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Employment effects of multinational enterprises in Malaysia

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LIST OF ABBREVIATIONS

FCC:	Foreign-controlled company
FDI:	Foreign direct investment
FIDA:	Federal Industrial Development Authority
FTZ:	Free trade zone
GDP:	Gross domestic product
IGA:	Investment Guarantee Agreements
IIA:	Investment Incentives Act
IMP:	Industrial Master Plan
LCC:	Locally controlled company
LMW:	Licensed manufacturing warehouse
MIDA:	Malaysian Industrial Development Authority
MIDF:	Malaysian Industrial Development Finance
MNE:	Multinational enterprise
NEP:	New economic policy
PGDP:	Per capita gross domestic product
R&D:	Research and development

CHAPTER I

INTRODUCTION

1.1 A brief review of foreign direct investment (FDI)

The post-Second World War period saw great changes in both political and economic systems in many countries. Imperialism began to decline as more and more colonies of the dominant powers then began to gain independence. The direct exploitation of resources and the large markets available for the industries of the dominant powers were seemingly losing ground as the independent countries began to form policies to safeguard their own interests. The young independent countries formulated industrial strategies, but being newly independent lacked the entrepreneur, managerial, technological and financial resources within their domestic economies to proceed at a desired pace. Foreign investment is therefore advocated among these countries in the capitalistic economies. Through this, multinational enterprises (MNEs) or transnational corporations emerged on the international scene. The dynamism of these MNEs in their short span of prominence has been reflected not only in their growth and domination in the world economy but also in their constantly changing behaviour.[1]

The MNE phenomenon has been seriously studied from their profile, motives and also impacts on the host as well as home economies. The earlier forms of foreign investments or enterprises were more involved in trading activities and extractive industries but this has changed. MNEs are now primarily identified by their equity ownership and control, as opposed to portfolio investment and they, more than trade, have established overseas production plants. The prevalence of full or majority ownership of MNEs has now declined and in its place, minority ownership in joint ventures is becoming more acceptable and prevalent. There is also a growing tendency towards non-equity participation which takes various forms such as technology licensing, consulting services, management contracts, turn-key projects, provision of credit, of supplies, and of marketing outlets.[2]

The more debatable issue in the studies of MNEs lies in their motivations that drive them to invest overseas. Being capitalistic entities, MNEs cannot be assumed to be altruistic in their attitude. Although it is generally assumed that the underlying force in companies going abroad to invest is to maximise profits, profit maximisation can only be one of the complexity of goals which may include growth and efficiencies on a global scale. Long-term profit maximisation is a more probable motivation of far-sighted MNEs than current profits. Detailed examinations of primary motives for investment has revealed that there are as many kinds of motivations as there are MNEs in going abroad to invest.[3]

The more difficult issue on the study of MNEs is their impacts on the economies of the host and home countries. Foreign investment has been credited with positive employment creation, improvement of quality of the workforce, improvement of economic welfare, contribution to government revenue and economic growth which would otherwise be lost, and also a provider of know-how and a practical demonstrator of modern management and technology. It has also been criticised for excessive profit-taking, creation of a dependence of host countries on foreigners, deprivation of opportunities to build among locals a pool of expertise which could be tapped on at later occasions, and the inequality of income distribution among locals. More importantly it has been criticised for having negative impacts of displacing indigenous production and employment by the fact that they being MNEs, are generally more

capital-intensive. The higher wages they pay may not only create inequality in income distribution but may also raise the cost of production among domestic firms thereby decreasing their profitability and may subsequently eliminate them from the industrial scene. The study of impacts of MNEs is however not as easy as the provision of pros and cons of their existence. There exists conceptual difficulties of quantifying the impacts. Such difficulties are illustrated in proliferating literature on this aspect.

1.2 Objectives of the study

Foreign investment has been with Malaysia since the days prior to its independence from the United Kingdom in 1957. The foreign investments then which were concentrated mainly in the extractive industries is now more diversified sectorally. Contributions of foreign investments to the modern sectors of the economy especially the manufacturing sector are particularly evident. Despite its importance, prior impact studies were few and include the comprehensive work by Hoffmann and Tan (1980), the more specific impacts of employment generation and wages by G. Tan (1978), the market structure investigation by S. Lall (1979) and the recent aggregative and general study by Sundram and Tan (1985).[4] This study will add to the impact studies on foreign investment particularly from MNEs. As the theme of the study implies, it will focus on the employment effects of MNEs.

Besides examining the employment effects of MNEs this study also hopes to shed some light on the trend of foreign investments in Malaysia and the Malaysian Government's efforts in promoting foreign investment.

1.3 Definitions

The definitions of the terms used in this study will depend on the source of data for the analysis made. FDI is distinguished from portfolio investment in that "it involves ownership (in part or whole) and management of a foreign operation. In addition, a package of resources is also transferred to the host countries. FDI may involve a joint venture agreement where a foreign-based firm has a majority share, an equal share or a minority share in the ownership of an enterprise abroad. The important requirement is that the foreign company had operating control".[5]

In this study, FDI is defined as the value of equity capital owned by non-Malaysian citizens in companies established in Malaysia. A further clarification required here is that whenever the value of foreign investment is referred to in value it refers to the amount of capital owned by non-Malaysian citizens regardless of whether the foreign companies investing in the country has operating control over the local company.

In the data compiled by the Department of Statistics, Malaysia, foreign-controlled companies are defined as companies in which more than 50 per cent of the equity share capital is held by non-residents. Locally controlled companies, on the other hand, are companies in which 50 per cent of the equity share capital are held by residents in Malaysia. Because of this restrictive classification in which the data is presented, MNEs in the impact study are classified accordingly as foreign-controlled companies and the two terms are used interchangeably. Due to this classification the observed data for MNEs will therefore be underestimated as there are a considerable number of firms with less than 50 per cent equity share held by non-residents, but are in fact foreign-controlled from the operations point of view. The effect of such an underestimation is, however, not determinable and in the absence of any other better source of data, MNEs in the impact study are therefore

defined as companies in which more than 50 per cent of the equity share capital is held by non-residents.

1.4 Methodology and outline of the study

This study is based on three sources of information. The first includes literature review of previous research on foreign investment both in and outside Malaysia. The second source is secondary data, both published and unpublished. The main sources of secondary data are from MIDA annual reports and unpublished data; census of manufacturing industries, industrial surveys and financial surveys of limited companies from the Department of Statistics; annual and quarterly reports from Bank Negara; economic reports of the Ministry of Finance; and other sources. The third source of information is the discussions and interviews held with responsible officials of selected MNEs operating in the Kuala Lumpur, Petaling Jaya[6] and Shah Alam[6] areas with the aid of a guided questionnaire. This survey was carried out after much consideration as the time available to carry it out was short. However, it was deemed necessary to carry it out to fill in gaps in the other two sources of information, particularly from the qualitative point of view.

The study can be divided into three main sections in terms of data usage and analysis. The first part, which comprises Chapter II and the first part of Chapter III, consists of reporting based on available literature and secondary data. It traces the investment trends of foreign investments and describes government policies towards MNEs.

The second part of the study consists of an impact study of MNEs in Malaysia, viewed particularly from employment effects. It examines MNEs' impact in terms of location, employment, tax contributions and balance of payments and forms the main body of the study on employment effects of MNEs in Malaysia.

The third part of the study comprises analyses of the survey information. Chapters IV and V review the qualitative aspects of the direct and indirect employment effects of MNEs in Malaysia respectively. Since the survey data cannot be unbiased due to the short time available to conduct it, the usage of the information cannot be analysed quantitatively or in comparative terms. However, from the qualitative point of view this type of information is not available elsewhere.

Chapter VI summarises the major findings of the study and presents policy recommendations accordingly.

1.5 Problems and limitations of the study

The scope, accuracy and depth of this study has been reduced considerably due to time and resource constraints as well as data unavailability and inconsistencies.

Some of the secondary data are not disaggregated enough to allow analysis of foreign investment by subsectors and country of origin. Another problem faced with data analysis is the changing classification and methods of tabulation of the same source of data over time. Moreover, there are also gaps in certain data that rendered their disaggregation into sectors impossible, thereby disallowing detailed analysis. The absence of division of input-output data into foreign and local capital sources also renders the analysis of linkage effects of MNEs impossible.

The other main problem encountered is the same as with other studies based on surveys. The smallness of the sample caused by non-responding MNEs and the time constraint make the data obtained only suitable for general qualitative analysis. As a result these qualitative analyses are often supplemented with published sources of related information.

Notes

[1] United Nations, 1985: Transnational Corporations from Asian Economies, ESCAP/UNCTC Joint Unit on TNCs, Publication Series B, No. 7, Bangkok, Thailand.

[2] United Nations, 1985, op. cit.

[3] V. Kanapathy: "Foreign investment in Malaysia: Experience and prospects", UMBC Economic Review, Vol. VI, No. 2, 1970.

[4] L. Hoffmann and S.E. Tan, 1980: "The impact of foreign direct investment", in Industrial Growth, Employment and Foreign Investment in Peninsular Malaysia, pp. 204-254, Oxford University Press, New York; G. Tan, 1978: "Foreign investment, employment generation and the profit-wage ratio in the manufacturing sector of West Malaysia", in UMBC Economic Review, Vol. 14, No. 2; S. Lall, 1979: "Multinationals and market structure in an open developing economy: The case of Malaysia", in Weltwirtshaftliches Archiv, Band 115, Heft 2; Sundram and Tan, 1985: Patterns and impact of foreign investment in the ESCAP region, Economic and Social Commission for Asia and the Pacific, Bangkok, Thailand, pp. 97-112.

[5] Neil Hood and Stephen Young, 1979: The economics of multinational enterprise, Longman, p. 10.

[6] These three areas lie within the Federal Territory and the State of Selangor. For location, please see map of Malaysia in Appendix II.

CHAPTER II

HISTORICAL BACKGROUND

2.1 Introduction

Malaysia was almost wholly dependent upon rubber and tin for its export earnings in the first half of the twentieth century. This pattern was typical of colonial states whose economy was dependent on exports of primary raw materials for their manufactured imports. Changes in the world demand for one or both of these commodities therefore had an exaggerated effect on all Malaysian economic activities. Due to the absence of other statistical data, Malaysia's dependence on the primary sector prior to its independence is illustrated using employment data for 1947 (table 2.1). More than two-thirds of the active labour force then were engaged in agriculture, mostly rubber cultivation. Industrial development was hardly encouraged then because industries would inevitably pose a threat to the manufactures and goods imported from the United Kingdom, who was the colonial master of Malaysia at that time.

Since its independence from the United Kingdom in 1957, the heavy dependence on rubber and tin has decreased. The export pattern has also diversified to include palm oil, timber, petroleum and manufactures. The importance of the secondary and tertiary industries in the internal markets was also growing. In the last two decades, the resource base of the economy has also been substantially diversified. The diversification drive has also been manifested in programmes of rapid industrialisation. Consequently, the manufacturing sector has become an increasingly important segment of the Malaysian economy. The contribution of the manufacturing sector to the Gross Domestic Product has increased from 8.7 per cent in 1960 to 12.2 per cent in 1970 and 19.1 per cent in 1985.

An important feature of the open Malaysian economy has been the extent of foreign participation in the modern sectors of the economy. These foreign investments have been actively encouraged by the Malaysian Government and is considered to be an important means of promoting industrial growth through technology transfer, skill development and better access to foreign markets.

Subsequent sections of this chapter will examine the participation of foreign investment in Malaysia from the historical perspective.

2.2 Historical background of foreign investment

2.2.1 Prior to independence in 1957

A detailed examination of the distribution of foreign capital by industry and country of origin is not possible for this period of time due to the unavailability of data. It was, however, estimated that the British investment in the then Malaya in 1913 was £33 million. This increased to £108 million by 1930; of which 93 per cent was in agriculture and mining (Junid Saham, 1980).[1] Virtually all private foreign capital then was of British origin and it was mainly concentrated in the extraction and production of raw materials and primary commodities. The argument for such a lopsided investment pattern was that Malaya's comparative advantage then lay in the production of primary commodities. Along with the capital in the primary sector were investments in commerce and trade to facilitate the export of the primary products to, and imports of manufactured goods from the United

TABLE 2.1

Employment by Economic Sectors, West Malaysia (Selected Years)

Sectors	1947[1]		1957[1]		1965[2]		1970[3]	
	('000)	%	('000)	%	('000)	%	('000)	%
1. Primary	1288.2	68.7	1303.3	61.3	1416.0	54.6	1454.0	52.2
(i) Agriculture Forestry & Fishing	1240.5	66.2	1244.8	58.5	1350.0	52.1	1369.0	19.1
(ii) Mining & Quarrying	47.2	2.5	58.5	2.8	66.0	2.5	85.0	3.4
2. Secondary	139.7	7.4	203.5	9.6	307.0	11.0	370.0	13.3
(i) Manufacturing	126.2	6.7*	135.7	6.4	217.0	8.4	292.0	10.5
(ii) Building & Construction	13.5	0.7	67.8	3.2	90.0	3.5	78.0	2.8
3. Tertiary	147.3	23.8	619.3	29.1	867.0	33.5	959.0	34.5
(i) Electricity, Gas Water, etc.	4.6	0.2	11.5	0.6	16.0	0.6	21.0	0.8
(ii) Transport & Communication	65.9	3.5	74.8	3.5	101.0	3.9	115.0	4.4
(iii) Commerce &Trade	173.4	9.2	195.2	9.2	287.0	11.1	295.0	10.6
(iv) Private & Public Services	174.2	9.3	221.0	10.4				
(v) Defence	23.4	1.3	98.7	4.6	463.0	17.9	528.0	19.0
(vi) Others	6.1	0.4	18.1	0.8				
Total Working Population	1875.2	100.0	2126.2	100.0	2590.0	100.0	2783.0	100.0
Total Population	4908.1	-	6278.8	-	7912.3	-	8774.0	-

*The IBRD data shows the manufacturing sector as providing employment to 7.5% of the 1947 active labour force. This figure to be rather on the high side and the 1957 Census figure of 6.7 per cent seems more reasonable.

