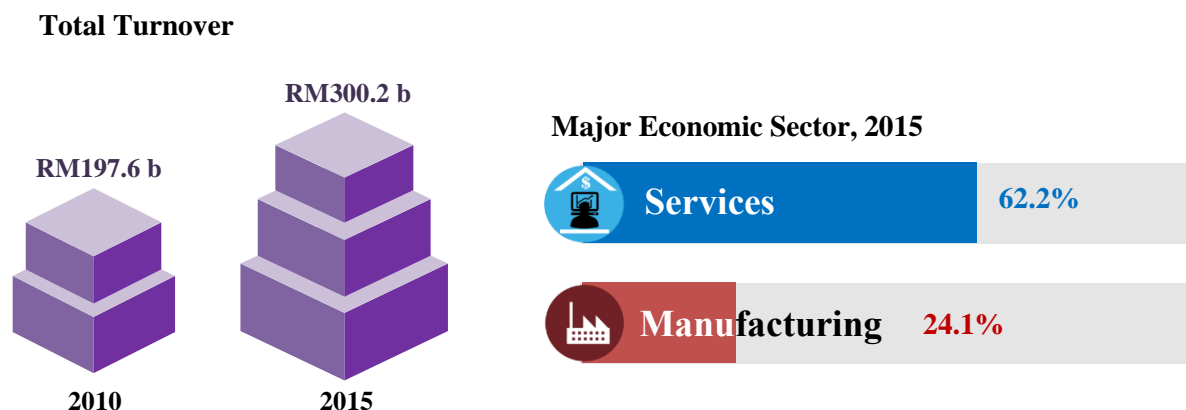


Figure 8: Turnover and percentage share by major economic sector, 2015

Based on the geographic distribution for the year 2015, the highest numbers of Malaysian affiliates were located in Singapore with 406 affiliates or 19.1 per cent (2010: 365 affiliates). Indonesia and the People's Republic of China were the second and third largest destinations, with 258 affiliates (2010: 214 affiliates) and 217 affiliates (2010: 201 affiliates), respectively. However, Malaysia's affiliates in Indonesia recorded the highest turnover by contributing 14.0 per cent or RM42.1 billion in 2015 (2010: RM118.0 billion), as shown in the **Figure 9**. The highest turnover was generated in the services sector particularly in the financial activity, followed by the agriculture sector in growing perennial crops activity.

The second contributor was Singapore with 12.2 per cent of total turnover or RM36.5 billion, mostly derived from Services sector in electric power generation, sale of motor vehicle, transmission and distribution activity. The third highest turnover was from United Kingdom (RM35.4 billion), followed by South Africa (RM30.4 billion) and China (RM22.1 billion). Affiliates in Indonesia employed the highest number of employees of 140,913 persons in 2015 compared to 103,821 in 2010 with COE of RM2,940 million (2010: RM1,847 million), whereby 67.4 per cent were employed in Agriculture sector. Singapore paid the highest COE of RM3,619 million, though only employed 27,314 persons lesser than Indonesia and People's Republic of China in 2015.

Turnover by Top Five Countries, 2015



Percentage share of Turnover by Region, 2015

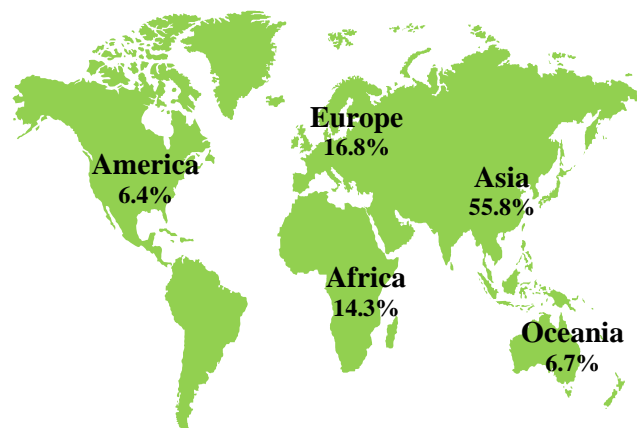


Figure 9: Turnover by Top Five Countries and region, 2015

Malaysia's affiliates in Asia countries registered the highest turnover of 55.8 per cent or RM167.4 billion as compared to RM117,993 in 2010. The second highest turnover of 16.8 per cent or RM50.5 billion (2010: RM20.4 billion) was registered by affiliates in Europe region. This was followed by Africa which recorded a percentage share of 14.3 per cent or RM43.0 billion (2010: RM32.3 billion) in 2015.

7. CONCLUSION

Malaysia had become the pioneer to publish the FATS statistics among its peers in the ASEAN region, as these statistics provide valuable insights on the influence of economic globalisation in the form of foreign direct investments to the Malaysia's economy. It can be used as a guidance for stakeholders and policy makers to formulating strategies and provide trade related directions to investors from in and outside Malaysia. In tandem with the effort of promoting Malaysia as a sustainable investment hub as well as potential business partners globally, these statistics can also be used as a goodwill for the stakeholders and investors to identify potential industries that can provide new market opportunities and targeted areas to focus which will benefit Malaysia in the long run. As a way forward, DOSM will continue to provide these statistics to the relevant agencies i.e Ministry of International Trade and Industries, Malaysian Development Investment Authority and Economic Planning Unit to supplement their strategies to ensure Malaysia's competitiveness globally. As a way forward, DOSM is also in the midst of enhancing the inward and outward FATS by providing additional variables for comprehensive information and fulfil users' requirements.

ACKNOWLEDGEMENT

We would like to express our sincere gratitude to Dato Sri' Dr. Mohd Uzir Mahidin, Chief Statistician of Malaysia for the encouragement and supervision throughout this paper. We also would like to thank to Ms. Suhaily Safie and Ms. Umami Kalsum for their guidance and support in order to make this article possible. Furthermore, we also would like to gratefully acknowledge the members of Balance of Payments Statistics Divisions for their support, assistance and contribution either directly or indirectly in completing this paper.

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