1
Source: E.L. Wheelwright, 'Industrialization in Malaya', in T.H. Silock and E.K. Fisk (eds.), The Political Economy of Independent Malaya,' Eastern Universities Press, op. cit.

2
First Malaysia Plan, 1966-1970, pp. 35,53 & 81 and Mid-Term Review of First Malaysia Plan, p.17.

3
Mid-Term Review of Second Malaysia Plan, 1971-1975, p.77.

Kingdom. The rationale that Malaya's comparative advantage lay in the primary sector had led to the British Colonialist's pursuance of an indifferent attitude towards the indigeneous manufacturing sector. The existing manufacturing activities then were mainly in the primary processing of agricultural products and manufacture of non-traded goods, which enjoyed natural protection. Consequently, this had led to the development of the familiar control pattern of trade and investment to serve the needs of the United Kingdom.

The investment of British multinational enterprises in local manufacturing was only evident in the late 1950s. These multinational enterprises were engaged in the local manufacturing associated with the processing of rubber, tin smelting, manufacturing of cement, food, beverages, tobacco and light engineering works subsidiary to plantations, mines and ports.[2] Some of the British MNEs that initiated the investments in the manufacturing sector in anticipation of the independent Malaysian Government's import substitution industrialisation programme include F&N, Uni-Lever and Bata.[3]

2.2.2 1957 to 1968

The domination of the primary sectors of the economy by foreigners immediately after independence is a legacy of Malaysia's colonial past. The strong presence of foreign investment in the primary sectors had hence remained. In the other sectors of the economy the foreign ownership was lower than that of the primary sector, but it was still high in absolute terms. This foreign ownership might have been even higher if a striving business-minded section of the population, the Malaysian Chinese, had not existed. The manufacturing sector, in particular, became a major investment area after independence in 1957. Foreign investors with the outright promotion by the Malaysian Government then had entrenched themselves in the secondary and tertiary sectors of the economy.

Under the strong encouragement of the newly independent Government of the early sixties, foreign direct investment (FDI) began to flow into import substitution industries. This was due partially to the need of foreign MNEs to protect their market in Malaysia. The FDI had resulted in the high annual growth rate of 12.2 per cent from 1961 to 1965 registered by the manufacturing sector. The separation of Singapore from Malaysia in 1965, however, reduced temporarily the inflow of investment and this forms a partial explanation for the drop in the growth rate of 8.6 per cent in 1968 from 12.5 per cent in 1966. The local investors, as in most developing economies, did not go all out to invest in industries, partly because of their lack of experience, brand consciousness of the consumer public and the reluctance of foreigners in entering into joint ventures with them. Another reason is that the local investors were accustomed to the safer investments in the retail trade, extractive industries and property development. The first opportunities were therefore seized by foreign investors. There was hence an influx of foreign capital with the British moving in quickly to be the largest foreign investor in Malaysia then. By 1968 the total fixed assets of foreign-controlled companies had reached 57 per cent of the total assets of all limited Malaysian companies. The dominance of foreign investment in agriculture is still evident (see table 2.2).

2.2.3 1968 to present

A detailed analysis of foreign investment by country of origin and subsectors was not possible prior to 1968 because of the lack of published

TABLE 2.2

Investment in Fixed Assets in Malaysia - 1968
(Value in million Malaysian Dollars)

ITEMS	INDUSTRY									
	Rubber	Other Agriculture	Tin Mining	Other Mining	Manufac-turing	Construc-tion	Wholesale Trade	Retail Trade	Other Industry	All Industries
A. Limited Companies Incorporated in Malaysia-(Locally Controlled)	265	107	119	23	489	32	120	45	428	1,628
B. Limited Companies Incorporated in Malaysia-(Foreign-Controlled)	203	54	70	105	426	4.5	75	20	84	1,041.5
C. Malaysian Branches of Foreign Companies	575	70	114	20	47	8.5	155	1	83	1,073.5

Source: Report on the Financial Survey of Limited Companies in Malaysia, 1967 and other official sources. Figures represent book values of net assets. Book values are not a particularly good measure of the net worth of foreign direct investments. Rubber, which is yet the single largest investment is a good example. Taking a conservative estimate of $1,000 per acre, investment in West Malaysia's 4.3 million acres alone works out at about $4,300 million. The book value for rubber amounts to only $1,043 million.

data. The first comprehensively disaggregated data on foreign investment by country of origin were found in the 1968 census of manufacturing industries. There is, however, a lack of data on foreign investment by country of origin and sectors of the economy and this had confined our analysis on foreign investment to the manufacturing sector, which is evidently gaining importance.

2.2.3.1 Foreign investment by country of origin

The United Kingdom remained the largest foreign investor in the manufacturing sector of West Malaysia in 1968 in terms of output and value added. Its contribution to output of all foreign-controlled companies (FCCs) amounted to 40.3 per cent while that for value added amounted to 42.9 per cent. FCCs of United Kingdom origin also employed close to a quarter of the workforce in all FCCs. Singapore ranked second in terms of output and value added but employed the most number of people among FCCs from other countries. Other major investors in the manufacturing sector in 1968 include the United States and Japan (see table 2.3).

By 1973, Singaporean FCCs had overtaken FCCs from the United Kingdom in terms of output. Their contribution to employment had however fallen. It should however be borne in mind that the classification of investment by origin is based upon the country of the investing company and not the actual home base of the company. Investment from say a British MNE subsidiary incorporated in Singapore is therefore considered as an investment from Singapore and not the United Kingdom. The statistics for Singapore may therefore be overestimated. If the consideration of overestimation of Singaporean FCCs' statistics is overlooked, it is observed that together with FCCs from the United Kingdom, they contributed more than half the output and value added as well as close to half the total employment and fixed assets of all foreign FCCs. The presence of foreign investors from the United States is more strongly felt in 1973.

Tables 2.4 and 2.5 show the total outstanding foreign manufacturing investment and fixed assets in Malaysia respectively, by country of origin. By 1975, the foreign manufacturing investment had become less concentrated. Asian investors had grown in strength, accounting for 62 per cent of the total investment compared to 17 per cent from Europe and 13 per cent from the United States. Japan had taken over to be the largest investor with investments totalling $327.3 million or a quarter of all foreign investment then. Singapore was second in terms of investment size while the area of Hong Kong, the United Kingdom and the United States ranked third, fourth and fifth respectively. Together these top five investors accounted for 83 per cent of the total outstanding manufacturing investment in 1975.

By 1982, Singapore again had recovered in strength of its investment and fixed assets in the manufacturing sector. As explained earlier this may be the result of overestimation and it is believed that large portions of the Singaporean investments were contributed by subsidiaries of Japanese, British and United States' MNEs that were incorporated in Singapore. The contributions from other significant sources are Japan, the United Kingdom, the area of Hong Kong and the United States.

It is interesting to note the increasing significance of FDI from Third World countries. The total outstanding manufacturing investments from Singapore, the area of Hong Kong, Korea, India and Taiwan (China) which amounted to 30 per cent in 1975 had increased to 41 per cent in 1982. Another trend worth noting is the declining concentration of FDI and the resulting dispersion of capital sources in terms of country of origin. This can be

TABLE 2.3

West Malaysia: Principal Statistics of Foreign Controlled Manufacturing Companies by Country of Origin, 1968 and 1973

Country or area	No. of Establishments		Gross Value of Output ($M)		Value Added ($M)		Full Time Employees (000)		Fixed Assets ($M)
	1968	1973	1968	1973	1968	1973	1968	1973	1973
Singapore	260	288	437.70	1144.40	118.68	286.32	16.57	27.44	203.01
%	47.7	42.0	30.20	29.90	28.20	23.20	44.40	28.80	18.70
Japan	3	14	12.36	60.17	6.65	28.34	0.66	2.35	75.19
%	0.6	2.0	0.90	1.60	1.60	2.30	1.80	2.50	6.90
Hong Kong	-	33	-	176.96	-	63.25	-	10.94	137.30
%	-	4.8	-	4.60	-	5.10	-	11.50	12.60
U.K.	94	113	584.64	1014.11	180.85	367.04	9.19	13.36	239.19
%	17.3	16.5	40.30	26.40	42.90	29.80	24.60	14.00	22.00
U.S.	16	27	146.75	426.22	46.85	201.23	1.26	16.89	107.12
%	2.9	3.9	10.1	11.10	11.10	16.30	3.40	17.70	9.90
Others	172	210	267.84	1011.69	68.51	287.40	9.65	24.42	324.76
%	31.6	30.7	18.50	26.40	16.30	23.30	25.80	25.60	29.90
Total	545	685	1449.39	3883.55	421.54	1233.58	37.33	95.40	1986.75

Source: Census of Manufacturing, 1968 and 1973.

TABLE 2.4

Malaysia: Total Outstanding Foreign Manufacturing Investment by Country of Origin, 1975 1982

Country or area	1975	1976	1977	1978	1979	1980	1981	1982
Singapore	238.92	265.29	415.36	557.16	600.40	710.05	894.43	1188.15
%	18.8	16.7	18.9	21.6	23.8	24.5	26.6	30.9
Japan	327.30	433.72	602.39	646.39	537.15	592.49	686.42	698.80
%	25.7	28.3	27.4	25.1	21.3	20.4	20.4	18.2
Hong Kong	175.34	156.64	282.57	275.81	276.10	305.81	306.51	320.46
%	13.8	9.5	12.8	10.7	10.9	10.5	9.1	8.3
U.K.	141.50	202.75	353.37	415.82	419.59	533.19	562.23	644.36
%	11.1	13.2	16.2	16.1	16.6	18.4	16.7	16.7
U.S.	170.97	238.57	254.48	281.63	193.71	192.71	197.00	227.08
%	13.4	15.5	11.6	10.9	7.7	6.6	5.9	5.9
West Germany	29.46	41.03	45.44	54.04	54.46	63.52	87.98	109.28
%	2.3	2.7	2.1	2.1	2.1	2.2	2.6	2.8
Rest of Asia	41.57	51.96	61.89	87.61	70.08	72.45	73.58	85.97
%	3.3	3.4	2.8	3.4	2.8	2.5	2.2	2.2
Rest of Europe	45.80	62.80	84.58	137.66	175.81	201.67	237.20	211.78
%	3.6	4.1	3.8	5.3	7.0	7.0	7.1	5.5
Others	101.88	83.47	99.17	121.64	199.78	228.43	317.61	362.52
%	8.0	5.4	4.5	4.7	7.9	7.9	9.4	9.4
Total	1272.74	1534.23	2199.07	2577.76	2526.93	2900.32	3362.96	3848.40

Source: Tabulated from MIDA, Annual Reports and Unpublished Data.

TABLE 2.5

Malaysia: Foreign Fixed Assets by Country or area of Origin, 1979 -1982
(in $ Million)

Country or area	1979	1980	1981	1982
Singapore	394.34	619.27	732.21	828.70
%	19.3	23.0	21.9	22.3
Japan	469.09	534.65	655.27	697.48
%	23.0	19.8	19.6	18.8
Hong Kong	192.90	231.66	283.42	323.61
%	9.4	8.6	8.5	8.7
U.K.	329.77	500.54	579.64	679.10
%	16.1	18.6	17.4	18.3
U.S.	246.12	292.08	282.45	305.93
%	12.1	10.8	8.5	8.2
West Germany	62.74	98.31	125.19	109.59
%	3.1	3.6	3.8	3.0
Rest of Asia	58.36	59.90	70.31	78.45
%	2.9	2.2	2.1	2.1
Rest of Europe	147.63	115.59	246.18	209.22
%	7.2	4.3	7.4	5.6
Others	141.33	244.48	363.11	481.32
%	6.9	9.1	10.8	13.0
Total	2042.28	2696.48	3337.78	3713.40

Source: MIDA, Annual Reports and Unpublished Data, various issues.

illustrated by the fact that the three top foreign investors in 1968, i.e. Singapore, the United Kingdom and the United States which accounted for 81 per cent of the total output had declined in its contribution to 67 per cent in 1973. This dispersion may be due to the emergence of more MNEs from Third World countries.

2.2.3.2 Foreign investment by industrial composition in the manufacturing sector

Tables 2.6 and 2.7 show the participation coefficients, or the share of total output, value added and manufacturing investment accounted for by FDI in a particular industry. Participation coefficient of more than 50 per cent indicates the relative dominance of FCCs over LCCs in that industry.

In 1968, FCCs contributed more than 50 per cent of the total output and value added in the agricultural processing, beverages and tobacco, textiles, chemicals and rubber industries. The dominance of FCCs in the chemical industry was extremely marked, accounting for more than three-quarters of the total output and value added (see table 2.6).

The trends of foreign dominance remained in 1973. FCCs had in fact gained dominance over LCCs in the basic metal, and machinery and equipment industries. Its dominance in the chemical, and tobacco and beverages industries had increased, accounting for more than 80 per cent of their total output and value added. This was due to vigorous import substitution which induced foreign investors to start local production to replace exports to serve the domestic market.

FCCs dominated LCCs in five industries in terms of manufacuturing investment in 1975. FDI share in the total investments of the beverages and tobacco industry was highest at 89 per cent followed by petroleum and coal (82 per cent), and scientific equipment (78 per cent), electrical and electronics (74 per cent), and textile and textile products (52 per cent). Hence, up to the early 1970s, foreign dominance in the import substitution industries of chemicals and beverages and tobacco, the capital-intensive petroleum industry and the labour-intensive export-oriented electrical, electronics and textiles industries, was distinct.

Foreign domination in the beverage and tobacco, petroleum and coal and machinery and equipment industries had remained. The degree of domination in the beverage and tobacco, chemical and rubber industries had however declined. This was due primarily to the restructuring of ownership required by the Government, whereby majority local equity in domesic market-oriented industries is enforced. Foreign domination in the petroleum industry, which is a non-renewable raw materials-based industry had not complied with the ownership guide-lines which require at least 70 per cent local equity as the existing domestic technological and management capability was inadequate.

The emergence of the export-oriented professional and scientific equipment industry in the 1980s lead to its heavy dominance by FCCs. The electrical and electronics industry remained unaffected by the Malaysianisation policy due to its export-oriented and technologically dynamic nature. The FDI will also remain significant in the chemical and tobacco industries due to the brand consciousness of Malaysian consumers. The influence of FDI in the textile industry is also not likely to wane because of the lack of international marketing contacts of indigeneous firms.

TABLE 2.6

Malaysia: Participation Coefficients* of Output and Value Added of FCCs by Industry of Origin

Industry	Gross Value of Output			Value Added	
	1968	1973	1981	1968	1973
Processing of Off Estate Agricultural Produces	56.13 (33.03)	- -	- -	64.35 (19.08)	- -
Food Manufacturing	31.10 (14.39)	27.20 (13.39)	18.85 (18.85)	35.42 (9.91)	39.75 (12.07)
Beverages & Tobacco	69.98 (18.10)	89.98 (12.40)	64.44 (6.63)	66.76 (18.94)	91.04 (14.14)
Textile & Textile Products	65.60 (16.55)	44.35 (6.04)	40.93 (5.20)	52.75 (5.15)	40.67 (5.46)
Chemicals & Chemical Products	78.30 (7.08)	81.01 (11.43)	46.31 (4.72)	84.53 (13.81)	85.28 (14.54)
Petroleum	- -	- -	99.47 (22.74)	- -	- -
Rubber	60.53 (6.95)	64.90 (25.15)	47.68 (8.84)	64.99 (12.81)	65.91 (14.71)
Non-Metallic Mineral Products	34.84 (2.01)	38.45 (2.09)	30.67 (2.86)	32.26 (3.15)	38.68 (3.02)
Basic Metal	29.45 (2.68)	55.61 (4.75)	56.80 (7.22)	30.99 (3.84)	61.67 (5.31)
Machinery & Equipment	39.27 (3.93)	61.62 (12.92)	68.81 (24.06)	36.40 (0.35)	67.48 (18.51)
Professional, Scientific & Measuring Equipment	- -	- -	91.42 (0.99)	- -	- -
Others	23.12 (-)	24.47 (-)	11.36 (-)	13.27 (-)	22.98 (-)
Total	43.84 (100.0)	44.34 (100.9)	41.73 (100.0)	43.64 (100.0)	48.37 (100.0)

Source: Tabulated from Census of Manufacturing 1968 and 1973 and unpublished data from Census of Manufacturing, 1981.

Note : % in parenthesis indicates as % of total output/value added of all FCCs in all industries.

$$\text{Participation Coefficient}^{*} = \frac{\dfrac{\text{Total value of output}}{\text{value added of FCCs in an industry}}}{\dfrac{\text{Total value of output}}{\text{value added of all companies in that industry}}} \times 100$$

TABLE 2.7

Malaysia: Value and Participation Coefficients of Foreign Manufacturing Investment by Industry of Origin (in $Million)

Industry	1975	1976	1977	1978	1979	1980	1981	1982
	a							
Food	156.40	237.32	359.41	387.18	385.43	574.47	680.08	705.66
Manufacturing	b							
	32.1	34.3	32.2	31.4	31.2	30.0	28.6	28.6
	(12.3)	(15.5)	(16.3)	(15.0)	(15.3)	(19.8)	(20.2)	(18.3)
Beverages &	46.08	54.54	109.42	172.41	171.39	194.39	184.21	278.32
Tobacco	88.6	89.1	74.7	64.6	67.8	72.9	63.7	64.8
	(3.6)	(3.6)	(5.0)	(6.7)	(6.8)	(6.7)	(5.5)	(7.2)
Textile &	252.05	316.65	449.27	486.47	433.78	454.30	482.01	490.57
Textile	51.8	55.9	60.5	58.8	52.6	47.7	48.7	47.6
Products	(19.8)	(20.6)	(20.4)	(18.9)	(17.2)	(15.7)	(14.3)	(12.7)
Chemicals &	101.44	133.49	181.19	180.47	241.69	282.50	291.81	327.28
Chemical	46.1	49.6	47.1	50.3	54.6	52.9	49.1	43.5
Products	(8.0)	(8.7)	(8.2)	(7.0)	(9.6)	(9.8)	(8.7)	(8.5)
Petroleum &	110.07	114.96	162.50	160.67	107.20	137.15	124.36	124.50
Coal	81.5	71.9	87.4	85.9	79.2	80.9	87.6	87.6
	(8.6)	(7.5)	(7.4)	(6.2)	(4.2)	(4.7)	(3.7)	(3.2)
Rubber	60.87	67.83	88.97	98.20	100.45	110.89	96.33	105.17
	47.6	44.9	42.1	41.3	37.4	38.8	26.7	25.5
	(4.8)	(4.4)	(4.0)	(3.8)	(4.0)	(3.8)	(2.9)	(2.7)
Non-Metallic	64.85	61.61	85.75	129.97	252.74	237.20	359.92	401.66
Mineral	30.5	26.3	22.6	25.1	38.7	27.7	36.6	33.7
Products	(5.1)	(4.0)	(3.9)	(5.0)	(10.0)	(8.2)	(10.7)	(10.4)
Basic Metal	56.02	70.78	86.88	88.92	91.88	93.44	151.22	252.14
	37.7	41.3	43.9	36.4	37.2	37.7	34.6	35.2
	(4.4)	(4.6)	(4.0)	(3.4)	(3.6)	(3.2)	(4.5)	(6.6)
Electrical &	173.03	206.39	216.10	205.68	213.53	260.00	294.39	394.03
	73.7	70.5	62.1	56.6	55.6	64.4	47.7	48.1
	(13.6)	(13.4)	(9.8)	(8.0)	(8.4)	(8.9)	(8.8)	(10.2)
Professional,	12.98	22.06	25.17	36.09	36.53	33.82	47.74	43.09
Scientific &	77.5	72.5	70.2	81.5	84.2	78.8	83.2	85.4
Measuring	(1.0)	(1.4)	(1.1)	(1.4)	(1.4)	(1.2)	(1.4)	(1.1)
Equipment								
Miscellaneous	238.95	248.60	434.41	631.70	492.31	522.16	650.89	725.98
	29.4	22.9	29.3	32.4	21.8	19.6	20.7	20.2
	(18.8)	(16.3)	(19.8)	(24.6)	(19.5)	(18.0)	(19.3)	(19.1)
Total	2933.51	3718.35	5161.09	6199.92	6582.28	8267.58	9874.88	11,601.34
Foreign	1272.74	1534.23	2199.07	2577.76	2526.93	2900.32	3362.96	3848.40
Local	1660.77	2184.12	2962.02	3622.16	4055.35	5367.26	6511.92	7752.94

Source: Tabulated from Annual Reports and unpublished data, MIDA.

a value in $Million

b participation coefficents

Note : % in parenthesis indicates as % of total foreign manufacturing investment

2.2.3.3 Recent trends in foreign investment by country of origin and industry

Table 2.8 shows the foreign investment in manufacturing by industry and country of origin as at 1982.

The largest investor as at the end of 1983 was Singapore with a total investment of $1,188 million or 13 per cent of the total foreign investment in manufacturing. The main investment of Singaporean FDI is in food manufacturing and non-metallic mineral products which contribute 24.4 per cent and 16 per cent of the country's FDI respectively. It should be noted here that Singaporean FDI comprises 41.1 per cent and 47.4 per cent of the total FDI in the food and non-metallic mineral products industries respectively. It also contributed a significant portion to the total FDI of beverage and tobacco and electrical and electronics industries. It should however be pointed out that investments made by Singaporeans in electronics, beverage and tobacco and chemicals were made mainly by foreign subsidiaries incorporated in Singapore. Therefore if measurement of investment amounts were made by the actual country of origin capital Singaporean FDI will have decreased significantly.

Japan was the second largest investor with outstanding investment of $699 million or 18.8 per cent of the total outstanding foreign manufacturing investment, 32 per cent and 10 per cent of this amount are concentrated in the electronics and textiles industries. Japan is also the largest investor in these two industries, accounting for 46 per cent and 25 per cent of the total FDI by industry respectively.

The United Kingdom is the third largest foreign investor country with investments of $644 million or 17 per cent of the total. It is the largest investor in the petroleum and coal industry, accounting for 80.7 per cent of its total. It is also heavily entrenched in the chemical, beverage and tobacco industries. The area of Hong Kong ranked fourth with an investment of $320 million, the bulk of which (41 per cent) was invested in the textile industry. The United States ranked fifth with $227 million, a significant portion of 37 per cent of which went to the chemical industry. The Federal Republic of Germany ranked sixth with $109 million mainly in the electrical and electronics, professional, scientific and measuring equipment and textile industries respectively. The main investor in the professional, scientific and measuring equipment industry was also the Federal Republic of Germany.

The dominance of certain countries in particular industries can be generally explained. American and Japanese FDI are in the electronics industry because of their superior technological know-how. The area of Hong Kong's dominance in garment firms is due to their market links, whereas the United Kingdom and the United States monopoly on FDI in the chemical and beverage and tobacco industries is due to brand loyalty, thereby preventing the entry of new firms. High cost of labour in the home countries of the industry is also a reason for the shift of labour-intensive industries into Malaysia. Tighter environmental laws can also explain the shift of certain industries from the parent to host countries. This explains the influx of FDI from the United Kingdom and the United States in the chemical industry and Japanese investment in iron, steel and other heavy industries in Malaysia. There are many other factors which can explain the concentration of certain countries in particular industries. Suffice it to say here that the industrial composition exhibited is the outcome of the interaction between the conditions in the home and host countries.

TABLE 2.8

Malaysia: Foreign Manufacturing Investment by Industry and Country or area of origin 1982
(in Thousand)

Industry/Country or area	Singapore	Japan	Hong Kong	U.S.	U.K.	Fed. Rep. of Germany	Others	Total
Food Manufacturing	290,057	76,414	30,397	11,524	137,350	2,051	157,871	705,664
%	24.4	10.9	9.5	5.1	21.3	1.9	23.9	18.3
	(41.4)	(10.8)	(4.3)	(1.6)	(19.5)	(0.3)	(22.4)	(100.0)
Beverages & Tobacco	78,812	-	28,816	52,317	104,182	-	14,474	278,602
%	6.6	-	9.0	23.0	16.2	-	21.9	7.2
	(28.3)	-	(10.3)	(18.8)	(37.4)	-	(5.2)	(100.0)
Textiles & Textile Products	77,235	224,304	131,713	5,582	6,370	23,255	22,112	490,571
%	6.5	32.1	41.1	2.5	1.0	21.3	3.3	12.7
	(15.7)	(45.7)	(26.7)	(1.1)	(1.3)	(4.7)	(4.5)	(100.0)
Chemical & Chemical Products	63,396	19,523	30,026	82,986	105,840	2,511	22,760	327,276
%	5.3	2.8	9.4	36.5	16.4	2.3	3.4	8.5
	(19.4)	(5.2)	(9,2)	(25.4)	(32.3)	(0.8)	(7.0)	(100.0)
Petroleum & Coal	5,900	-	15	2	100,535	-	18,052	124,504
%	0.5	-	-	-	15.6	-	2.7	3.2
	(4.7)	-	(0.1)	(-)	(80.7)	-	(14.5)	(100.0)
Non-Metallic Mineral Products	190,499	53,697	1,904	990	38,850	2,090	113,628	401,658
%	16.0	7.7	0.6	0.4	6.0	1.9	17.2	10.4
	(47.4)	(13.4)	(0.5)	(0.2)	(9.7)	(0.5)	(28.3)	(100.0)
Electrical & Electronics	80,892	109,230	43,659	35,550	35,278	27,503	61,916	394,028
%	6.8	15.6	13.6	15.7	5.5	25.2	9.4	10.2
	(20.5)	(27.7)	(11.1)	(9.0)	(9.0)	(7.0)	(15.7)	(100.0)
Professional, Scientific & Measuring Equipment	0.45	2,000	1,604	3,952	0.76	25,786	9,629	43,092
%	-	0.3	0.5	1.7	0.1	23.6	1.5	1.1
	-	(4.6)	(3.7)	(9.2)	(1.8)	(59.8)	(22.3)	(100.0)
Others	401,310	213,630	52,090	34,177	115,879	26,080	239,840	1,083,020
%	33.9	30.6	16.3	15.1	17.9	23.8	36.3	28.1
	(37.0)	(19.7)	(4.8)	(3.2)	(10.7)	(2.4)	(22.1)	(100.0)
Total (Million)	1188.15	698.80	320.46	227.08	644.36	109.28	660.28	3848.41
%	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Tabulated from unpublished data, MIDA.

Note : - nil or less than 0.01%
percentage indicates as % of total investment of the country
percentage in parenthesis indicates as % of total foreign manufacturing investment in that particular industry.

Notes

[1] Junid Saham, 1980: British Industrial Investment in Malaysia, 1963-71, Oxford University Press, Kuala Lumpur, p. 28, table 2.8.

[2] G.C. Allen and A.G. Dornithorne, 1962: Western Enterprise in Indonesia and Malaya, George Allen and Unwin, London, p. 158.

[3] Linda Lim, 1980: "The political economy of foreign investment in Malaysia", paper presented at the Annual Meeting of the Association of Asian Studies, 21-23 Mar.

CHAPTER III

GOVERNMENT POLICIES AND IMPACT OF MNEs

3.1 Background on government policies towards foreign investment

No supportive industrial policies existed and neither was there a conducive atmosphere for industrial development prior to Malaysia's independence. Tariffs imposed then were generally low and levied primarily for revenue. The need for industrial development was felt as progress was made towards it in the attainment of self-rule. There was also a pressing need for diversification of the economy.

The earliest elaborate attempt to design an industrial strategy for the country was based upon the recommendations of an IBRD mission in 1954. The mission, which professes pro-laissez-faire economics, proposed that the Government's role be confined to the creation of a conducive environment for industrialisation. The provision of financial facilities, basic infrastructures and customs protection to industrialists besides the reorientation of educational and vocational training programmes to produce a pool of suitably qualified labour were the main areas identified for government intervention. The mission had not overlooked the need for foreign investment and had recommended "active steps to interest overseas firms in Malaysian industrial projects where their technical know-how may be imported".

Subsequent to the IBRD mission report, the Malaysian Government had in 1956 appointed a working party of officials to formulate an industrial development policy. The working party report echoed the recommendations of the IBRD report of 1954, but advocated more extensive use of fiscal incentives and supported tax concessions to pioneer industries. It claimed that tax incentives would not only involve local but also foreign investors to initiate or expand existing enterprises which would not have been undertaken otherwise. Additionally, the report also called for specific measures for inducing foreign investment through the guarantee of compensation to foreign capital in the event of nationalisation and the continued maintenance of the existing practice of allowing remission of profits and repatriation of capital. The report of the working party was adopted in toto and formed the tenet of the industrial development policy, thereby paving the way for the enactment of the Pioneer Industries Ordinance in 1958. This Ordinance provided a respite from corporation taxes for manufacturers whose production was new to Malaysia or insufficient in scale.

Since the main concern of industrial development until the mid-1960s was the overall growth, foreign investment was viewed not only as the vehicle for transference of financial resource, but also for bridging the technological and management gap. The pattern of industrial growth was influenced through the Pioneer Industries Ordinance 1958 and the role of the Government then as enunciated in the Second Malaya Development Plan (1961-65) was to preserve a sound and stable monetary and financial climate, free from all restrictions, control and uncertainties which are inevitable accompaniments of financial instability and inflation.

When the proposal for the formation of Malaysia was under way, Malaya and Singapore had jointly requested the World Bank (IBRD) to study the economic aspects of the merger. The study headed by Jacques Rueff urged the Government to preserve the free market mechanism as the basic guide to decision-making by entrepreneurs.[1] To streamline the industrialisation effort, the mission also proposed the setting up of an agency to co-ordinate industrial

development and also the setting up of a tariff advisory board (TAB) to determine the judicious use of protective tariffs for the common market. Consequently, the TAB and the Federal Industrial Development Authority (FIDA) were set up in 1963 and 1965 respectively. The functions of FIDA (now MIDA) was to promote industrialisation and administer incentives. With these functions FIDA was therefore also entrusted with the procurement of foreign investment. Foreign investment was actively encouraged and, in the First Malaysia Plan, it was stated that foreign investment was welcomed not only for its contribution to the growth of national income and employment but also for the modernisation of industrial technology.

The import substitution industries which had spearheaded industrial growth in the first half of the 1960s had become stagnated in its second half due to the saturation of the domestic market. Additionally, the unemployment rate was also running high. These had led the Government to reorientate its industrial development strategy. To speed up industrial growth, the Investment Incentives Act, 1968 was implemented to further enhance the Pioneer Industries Ordinance. The Investment Incentives Act offered additional tax holidays based on various criteria. The criteria are the firm's location, the type of product or industry, the level of local content, the employment generated and the export performance of the firm.

The stage for a dramatic phase of the evolution of industrial policies was set immediately after the 1969 racial riots. Inequitable distribution of wealth among races and location was partly blamed. As a result, the New Economic Policy (NEP), 1970 was drawn up by the new administration then. This NEP called for a pattern of ownership and participation in economic activities that reflects the ethnic composition of the country. This had led the Government towards an interventionist approach. The then Prime Minister, Tun Abdul Razak, had stated that the Government would take the initiative in industrialisation and if necessary participate in the establishment of industries either by itself or in joint ventures with the private sector, both local and foreign.[2] Consequently, various trust agencies were set up to hold equity shares in trust for the Bumiputera[3] community and the equity participation requirements then became an additional constraint to industrialisation.

Another milestone in the provision of conducive investment atmosphere was the passing of the Free Trade Zones Act in 1971. This Act was designed to provide export-oriented assembly-type industries such as the electronics industry's additional incentive to site their plants in Malaysia.

To achieve the objectives of the NEP, the Industrial Co-ordination Act (ICA) was legislated in May 1975 to give legal sanction of control over the entry of investment into the manufacturing sector. It also gave the Government broad authority to intervene, impose conditions of approval and police these conditions. Under the Act, no person is allowed to engage in manufacturing activity without a licence and existing and new manufacturers are required to apply for a licence for each specific activity in which they are engaged. The Act is, however, not intended to apply to firms employing fewer than 25 full-time paid workers and whose shareholders' funds are less than M$250,000.00. The ICA's stated purpose is to see that optimum use is made of investment capital, land and other scarce resources. A secondary purpose is the collection of information, which has formerly been required only of firms that were granted incentives. The Act also stresses the need for confromity with the objectives of the NEP in trade and industry. As a result of its various regulations, the ICA has raised considerable disquiet in the private sector. In response to the uneasiness, the Government had amended it in 1977 with a significant change in the establishment of an appeals procedure. There may be a possibility that manufacturing industries may have

lost some of their competitive edge as a result of the Act. However, the evidence for such a view is far from clear.

To streamline the implementation of government policies on industrialisation, the Malaysia Industrial Development Authority (MIDA), a one-stop agency, was established to review all investment proposals for industries, both foreign and domestic.

Subsequent amendments of the said policies and/or legislation were made to suit the times as well as economic and labour conditions that were prevailing or were forecasted.

3.2 Government policies on foreign investment

The Malaysian Government's policies towards foreign investment have been fairly liberal and is geared to achieve the overall general objective of diversification and modernisation of the economy, besides the more specific objectives such as the creation of employment and the restructuring of equity structure. This liberal attitude is a consequence of its historical experience under colonial rule and the pro-private sector philosophy that characterises the political economy of modern Malaysia. This section of the study will examine the incentives and facilities offered to attract foreign investment and also the checks and regulations imposed upon them.

3.2.1 Investment incentives

A wide variety of incentives has been offered in various legislations to attract foreign investment through the creation of a conducive investment climate. Various measures have also been adopted to publicise such incentives. The measures include the setting up of branch offices of MIDA in various overseas countries and the investment promotion led by high-ranking officials abroad. These incentives have been continually amended to suit conditions prevailing in the economy. Recent amendments for example were made to counter the effects of recession. It should be noted that the incentives offered almost invariably overlap in their functions and objectives. For convenience of description the incentives offered by the Malaysian Government to industries can be broadly classified into three categories. These categories of incentives are fiscal incentives, tariff and tariff-related incentives, and financial and non-financial incentives.

3.2.1.1 Fiscal incentives

The core of fiscal incentives is incorporated in the Investment Incentives Act (IIA), 1968. A summary of the incentives offered and the conditions to be met under the Act is shown in Appendix I. There are basically seven major forms of fiscal/tax incentives offered. These are: (i) pioneer status; (ii) labour utilisation relief; (iii) locational incentives; (iv) investment tax credit; (v) export incentives; (vi) increased capital allowance; and (vii) hotel incentives.

The pioneer status grants tax respite to eligible companies for a period of two to five years. Couplied with the fulfilment of three other conditions on local content, priority products and location, a maximum of up to eight years' relief may be granted. Firms eligible for the pioneer status must be manufacturing goods not manufactured on a commercial scale suitable to the economic requirements of Malaysia, and have favourable prospects for further development or goods in which there are insufficient facilities in Malaysia to

allow commercial production on a scale suitable to the requirements of the country. These goods can also be goods that are produced in the interest of the public. Companies whose products are intended wholly for the export market are also eligible to apply.

The increasing labour surplus in the Malaysian economy in the late 1960s had led the Government to seriously review the existing provisions for attracting labour-intensive technology. The labour utilisation relief was hence incorporated into the IIA in 1971 to encourage the use of more labour-intensive techniques of production. The reliefs offered under this incentive is similar to those for the pioneer status except that the period of tax exemption depends upon the number of full-time paid employees. The tax relief period granted ranges from two to eight years.

The locational incentive was incorporated into the IIA of 1968 in 1973 to reduce the geographical concentration or congestion of industries and to encourage the dispersal of industries to less developed areas. These serve the more general objectives of geographical distribution of wealth and employment opportunities. Under this incentive, companies are eligible for a maximum tax holiday of ten years depending on the size of the capital invested or employment generated.

The investment tax credit is designed to cater for firms not enjoying the pioneer status, labour utilisation relief or locational incentive. The tax relief granted equals the amount of tax credit granted and shall not be less than 25 per cent of the total capital expenditure incurred. An additional 5 per cent each is added if the local content, priority product and locational conditions are also fulfilled.

Tax incentives for export promotion consist of export allowance, accelerated depreciation allowance and double deduction of overseas promotional expenses. The allowance is allowed on 5 per cent of the FOB value of the export sales of the year in which it is granted. The accelerated depreciation allowance of 40 per cent per annum is given to resident companies exporting at least 20 per cent by value of its output; this allowance is given in addition to the initial 20 per cent per annum allowed for expenditure incurred for the purposes of modernising the plant or production techniques. Expenses incurred for overseas promotion are allowed deductions against assessable income. For companies enjoying tax exemptions under pioneer status, labour utilisation relief and locational incentive, the deductions are allowed to be carried forward to the post-tax relief period.

To encourage existing firms to modernise their plants or production techniques, the increased capital allowance scheme allows an annual allowance of 40 per cent for plant expenditure, 3 per cent for building expenditure and for expenditure incurred for the purchase of a building, the permitted fraction is multiplied by one-and-a-half.

Hotel incentives are given to encourage the establishment of hotels, motels and tourist resort complexes. The incentives are available for the establishment of new hotels and the expansion and modernisation of existing ones.

In addition to the incentives described above, the Malaysian Government also offered other fiscal incentives such as reinvestment allowance, accelerated depreciation allowance, industrial building allowance for warehouses and bulk storage installations used for storing goods for exports, and incentives for research and development and manpower training.

To ensure that the foreign investors are not taxed twice and the benefits of tax holidays are accrued to the foreign investors directly, Malaysia has concluded comprehensive bilateral double taxation agreements with 26 countries and has initialled agreements with two others while negotiating with another four. The more important provision of the double taxation agreements which are of relevance to foreign investors are that the earnings earned by subsidiaries abroad are taxed at the same rate as earnings earned at home but relief from double taxation is given by the investing country for the tax paid in the host country. Tax sparring clauses are normally included in the double taxation agreements. Without this clause, tax holidays granted to foreign investors merely represent a tranference of resources from the host to the investing country, as the foreign investors have to pay the full tax rate back home.

3.2.1.2 Tariff and tariff-related incentives

Other than providing incentives, there is also a need to protect some of the local industries from competition outside the country. This is particularly so for industries that are based on the domestic market. Such forms of protection may come in the form of tariff protection, import restrictions, duty exemptions and duty drawbacks.

Tariffs have been used at varying stages in Malaysia to facilitate different purposes. Prior to the 1960s, tariffs were imposed mainly for revenue. However, in the 1960s it was widely used as a protective measure to encourage import substitution industries and when necessary curtail dumping. Since the 1970s, its role has been extended to include stimulation and inducement of industries identified as potentially feasible. Presently, depending upon needs, tariffs are being utilised to raise revenue, for protection and also for stimulating industries that have potential.

Tariff protection in Malaysia is considered for industries which are in a position to meet a major portion of local demand with the provision that the product is of acceptable quality and reasonable price. The labour intensity, degree of utilisation of domestic raw materials and level of value added of the industry are considerations in granting tariffs. Long-term tariff protection is however reviewed from time to time to ensure optimum protection which is consistent with the needs of the industry and the welfare of the consumers.

Another form of protection utilised is import restrictions. Such restrictions are normally granted to locally manufactured goods especially during the infancy stage of production. This measure is also used as a means to prevent dumping and depending upon circumstances may come in the form of a total ban or just quota restrictions. The use of this measure has been declining. The number of cases considered had fallen from 29 in 1976 to four in 1982.

Yet another measure of protection is the exemption of duties for raw materials and machineries. Exemptions from duties will lower the cost of production of the goods and thereby increase its competitiveness. Almost all machineries that are not available locally are exempted from all import duties. Additionally all goods used as input in the manufacture of approved products which are subsequently re-exported are eligible for full duty drawbacks. The goods exported must however be manufactured on approved premises and re-exported within 12 months from the date upon which import duty was paid.

Other tariff-related instruments include price supervision of essential commodities and commodities that are given tariff and non-tariff protection, Government's preferential purchasing scheme of locally manufactured goods, excise duties, sales tax, etc.

3.2.2 Investment facilities

3.2.2.1 Financial facilities

The finance for the development of manufacturing and related financial services such as transaction payments and transfer of funds is adequately provided for by the wide network of financial institutions available in Malaysia. As at end 1984, there were 38 commercial banks in Malaysia, whose services are supplemented by 43 finance companies, 12 merchant banks and 60 leasing companies.

The Government had, through the Malaysia Industrial Development Finance (MIDF), issued loans amounting to $345.3 million to the manufacturing sector in 1982. Besides issuing loans, MIDF also provides services such as consulting expertise for project appraisals and helping especially foreign entrepreneurs to seek suitable local partners. Whenever necessary, MIDF also participates directly in projects in the form of equity interests.

Besides MIDF, the Malaysian Export Credit Insurance Berhad (MECIB), which was incorporated in 1977 by the Government, provides exporters with export credit insurance to insure exporters against non-payment.

Moreover, foreign investors are subject to very nominal control over their borrowing practices. A non-resident-controlled business is allowed to borrow up to a total of $0.5 million without having to seek the permission of the controller of foreign exchange. These businesses are, however, required to source at least 50 per cent of their loans from locally incorporated banks. To reduce the cost borne by entrepreneurs in servicing their loans, interest paid to non-residents on loans from abroad of less than three years is tax exempted if the loans are considered approved loans satisfying certain guide-lines. Additionally the central bank, Bank Negara, also provides an export refinancing facility for exporters at preferential rates of interest and small-scale enterprises are entitled to unsecured loans at preferential rates of interest managed by the Credit Guarantee Corporation.

3.2.2.2 Non-financial incentives

The main non-financial incentives are basic and industrial infrastructure. Industrial infrastructure refers to the physical facilities specifically designed to cater for the needs of industrialists. In Malaysia, they include the setting up of industrial estates, free trade zones (FTZ) and ready-built factories.

There are currently 101 developed industrial estates in Malaysia which are provided with basic infrastructures such as roads, water, power and telecommunication facilities. Additionally, free trade zones are also established for manufacturing establishments producing or assembling products essentially for export. The export-oriented firms sited in free trade zones can also enjoy minimum customs control and formalities in their import of raw materials, parts, machinery and equipment. There are currently nine FTZs in Malaysia and companies whose entire products are meant for export, or, in exceptional circumstances, whose exports are not less than 80 per cent of their production can be considered for location in the FTZs. Companies whose

raw materials/components that have to be imported can also be considered to be located in them.

Similar facilities to FTZs are also granted to facilities classified as licensed manufacturing warehouses (LMWs). This LMW status is granted to factories where the establishment of a FTZ is neither practical nor desirable. This is done to encourage the dispersal of industries. The guide-lines and conditions for the setting up of LMWs are similar to those for the setting up of factories in FTZs.

Besides industrial estates, FTZs and LMWs, Malaysia's communication system has been designated by the World Bank as being of the "A" category, i.e., it is comparable to those in developed countries. There are also several industrial training institutes for employers to train their employees in.

3.2.3 Security of foreign capital

To increase the confidence of foreign investors, Malaysia has concluded investment guarantee agreements (IGAs) with 14 countries. Additionally, article 13 of the Malaysian Constitution guarantees adequate compensation in the event of nationalisation of any industry. The IGAs[4] provide the foreign investor with:

(i) protection against nationalisation and expropriation;

(ii) prompt and adequate compensation in the event of nationalisation or expropriation;

(iii) free transfer of profits or capital and other fees; and

(iv) settlement of investment disputes under the Convention on Settlement of Investment Disputes, of which Malaysia has been a member since 1966.

The Government has also made repeated reiterations on its anti-nationalisation policy. Its continued liberal policies of profit and capital remittances is sufficient to assure foreign investors from countries that do not have IGAs with Malaysia of the safety of their capital in Malaysia and the ability to remit the returns from their investments in Malaysia.

3.2.4 Investment regulations

Inflow of capital from outside the country has not only enriched the Malaysian economy but also economies of other developing nations. As such the attraction of foreign capital has remained competitive. Foreign investors, however, sometimes fail to play the role of "good corporate citizens" and "partners in progress" in the host country. Foreign investment has to be regulated both to ensure that the aspirations of the host country are safeguarded and that the foreign investor's capital is protected. This section will discuss the types of regulations on foreign investment currently in force in Malaysia.

3.2.4.1 Guide-lines on foreign equity

The Malaysian Government's policy in regard to foreign equity is embodied in the NEP. The NEP's objective is to achieve 70 per cent Malaysian ownership

(including 30 per cent bumiputera) in the equity structure of the corporate sector by 1990. The Malaysian Government therefore encourages industrial projects on a joint venture basis between Malaysians and foreigners. In pursuit of this objective the Government has drawn up broad guide-lines on equity participation of foreign investments. These guide-lines, besides regulating equity participation, also serves to selectively encourage the type of industries to be promoted. These guide-lines can be divided into those that apply to manufacturing investments and projects involving non-renewable resources.

The guide-lines applicable to new investments are:[5]

(1) 100 per cent equity is allowed for companies that export 80 per cent or more of their production;

(2) foreign companies whose applications are received by MIDA from 1 October 1986 to 31 December 1990 can own 100 per cent equity if they export 50 per cent or more of their production or if they employ 350 full-time Malaysians in proportions reflecting the racial composition of the country, and if the company's products do not compete with products presently manufactured locally for the domestic market;

(3) majority foreign ownership up to 79 per cent is allowable for projects exporting between 51-79 per cent of their production depending on the level of technology, spin-off effects, size of the investment, location, value added and the utilisation of local raw materials and components;

(4) foreign equity ownership of up to 51 per cent is also allowed for projects producing high technology or priority products for the domestic market.

The participation of foreign equity for projects involving non-renewable resources is treated more flexibly. For projects which involve the extraction or mining and processing of mineral ores, 100 per cent foreign equity participation is allowed. The percentage of foreign equity participation depends on the level of investments, technology and risk involved; the availability of Malaysian expertise in areas of exploration, mining and processing of the minerals concerned; and the degree of integration and level of value added involved.

A significant point to note in the guide-lines of joint venture projects is the distribution of Malaysian equity in respect of new investment. In line with the Government's aim to expand bumiputera ownership of the corporate sector to 30 per cent by 1990, various guide-lines have been drawn. The essence of these guide-lines is the reservation of 30 per cent equity for bumiputeras and any lack of takers of the equity will be supplemented by capital from institutions that have been set up to hold in trust these reserved shares. Such institutions include MARA, PERNAS, MIDF, Bank Bumiputera, SEDC, the National Equity Corporation, etc. Through these agencies the Government had carried out selective participation in manufacturing and commercial activities for the purpose of promoting the restructuring of domestic as well as foreign equity structure.

3.2.4.2 Employment of expatriate personnel

It is the Malaysian government's policy to see that Malaysians are eventually trained and employed at all levels of employment. However, foreign companies are allowed to bring in the required personnel in areas where there

is a shortage of trained Malaysians to do the job. The types of expatriate posts allowed are categorised into key posts which can be held indefinitely by foreigners, executive posts which require professional qualifications and practical experience and non-executive posts which require technical skills and experience. The number of expatriate posts depends on the foreign paid-up capital.

The employment of expatriates in executive and non-executive posts is however subjected to a maximum duration of ten and five years respectively.

3.2.4.3 Technology transfer

To regulate technology transfers, the Ministry of Trade and Industry had stipulated that all agreements between local and foreign partners be approved by them. This stipulation is made to ensure that the agreements will not impose unfair and unjustifiable restrictions or handicaps on the local party and not be prejudicial to national interest as well as to regulate the payment of fees. The agreement on transfer of technology is also required to define the technical content and principal features of the technology or process, the anticipated production, the quality and specification of products and particulars of technical assistance, services and the manner in which they are provided, the provision for training of the local company's personnel in the technology supplier's plant should be indicated and the cost of such training is required to be borne by the technology transferer.

It is also stipulated that the payment of royalty for the technology to be set at around 2 per cent of the net sales and depending upon the merits of such case, a rate of 1-5 per cent can be considered. The duration of the agreement should also be adequate for the full absorption of the technology and an initial period of five years is normally approved although renewals are subject to prior approval.

3.3 Impact of MNEs

Foreign investments had been credited in helping Malaysia create more employment, improve its economic welfare and provide know-how in both modern management and technology. Their presence has also induced local companies to improve themselves and the taxes contributed by foreign investors cannot be overlooked. On the other hand, foreign investors had been known to carry out unethical corporate practices, reaping excessive profits and showing no consideration for the host countries. Their presence had also been blamed for forestalling growth in local companies and for preventing the transition from a feudal-mercantilistic social system to a capitalistic system.

An assessment of the impacts of MNEs on foreign investment in developing countries entails a look at their contributions to and effects on the economy of the host country as a whole, the economy by its sectors and the individual industries themselves.[6] These impacts will be observed with the assumptions that there are no corresponding investments from domestic sources; the foreign investment is additional to domestic capital and does not influence its development; the opportunity costs of labour employed in foreign companies are zero as they would have been unemployed; and the opportunity costs of domestic capital invested in foreign companies are zero. These assumptions are reasonable due to the favourable balance of payments existing in Malaysia, the existence of unemployment and the existence of abundant domestic capital.

Subsequent sections of this chapter will examine the impact of MNEs in terms of location, tax contributions, employment and balance of payments.

3.3.1 Locational impact of foreign investment

The existence of "depressed" areas will eventually generate social and political problems to the country's administration. The ideal of equitable wealth distribution is non-existent. The existence of economic disparities among regions is a characteristic of most developing countries and Malaysia is no exception.

The objectives of regional development as spelt out in the Fifth Malaysia Plan is to reduce economic disparities among regions. This need for the dispersal of growth to less developed regions is seen to be essential not only to accelerate the development of poorer states and rural areas but also to avoid political rifts. For convenience of discussion, the data on regions to be used in this section will be disaggregated to state levels.[7] These states also form the basis of much of the planning and implementation of development programmes at the subnational level.

In the past, economic growth in Malaysia was heavily concentrated in a few regions. Such imbalance in regional distribution of wealth has its undesirable effects in employment and income distribution. Table 3.1 shows the per capita gross domestic product (PGDP) data, while table 3.2 shows the GDP data by states for 1970, 1980 and 1985. The regional imbalance in economic terms is apparent from these two tables. Selangor and the Federal Territory jointly contribute more than a quarter to the GDP of the nation in 1970. Together with Perak and Johore, they produce 62 per cent of the GDP and contained half the country's population. The inclusion of Sabah and Sarawak into the picture for 1980 and 1985 had not altered the distribution significantly. However, a significant point to note here is the importance of manufacturing contribution to GDP of the more affluent states of Selangor, the Federal Territory, Penang and Johore. This significance has led to various programmes and incentive systems to disperse industries and balance the regional disparities. It is also interesting to note that the locational incentive provided for in the IIA allows the longest period of tax holiday for a fixed amount of capital invested or employment generated. The areas identified for the benefit of the locational incentives are:

(1) Kedah, excluding Kuala Muda, Kulim and Bandar Baru district;

(2) Pahang, excluding Kuantan district;

(3) Kelantan;

(4) Terengganu;

(5) Perlis;

(6) Sabah;

(7) Sarawak; and

(8) Johore Tenggara area.

The assessment of the impact of foreign investment here is through whether it had accentuated the regional disparity or whether it had narrowed the gap of imbalances between the states. In their assessment, Hoffmann and

TABLE 3.1

Per Capita Gross Domestic Product of States as Times of Mean Per Capita Gross Domestic Product of Malaysia

State	1970		1980		1985	
	x of PGDP to Malaysia Average	% GDP Contri-bution	x of PGDP to Malaysia Average	% GDP Contri-bution	x of PGDP to Malaysia Average	% GDP Contri-bution
Kedah	0.81	8.8	0.65	5.3	0.63	4.8
Perak	1.07	19.3	0.89	11.6	0.85	10.4
Perlis	0.80	1.1	0.70	0.8	0.69	0.7
Pulau Pinang	0.78	6.9	1.13	7.8	1.10	7.3
Melaka	0.69	3.2	0.71	2.4	0.74	2.3
Negeri Sembilan	1.16	6.4	1.07	4.4	1.02	4.1
Selangor	1.49*	28.1*	1.43	15.7	1.32	15.3
Federal Territory	-	-	1.98	14.0	2.07	15.2
Kelantan	0.52	3.9	0.46	3.0	0.46	3.0
Pahang	1.04	5.9	0.99	5.7	0.93	5.9
Terengganu	0.60	3.0	1.15	4.5	1.26	5.1
Johor	0.98	14.2	0.91	10.8	0.88	10.4
Sabah	-	-	0.95	7.1	0.95	7.5
Sarawak	-	-	0.71	6.8	0.82	7.9

Source: Second Malaysia Plan, 1971-1975; Fifth Malaysia Plan, 1986-1990

Note : *Selangor data inclusive of Federal Territory
+
N.A. for 1970

TABLE 3.2

Gross Domestic Product by States, 1970, 1980 and 1985
(in $Million)

State	1970[a]	1980	1985
Kedah[b]	1,031	2,355	2,855
Perak	1,990	5,170	6,179
Perlis	-	337	430
Pulau Pinang	1,181	3,496	4,325
Melaka	522	1,072	1,362
Negeri Sembilan	782	1,981	2,405
Selangor[c]	3,806	7,014	9,043
Federal Territory	-	6,246	8,971
Kelantan	466	1,337	1,786
Pahang	755	2,553	3,490
Terengganu	370	2,012	3,005
Johore	1,907	4,797	6,163
Sabah	1,156	3,235	4,570
Sarawak	1,245	3,097	4,760
Total	15,315	44,702	59,344

Source: As in Table 3.1

Note : [a] in 1970 constant prices
[b] Data for Kedah inclusive of Perlis
[c] Data for Selangor inclusive of Federal Territory

Tan (1980)[8] had found that in 1970 manufacturing growth as a whole had accentuated the regional imbalance, more so for that of foreign-controlled companies (FCC). Their study revealed that two-thirds of the FCCs' increase in value added over the period 1968-71 was produced in Selangor. In fact, 94 per cent of the FCCs in 1970 were concentrated in Selangor, Perak, Johore and Penang. These findings were reaffirmed from the 1968 data of contribution of FCCs to manufacturing growth and employment in table 3.3. It is clear that the value added, output and employment contributed by FCCs in the States of Selangor, Johore and Perak were significant while the contributions to the poorer east-coast states and the northern States of Kedah and Perlis were low. In 1973 (see table 3.4) the situation remains the same with the exception of the high contribution of FCCs to manufacturing growth and employment in Penang. This may be a direct result of the establishment of textile and electronics industries in free trade zones and industrial estates in the state. Again the contribution of FCCs to output and employment of the poorer states remained low. It can therefore be reasonably concluded that foreign-controlled manufacturing companies had accentuated the disparity of wealth by states and the locational incentives offered had not contributed significantly to cause a change in this trend. The preference of industrialists for the developed areas is still evident from the number of approved projects in these states in 1985 (see table 3.5). Since 56.8 per cent of the approved projects in number are FCCs it can be reasonably concluded that the FCCs had not contributed to the alleviation of economic disparity among states.

3.3.2 Tax contribution of MNEs

In 1985, the total tax revenue collected by the Malaysian Government amounted to 31.4 per cent of the GDP. This percentage has been increasing since 1962. At the same time the proportion of direct taxes to the total tax revenue had also been increasing from 27 per cent in 1962 to 53.2 per cent in 1985, with a corresponding reduction of the percentage contribution by indirect taxes (table 3.6). The increase in direct taxes both as a percentage contribution to total taxes collected and in absolute terms reflects the increasing income of its citizens and companies.

The direct taxes paid by foreign-controlled limited companies in 1970 amounted to $298 million which is 42.5 per cent of all direct taxes collected (table 3.7). This proportion of direct taxes paid by foreign-controlled companies to the total direct taxes had fallen to 40.8 per cent in 1976 and further to 22.5 per cent in 1982. The declining importance of the contribution of direct taxes by FCCs is observed in all sectors of the economy except for construction and trade. This declining contribution by FCCs may be due to the decreasing number and/or profitability of FCCs, or the increasing importance, domination and profitability of locally controlled companies (LCCs). However, a more probable cause is the restructuring of the equity of major FCCs, thereby changing their classifications to become LCCs in the later years. The participation of LCCs in the economy has also increased.

In conclusion, the FCCs' contribution of direct taxes was very important as a source of revenue to the Government prior to 1970. The importance of this contribution is declining since 1970 although in absolute terms it still represents a significant amount.

3.3.3 Direct employment effects

In a labour-surplus country like Malaysia, the Government has always been attempting to create jobs to sustain the expanding labour force and to reduce

TABLE 3.3

Contribution of Foreign Controlled Manufacturing Companies to Growth and Employment by Region, 1968

State	Value Added ($Million)			Output ($Million)			Paid Employment (Nos.)		
	Total	Foreign	Foreign/ Total (%)	Total	Foreign	Foreign/ Total (%)	Total	Foreign	Foreign/ Total (%)
Johore	108.6	65.3	60.1	433.8	283.4	65.3	22,419	13,125	58.5
Kedah	19.3	3.7	19.2	132.1	17.0	12.9	5,365	238	4.4
Kelantan	12.8	1.9	14.8	50.6	10.5	20.9	3,733	498	13.3
Melaka	17.7	10.3	58.2	82.5	58.9	71.4	3,409	1,190	34.9
Negeri Sembilan	67.1	52.4	78.1	270.0	221.8	82.1	4,999	1,296	25.9
Pahang	20.8	1.9	9.1	56.7	6.9	12.2	3,748	206	5.5
Pulau Pinang	80.5	9.7	12.0	335.8	40.4	12.0	15,828	2,304	14.6
Perak	95.3	30.9	32.4	358.3	108.5	30.3	19,131	2,044	10.7
Perlis	1.1	0.1	9.1	8.3	0.2	2.4	321	8	2.5
Selangor [a]	446.5	244.4	54.7	1339.1	698.9	52.2	49,811	17,086	34.3
Terengganu	4.2	1.1	26.2	11.2	2.9	25.9	1,493	296	19.8
Total	873.9	421.7	48.3	3078.4	1449.4	47.1	130,257	38,291	29.4

Source: Tabulated from Census of Manufacturing Industries, 1968

Note : a
Selangor data inclusive of Federal Territory

TABLE 3.4

Contribution of Foreign Controlled Manufacturing Companies to Growth and Employment by Region, 1973

State	Value Added ($Million)			Output ($Million)			Paid Employment (Nos.)		
	Total	Foreign	Foreign/ Local (%)	Total	Foreign	Foreign/ Local (%)	Total	Foreign	Foreign Local(%)
Johore	284.7	155.8	54.7	1073.4	609.8	56.8	41,028	19,367	47.2
Kedah	47.5	6.8	14.3	260.9	40.2	15.4	7,813	1,222	15.6
Kelantan	27.9	5.0	17.9	108.3	18.1	16.7	8,683	344	4.0
Melaka	34.5	17.4	50.4	175.8	98.1	55.8	9,555	4,287	44.9
Negeri Sembilan	104.8	64.2	61.3	423.0	292.5	69.1	7,722	1,935	25.1
Pahang	90.2	4.5	5.0	263.4	22.0	8.4	11,803	428	3.6
Pulau Pinang	305.4	165.8	54.3	1069.5	402.3	37.6	47,622	21,918	46.0
Perak	245.9	77.8	31.6	822.2	233.7	28.4	38,784	5,239	13.5
Perlis	4.5	0.0	0.0	23.2	0.0	0.0	1,245	0	0.0
Selangor	1161.6	734.2	63.2	3398.0	2083.4	61.3	100,122	39,120	39.1
Terengganu	19.9	2.0	10.1	59.9	3.3	5.5	4,556	286	6.3
Total	2326.9	1233.5	53.0	7677.6	3803.4	49.5	278,933	94,146	33.8

Source: As in Table 3.3

TABLE 3.5

DISPERSAL OF APPROVALS BETWEEN DEVELOPED AND LESS DEVELOPED AREAS, 1985

Location	No. of Approvals		Potential Employment		Total Proposed Capital Investment ($ million)	
	DA	LDA	DA	LDA	DA	LDA
Johor	116	13	11,191	1,729	387.2	70.1
Melaka	16	7	1,820	475	42.9	64.0
N. Sembilan	29	-	1,560	-	164.7	-
Selangor	220	-	13,878	-	976.6	-
Federal Territory	41	-	1,817	-	66.6	-
Perak	56	5	3,427	379	342.1	20.2
Pulau Pinang	-	-	5,158	-	268.4	-
Kedah	-	34	-	2,740	-	167.8
Perlis	-	8	-	965	-	48.9
Pahang	-	23	-	2,085	-	112.4
Terengganu	-	14	-	1,434	-	631.4
Kelantan	-	22	-	2,972	-	135.5
Sabah	-	50	-	3,470	-	180.4
Sarawak	-	37	-	1,580	-	95.3
Undecided	-	1	-	151	-	26.6
Total	535	214	38,851	17,980	2,248.5	1,552.6

Source: MIDA Annual Report, 1985.

Note : DA - Developed Area
LDA - Less Developed Area

TABLE 3.6

Federal Government Tax Receipts, 1962, 1970, 1976, 1982 and 1985

Items	1962[a]		1970[b]		1976[b]		1982[b]		1985[b]	
	$Million	%	$Million	%	$Million	%	$Million	%	$Million	%
Direct Taxes	243	27.6	701	35.1	2,167	39.5	6,582	48.8	9,538	53.2
Indirect Taxes	637	72.4	1,299	64.9	3,324	60.5	6,893	51.2	8,395	46.8
Export Duties	177	20.1	258	12.9	1,010	18.4	1,720	12.8	1,839	10.2
Rubber	93	10.6	80	4.0	519	9.5	110	0.8	3	0.0
Tin	67	7.6	130	6.5	291	5.3	159	1.2	38	0.2
Others	17	1.9	48	2.4	200	3.6	1,451	10.8	1,798	10.0
Import Duties Excise, Surtax	373	42.4	806	40.3	1,528	27.8	3,339	24.8	3,894	21.7
Licenses & Other	87	9.9	235	11.8	786	14.3	1,834	13.6	2,662	14.9
Total Taxes	880	100.0	2,000	100.0	5,491	100.0	13,475	100.0	17,933	100.0

Source: [a] Hoffman L. and Tan, S.E., (1980)
[b] Ministry of Finance, Economic Report, 1973/1974, 1985/1986, 1986/1987

TABLE 3.7

Direct Taxes Paid by Limited Companies, 1970, 1976 and 1982

Sectors	1970		1976		1984	
	Local & Foreign ($Million)	Share of Foreign (%)	Local & Foreign ($Million)	Share of Foreign (%)	Local & Foreign ($Million)	Share of Foreign (%)
Agriculture	163.8	69.7	327.7	60.3	298.1	26.7
Rubber	85.2	82.9	121.5	74.2	45.9	32.0
Other	78.6	55.3	206.2	52.1	252.2	25.7
Mining & Quarrying	68.0	75.9	834.1	30.6	2,777.6	20.5
Tin	133.5	89.2	104.2	66.5	70.4	14.1
Other	-0.8	-58.3	729.9	25.5	2,707.2	20.7
Manufacturing	102.0	64.9	357.8	51.1	536.3	56.4
Construction	2.7	33.3	15.4	37.0	110.0	76.8
Trade	73.6	51.2	215.6	42.7	417.6	45.3
Wholesale	58.9	54.2	164.8	48.2	318.4	55.1
Retail	14.7	39.4	50.8	24.8	99.2	13.9
Other Industries	65.3	41.2	357.5	41.9	1,221.3	20.7
Total	475.4	62.6	2,108.1	41.9	5,360.9	27.6

Source: Department of Statistics, Financial Survey of Limited Companies, various issues

unemployment. The seriousness of the Government in creating jobs for its people through foreign investment can be observed from its attempts to promote Malaysia abroad as a host country for foreign investment and from the various incentives offered to induce the growth and expansion of labour-intensive industries such as the electrical machinery and textile industries. The establishment of FTZs to attract assembly-type export-oriented labour-intensive industries, particularly the electronics MNEs, is also geared towards the objectives of employment creation.

Whether foreign investment had aided the Government in creating more employment opportunities than could equal local investment had been widely debated. Critics of MNEs in this aspect pointed out that foreign-owned companies tend to use more capital-intensive technology than local firms and for every unit of output, foreign firms will therefore create fewer jobs than local ones. Two sources of data will be utilised to examine the impacts of foreign investment on employment in Malaysia. The first is based on the financial survey of limited companies. This set of data will be used to examine the employment effects on various sectors of the economy. The coverage of this survey, although limited to limited companies, provides good indicators of the overall employment situation. Its usefulness had been verified by researchers in this field, such as Hirschman (1979)[9] and Hoffmann and Tan (1980).[10] The second set of data is the census of manufacturing industries. The importance of manufacturing industries, being a modern sector of the economy in employment generation and its contribution to exports has been rising since industrialisation has been better planned.

3.3.3.1 Employment by sectors of the economy

The share of FCCs in the economy's employment as computed by Hoffmann and Tan (1980, p. 229)[11] was 8.9 per cent in 1962 and 8.4 per cent in 1970. The contribution to employment creation for the period 1962-70 was found to be even lower at 5.8 per cent. It was pointed out that the net loss in workers occurred mainly in the agricultural sector, while the foreign-controlled manufacturing companies had contributed the most in employment among other sectors of the economy. They then concluded that FCCs do not help much in solving the unemployment problems in less developed countries.

The data on sectoral employment by ownership in more recent years of 1976 and 1984 are presented in tables 3.8 and 3.9. These data extracted from the financial survey of limited companies are not comparable to those by Hoffmann and Tan in absolute terms. However, the data for the two said years are based on an extensive survey, the coverage of which exceeded 90 per cent of the limited companies in Malaysia, as such differences and biasness of data due to coverage are not expected to be large. Moreover, the main non-responding limited companies were mostly the smaller ones.

The employment of FCCs in 1976 was higher than LCCs in the primary industries. The contribution of FCCs in other sectors of the economies except retail trade was also high. The situation in 1984 was however different. LCCs had gained much in terms of employment. In agriculture, for example, FCCs' contribution to employment had fallen to 23.6 per cent and in mining and quarrying, the percentage contribution of FCCs' employment had dropped to 28.3 per cent.

In terms of employment creation over the period 1976-84 (see table 3.10), the significant point to note is the loss of workers in all sectors among FCCs except for the manufacturing and construction sectors. The observed significant trends can be explained by individual sectors. In the

TABLE 3.8

Sectoral Employment in Peninsular Malaysia and Foreign Controlled Companies, 1976

Industry	Employment (No.)			
	Total Employment	FCC No.	LCC No.	FCC/Total %
Agriculture	169,436	97,717	71,719	57.70
Rubber	90,290	61.387	28,903	67.99
Other Agriculture	79,146	36,330	42,816	45.90
Mining & Quarrying	27,203	14,376	12,827	52.80
Tin Mining	20,535	10,782	9,753	52.51
Other Mining	6,668	3,594	3,074	53.90
Manufacturing	264,782	107,159	157,623	40.47
Construction	19,498	6,131	13,367	31.44
Wholesale Trade	48,575	18,124	30,451	37.31
Retail Trade	24,324	3,341	20,983	13.74
Banks & Financial Institutions	24,681	11,288	13,393	45.74
Other Industries	67,059	11,773	55,286	17.56
All Industries	645,558	269,909	375,649	41.81

Source: As in Table 3.7

Note : FCC is Foreign Controlled Companies
LCC is Local Controlled Companies

TABLE 3.9

Sectoral Employment in Peninsular Malaysia and Foreign Control Companies, 1984

Industry	Employment (No.)			
	Total Employment	FCC No.	LCC No.	FCC/Total %
Agriculture	139,242	32,861	106,381	23.60
Rubber	40,294	5,195	35,099	12.89
Other Agriculture	98,948	27,666	71,282	27.96
Mining & Quarrying	25,669	7,254	18,415	28.30
Tin Mining	10,202	681	9,521	6.68
Other Mining	15,467	6,573	8,894	42.50
Manufacturing	297,430	133,735	163,695	44.96
Construction	27,669	10,847	16,822	39.20
Wholesale Trade	58,821	15,843	42,978	26.93
Retail Trade	28,680	130	28,550	0.45
Banks & Financial Institutions	54,894	10,808	44,086	19.69
Other Industries	62,225	3,433	58,792	5.52
All Industries	694,630	214,911	479,719	30.94

Source: Same as in Table 3.7

TABLE 3.10

Contribution of FCCs to Employment Creation, 1976 and 1984

Industry	Employment Change		FCC/Employment Change in Industry	FCC/Total Employment Change
	Malaysia	FCC		
Agriculture	-30,194	-64,856	-214.8	-
Rubber	-49,996	-56,192	-112.4	-
Other Agriculture	19,802	-8,664	-43.8	-
Mining & Quarrying	-1,534	-7,122	-464.3	-
Tin Mining	-10,333	-10,101	-97.8	-
Other Mining	8,799	2,979	33.9	6.1
Manufacturing	32,648	26,576	81.4	54.2
Construction	8,171	4,716	57.7	9.6
Wholesale Trade	10,246	-2,281	-	-
Retail Trade	4,356	-3,211	-	-
Banks & Financial Institutions	30,213	-480	-	-
Other Industries	-4,834	-8,340	-172.5	-
Total Industries	49,072	-54,998	-	-

Source: Same As in Table 3.7

agricultural sector, the losses in workers employed by FCCs can be explained by the change in the equity structure of several large plantation groups which had traditionally been held by foreigners. Since FCCs are defined in the survey as companies with majority foreign interests, a change in equity will result in the change in the classification of the company, thereby contributing to a loss in employment by FCCs. Additionally, the increased participation of local companies had also brought down the contribution of FCCs to employment. Similar explanations can also be offered for the observations in the mining and quarrying sectors. The falling prices of primary commodities and the rise of the manufacturing sector may also have caused some "migration" of workers from one sector of the economy to another.

Positive employment creation by FCCs over the period 1976-84 is only observed in the manufacturing and construction sectors. In the construction sector the employment was due to the increase in the number of massive construction projects which were undertaken by international construction companies. Since the construction sector's employment is mostly on project basis, FCCs' contribution to total employment and the positive employment creation may only be virtual. The more permanent nature of employment in the manufacturing sector and its high employment generation capacity in total (FCCs contributed 81.4 per cent of total employment for this sector from 1976 to 1984) warrants more attention. The increase in employment of FCCs in the manufacturing sector can be attributed to concerted promotion efforts to bring in foreign investors.

In conclusion, it can be said that the FCCs' contribution to employment in recent years has not been encouraging except for the significant increase in the manufacturing sector. The manufacturing sector's role in employment generation by FCCs therefore warrants further investigation.

3.3.3.2 Employment in the manufacturing sector

In his analysis of employment generation of foreign investment in manufacturing, G. Tan (D. Lim, p. 225)[12] had attempted to dispute the claim by critics of MNEs that they contribute less employment creation than local firms in a particular industry. This attempt was made by first disaggregating the employment data of the manufacturing sector industry level and showing that within an industry, foreign firms on average employ more workers than local ones. This approach was criticised by C. Hirschman[13] who pointed out that the real issue in the analysis of employment creation is the employment per unit of output or investment, and not the number of workers per factory. Hirschman's contention was that capital-intensive production favoured by foreign firms often results in large manufacturing plants with many workers. He, however, had not offered any arguments or comparisons on the degree of capital intensity nor technology used between local and foreign firms. In this section, the employment generation effect of foreign firms will be examined using the approach by G. Tan as well as alternative approaches suggested by Hirschman. Data used will however not be disaggregated to the level used by G. Tan.

G. Tan[14] argued that the share of total employment accounted for by foreign-owned firms in any industry depends on the average number of people employed by each foreign-owned firm as well as on the percentage of foreign-owned firms in the total number of firms in the industry. Based on his argument the relevant data for various industries in the manufacturing sector in 1981 are presented in table 3.11. If the number of employees per firm can represent the employment generation capacity of a foreign-controlled

TABLE 3.11

Relative Employment Generation Capacities of Foreign Controlled Manufacturing Companies, 1981

Industry	Employment			Output			Fixed Assets		
	No. of FCC / No. of LCC (1)	TE of LCC / TE of LCC (2)	(3) = (1)/(2)	TE of FCC / TO of FCC (4)	TE of LCC / TO of LCC (5)	(6) = (4)/(5)	TE of FCC / FA of FCC (7)	TE of LCC / FA of LCC (8)	(9) = (7)/(8)
Food Manufacturing	0.022	0.166	7.426	4.93	7.47	0.66	24.412	31.204	0.782
Beverages & Tobacco	0.039	0.325	8.426	4.31	62.76	0.07	14.895	32.241	0.462
Textile & Textile Products	0.017	0.449	26.189	25.45	41.57	0.61	63.887	94.471	0.676
Leather & Leather Products	-	0.199	-	12.70	63.70	0.20	-	91.130	-
Wood, Cork & Furniture	0.009	0.040	4.322	39.21	30.14	1.30	84.563	81.463	1.038
Paper & Paper Products	0.009	0.012	1.224	10.43	26.04	0.40	71.770	65.459	1.096
Chemical & Chemical Products	0.176	0.333	1.887	5.60	16.25	0.34	25.121	40.862	0.615
Petroleum & Petroleum Products	0.364	3.321	9.134	0.18	10.18	0.12	4.131	48.371	0.085
Rubber	0.112	0.463	4.140	7.36	16.82	0.44	24.188	63.088	0.383
Plastic	0.028	0.098	3.527	28.89	31.81	0.91	69.813	69.485	1.005
Non-Metallic Mineral Products	0.024	0.139	5.880	7.18	18.28	0.40	16.811	31.470	0.534
Basic Metal	0.024	0.179	7.382	3.15	22.72	0.14	27.674	30.857	0.897
Fabricated Metal Products	0.011	0.096	9.099	9.41	26.03	0.40	35.530	79.731	0.446
Machinery & Equipment & Electrical Machinery	0.061	2.277	37.340	18.53	20.64	0.90	98.828	68.893	1.435
Transport Equipment	0.034	0.142	4.198	10.29	17.30	0.60	34.378	44.018	0.781
Professional, Scientific & Measuring Equipment	0.500	8.162	16.324	31.00	40.47	0.77	86.040	77.044	1.117
Miscellaneous	0.036	0.966	26.647	29.85	41.96	0.70	95.046	125.012	0.76

Source: Tabulated from Census of Manufacturing Industries, 1981

Note : TE = Total Employment
TO = Total Output
FA = Fixed Assets

firm then it can be concluded that the foreign-controlled firms in all industries had higher employment generation capacities than locally controlled firms. The employment generated by per-number foreign-controlled firms in the textile, electrical and electronics machinery and professional, scientific and measuring equipment industries therefore had exceeded ten times that of local-controlled firms in the same industries.

In view of the criticisms of the above approach by C. Hirschman, it is necessary to examine the data from the output and fixed assets approach. If we assume that the productivity of employees in both foreign-controlled and locally controlled firms is the same, then more employees will be required to generate a unit of output in foreign-controlled firms if the value in column (6) exceeds one or that more employment is generated by foreign-controlled firms in deriving a unit of output. Based on this assumption therefore it can be concluded that the employment generation effect of foreign-controlled companies in all industries except the wood, wood products, furniture and fixture industry is lower than that of the locally controlled firms. This conclusion is in direct contrast to those concluded using the employment per firm approach.

Based on the original assumption of equivalence of domestic and foreign capital, the data can be examined from the fixed assets approach. From table 3.11 it can then be observed that foreign-controlled firms in the wood, wood products, furniture and fixture industry, the paper, printing and publishing industry, the plastic industry, the machinery and equipment and electrical and electronics industry as well as the professional, scientific and measuring equipment industry, employ more people per unit of fixed assets invested than locally controlled companies in the same industries. If we correlate these data to those by the output approach, it can be seen that high values (close to 1.0 in column (6)) are registered by the machinery and equipment, electrical and electronics industry as well as the plastics industry. It would therefore be more reasonable to conclude that on the whole the employment generation capacity of foreign firms is lower than that of local firms both for the manufacturing sector and for individual industries. However, the employment generation effect of foreign firms in the electrical and electronics industry, machinery and equipment industry and the plastics industry is on par with that of local firms. Only in the wood, wood products, furniture and fixtures industry had foreign firms been able to conclusively show greater employment generation effects.

The employment generation effect of foreign-controlled firms is now examined using the manufacturing census data of 1968, 1973 and 1981. On the whole the total number of jobs created in the manufacturing sector during the period 1968-81 is 385,019, out of which the number created by foreign-controlled companies is 114,417 or 29.7 per cent (table 3.12). If the period is divided into two sub-periods of 1968-73 and 1973-81, it can be seen that foreign-controlled companies' contribution to employment generated for the earlier sub-period is higher. It is interesting to note that more than three-quarters of the employment generated in the machinery and equipment, electrical and electronics industries is by foreign-controlled companies. The employment generated in these industries by foreign-controlled firms contributed a significant 18.2 per cent to the total employment created in the manufacturing sector for the period 1968-81. The decreasing contribution of FCCs to the employment generated in the second sub-period may be due to the increasing participation of LCCs and the fall in employment contribution of FCCs in several industries may be explained by the restructuring of company equity.

The actual employment generation effect of foreign capital is underestimated due to the classification system of foreign and locally

TABLE 3.12

Employment Creation Contribution of Foreign Controlled Manufacturing Companies, 1968 to 1973, 1973 to 1981 and 1968 to 1981
(x 1,000)

Industry	Change in Employment for Period of											
	1968 - 1973				1973 - 1981				1968 - 1981			
	Total Δ in Em	Δ in Em of FOC	Δ in Em of FOC	Δ in FOC	Total Δ in Em	Δ in Em of FOC	Δ in Em of FOC	Δ in FOC	Total Δ in Em	Δ in Em of FOC	Δ in Em of FOC	Δ in FOC
			Δ in Ind. (%)	Δ in Total (%)			Δ in Ind. (%)	Δ in Total (%)			Δ in Ind. (%)	Δ in Total (%)
Food Manufacturing	17,325	3,127	18.0	2.1	25,911	3,091	11.9	1.3	43,236	6,218	14.4	1.6
Beverages & Tobacco	5,048	1,293	25.6	0.9	5,240	1,421	27.1	0.6	10,288	2,714	26.4	0.7
Textile & Textile Products	24,261	8,289	34.2	5.6	34,465	8,500	24.7	3.6	58,726	16,789	28.6	4.4
Leather & Leather Products	408	84	20.6	0.1	68	43	63.2	0.0	476	127	26.7	0.0
Wood, Cork & Furniture	22,500	1,444	6.4	1.0	25,765	-401	-	-	48,265	1,042	2.2	0.3
Paper & Paper Products	7,965	1,110	13.9	0.7	11,200	-3,003	-	-	19,165	-1,893	-	-
Chemical & Chemical Products	2,575	3,946	153.2	2.7	7,004	-1,557	-	-	9,579	2,389	24.9	0.6
Petroleum & Petroleum Products	201	0	0.0	0.0	233	641	275.1	0.3	434	641	147.7	0.2
Rubber	15,695	8,132	51.8	5.5	8,169	-1,829	-	-	23,864	6,303	26.4	1.6
Plastic	8,702	1,164	13.4	0.8	8,507	367	4.3	0.2	17,209	1,531	8.9	0.4
Non-Metallic Mineral Products	5,762	722	12.5	0.5	13,091	867	6.6	0.4	18,853	1,589	8.4	0.3
Basic Metal	3,759	443	11.8	0.3	4,864	-809	-	-	8,623	-366	-	-
Fabricated Metal Products	17,788	5,416	30.4	3.6	9,779	-3,001	-	-	27,567	2,415	8.8	0.6
Machinery & Equipment & Electrical Machinery	30,112	22,837	75.8	15.4	62,371	47,236	75.7	20.0	92,483	70,073	75.8	18.2
Transport Equipment	4,922	296	6.0	0.2	9,582	1,962	20.5	0.8	14,504	2,258	15.6	0.6
Professional, Scientific & Measuring Equipment	1,685	0	0.0	0.0	3,235	4,383	135.5	1.9	4,920	4,383	89.1	1.1
Miscellaneous	-30,499	-217	-0.7	-	6,705	4,950	73.8	2.1	-23,794	4,733	-	-
Total	148,678	51,647	34.7	34.7	236,341	62,780	26.6	26.6	385,019	114,427	29.7	29.7

Source: As in Table 3.11

Note - (1) Em=Employment (2) Ind=Industry (3) Δ = Change

TABLE 3.13

Selected Balance of Payments Items, Malaysia, 1970 - 1985
(in $Million)

Year	Investment Income Net Outflow	Net Private Companies Long-Term Capital Import	Inflow of Reso- urces	Trade Surplus	Short-Term Capital a Import	Balance
1970	355	287	-68	1,067	-260	739
1975	727	839	112	614	-252	474
1980	1,820	2,033	213	5,238	-1,493	374
1985	5,665	1,870	-3795	8,876	-219	4,862

Source: Ministry of Finance, Economic Reports, various issues;
Bank Negara Malaysia, Quarterly Economic Bulletin, various issues

a
Including errors and omissions

TABLE 3.14

Resource Effects of Foreign Direct Investment ($Million)

Year	Investment Income	Long-Term Capital Import	Inflow of Resource
1980	-2,314	1,811	-503
1981	-2,424	2,166	-258
1982	-2,558	2,625	67
1983	-3,255	1,417	-1,838
1984	-3,452	2,055	-1,397
Total	-14,003	10,074	-3,929

Source: Same As in Table 3.13

TABLE 3.15

Overall Resource Effects
($Million)

Year	Investment Income	Private Companies Long-Term Capital Import	Inflow of Resources	Trade Surplus	Short -Term Capital Import	Balance
1980	-1,820	2,033	213	5,238	-1,493	3,958
1981	-1,836	2,914	1,078	-243	-1,488	-653
1982	-2,679	3,263	584	-1,758	-963	-2,137
1983	-4,208	2,926	-1,282	1,002	-885	-1,165
1984	-5,255	2,138	-3,117	6,986	-2,043	1,826
Total	-15,798	13,274	-2,524	11,225	-6,872	1,829

Source: Same As in Table 3.13

TABLE 3.16

The Exchange Effects of Foreign Direct Investment
(in $Million)

Year	Inflow of Resource	Trade Surplus	Other Transactions	Total Exchange Effect
1980	-503	2,334	-275	1,556
1981	-258	35	-503	-726
1982	67	-298	240	9
1983	-1,838	1,001	-2,400	-3,237
1984	-1,397	2,594	-3,038	-1,839
Total	-3,929	5,666	-5,974	-4,237

Source: Same as in Table 3.13

controlled companies. If we assume that 25 per cent of the remaining employment generated by LCCs is to be attributed to foreign capital, then the contribution of foreign capital to employment creation over the period 1968-81 is actually 47 per cent. As such it can be concluded that the employment generation attributed to foreign capital is very significant in the manufacturing sector, especially in labour-intensive industries such as the electrical and electronics as well as the textile industries. However, this conclusion can only be true if no equivalent capital is invested in place of the foreign investment.

3.3.4 Balance-of-payment effects

Table 3.13 shows the balance-of-payment items of Malaysia related to private enterprise activity for the years 1970, 1975, 1980 and 1985. The high value of trade surplus that occurred in the 1960s has persisted into the 1980s. This trade surplus was, however, largely offset by a substantial outflow of resources and short-term capital in 1985. The net outflow of the investment income exceeded long-term capital import by three times. As a result the resource effect of the MNEs shall now be examined under the assumption that investment from domestic sources would have produced equivalent output and employment.

From tables 3.14 and 3.15 it can be seen that the outflow of resources arising from FDI exceeds that for Malaysia as a whole by one-and-a-half times. It therefore appears that FDI resulted in a heavy drain on the country's resources through large transfer of investment income out of the country. The main sectors of the economy that contribute to the outflow in investment income are banks and financial institutions, mining (other than tin), and the manufacturing sectors. It can be concluded therefore that the resource effect of FDI tends to be negative. This negative resource effect, if not counteracted by a high trade surplus, will contribute to problems in the balance of payments. The data for 1981, 1982 and 1983 in table 3.15 amply illustrate this matter.

Table 3.16 shows the exchange effects of FDI. The trade surplus of FCCs over the period 1980-84 comprises half the trade surplus of Malaysia. This trade surplus is however overshadowed by the outflow of resources and other transactions of FCCs with other countries, thereby resulting in a total negative exchange effect. Therefore in recent years, it can be said that FDI has a negative effect on balance of payments.

Notes

[1] IBRD, July 1963: Report on the Economic Aspects of Malaysia, Government Printers, Kuala Lumpur, p. 38.

[2] Statement by Tun Abdul Razak: "New economic development policy", The New Industrial Development Strategy (Kuala Lumpur, FIDA, July 1969), pp. 2-5.

[3] Bumiputera refers to Malays and other indigenous races.

[4] MIDA, 1987: Malaysia - Investment in the Manufacturing Sector, p. 9.

[5] MIDA, op. cit.

[6] Different levels of studies can be achieved subject to the availability of data and their level of disaggregation.

[7] Malaysia comprises 13 states, 11 in the Peninsula or West Malaysia and two in the Borneo Island or East Malaysia. A map of Malaysia with the states is shown in Appendix II.

[8] L. Hoffmann and S.E. Tan, 1980: Industrial growth, employment and foreign investment in Peninsula Malaysia, Oxford University Press, New York.

[9] C. Hirschman, 1979: UMBC Economic Review, Vol. 15, No. 1.

[10] L. Hoffmann and S.E. Tan, op. cit.

[11] L. Hoffmann and S.E. Tan, op. cit.

[12] G. Tan: "Foreign investment, employment generation and the profit-wage ratio in the manufacturing sector of West Malaysia", in Further Readings on Malaysian Economic Development, edited by D. Lim, 1983, Oxford University Press, New York.

[13] C. Hirschman, op. cit.

[14] G. Tan, op. cit.

CHAPTER IV

DIRECT EFFECTS OF EMPLOYMENT

4.1 Introduction

The historical trend and impacts of MNEs as well as government policies towards them have been discussed using secondary macro-economic data from published and unpublished sources in Chapters II and III. This chapter and Chapter V will examine the employment effects of MNEs in Malaysia using data from a sample survey conducted in the month of July 1987. Results of the survey will be used as data to supplement the secondary macro-economic data.

The direct effects of employment by MNEs comprise items such as labour productivity, technology transfer, employment stability, human resources development and also employment generation for the provision of job opportunities.

4.2 Sample survey of MNEs in Malaysia

The study of impact of MNEs was done in terms more quantitative than qualitative. Secondary data were used which render current perceptions of MNEs in Malaysia opaque. This survey attempts to determine the direct and indirect employment effects of MNEs from a more qualitative point of view. It collects data on the general characteristics of MNEs, their employment structure, training provisions, technological aspects and research and development activities of MNEs. Besides these, an attempt to evaluate the linkage effects of MNEs and perception of their high officials on important issues relating to employment and localisation were also made.

A total of 50 MNEs were initially selected for the survey. Due to time constraint, only 33 firms responded positively, among which 25 chief executives of the firms were interviewed directly and the information from eight other firms were entered by their high officials. Two of the responses were rejected due to incompleteness and inconsistencies of data. Therefore, only 31 completed questionnaires were eventually used in the analysis. Time and resource constraints have also confined our survey to Kuala Lumpur, Petaling Jaya, Shah Alam and Ulu Klang where large concentrations of MNEs exist. The sample was also restricted to manufacturing MNEs and the questionnaire was structured to reflect this. This restriction was made because the nature and employment effects of manufacturing and non-manufacturing MNEs are different.

4.3 Characteristics of the sample

Table 4.1 shows that most of the sampled MNEs were established in the last 20 years. This is not surprising as incentives were offered more generally, especially after the gazetting of the Investment Incentives Act, 1968 and its subsequent amendments. The establishment of free trade zones has also attracted numerous MNEs, particularly those in the electronics industry.

Most of the MNEs interviewed originated from Japan followed by the United States, the United Kingdom and Australia. The Netherlands, Switzerland, Sweden and Singapore are the other countries of origin of the MNEs surveyed (table 4.2).

Table 4.1: Year of establishment of MNEs in survey sample

Year	No. of firms	%
Before 1957	2	6.4
1957-65	6	19.4
1966-75	19	61.3
1976-86	4	12.9
Total	31	100.0

More than three-quarters of the MNEs surveyed have majority foreign equity (table 4.3). The seven firms with minority foreign equity illustrate here that MNEs can exist without majority foreign equity. This serves to point out that the contribution of MNEs both positive and negative to the impacts may have been under-measured as MNEs were defined as foreign-controlled companies with foreign majority equity.

Table 4.4 shows that most of the surveyed MNEs are engaged in food, chemicals, non-metallic mineral products and electrical machinery manufacture. Except for the food and chemicals industries, most of the firms in these four industries are labour-intensive firms. Lastly, table 4.5 shows that most of the firms surveyed employ more than 100 workers. In terms of employment size, they are therefore considered large.

Due to the time and resource constraints we were unable to obtain an ideal sample that illustrates all the characteristics of MNEs in Malaysia. However, the sample obtained, except for the lack of response from the labour-intensive textile industry, is a fairly representative one.

4.4 Employment generation effects of MNEs

The employment impact of MNEs in Malaysia has been discussed in detail using secondary data in section 3.3.3. In the analysis of employment by sectors of the economy it was found that the contribution of foreign-controlled companies or MNEs to employment generation was declining in recent years for all sectors of the economy except for the manufacturing sector. FCCs in the manufacturing sector had contributed a significant 81.4 per cent or 26,576 jobs in all limited companies in the sector from 1976 to 1984. The creation of these jobs amounts to 54.2 per cent of the total employment generated by all limited companies in Malaysia in the same period. In the examination of the employment effects of MNEs, it would therefore not be imprudent to concentrate the analysis on the manufacturing sector.

In the examination of employment generation of MNEs in the manufacturing sector it was found that on a unit output basis, local companies employed more people than MNEs in all industries except the wood and wood products industry. The employment per unit output of electrical and electronics as well as the plastic industry have employment generation per output value close to local companies (table 3.11). This is in contrast to the large size of

TABLE 4.2

Country of Origin of Foreign Capital of MNEs Surveyed

Country of Origin	No. of Firms	%
Japan	13	41.9
U.S.A.	5	16.2
U.K.	4	12.9
Australia	4	12.9
Netherlands	2	6.5
Switzerland	1	3.2
Sweden	1	3.2
Singapore	1	3.2
Total	31	100.0

TABLE 4.3

Percentage of Firms' Equity Held by Foreign Shareholders of MNEs Surveyed

% of Foreign Equity	No. of Firms	%
< 25	1	3.2
25 - 49	6	19.4
50 - 74	10	32.2
75 & Above	14	45.2
Total	31	100.0

TABLE 4.4

Distribution of Industries of MNEs Surveyed

Industry	No. of Firms	%
Food	5	16.2
Beverages	1	3.2
Tobacco	1	3.2
Printing & Publishing	1	3.2
Rubber Products	1	3.2
Chemicals	5	16.2
Non-Metallic Mineral Products	5	16.2
Basic Metals	1	3.2
Electrical Machineries	9	29.0
Transport Equipment	2	6.4
Total	31	100.0

TABLE 4.5

Employment of MNEs Surveyed

No. of Workers Employed	No. of Firms	%
<100	6	19.4
100 - 199	6	19.4
200 - 249	1	3.2
250 - 499	6	19.4
500 - 999	7	22.6
>1000	5	16.0
Total	31	100.0

TABLE 4.6

Average Number of Employees for Selected MNEs
by Selected Industries in Malaysia

Industry	No. of Firms Surveyed	Average No. of Employees/Firm in Industry*	Average No. of of Employee/Firm in Sample
Food	5	129	285
Beverages	1	408	278
Tobacco	1		1425
Printing & Publishing	1	33	41
Rubber Products	1	186	775
Chemicals	5	60	192
Non-Metallic Mineral Products	5	180	306
Basic Metal Products	1	167	134
Electrical Machinery	9	428	1204
Transport Equipment	2	205	259

* Based on 1981 Census of Manufacturing Industry.

MNEs. In fact, MNEs' sizes in terms of employment per firm averaged larger than local companies in all the industries. The size of the MNEs goes as large as 37 times that of local companies in the electrical and electronics industry. This is a reflection of the capital-intensive production of MNEs with its large manufacturing plants which consequently employ more workers. The large size of MNEs in Malaysia in most industries is shown in the sample survey carried out (table 4.6). The large size of the firms surveyed in some industries may show that besides firms having large employment, there also exist MNEs of smaller scales. One point to be noted in the growth trends of MNEs is the improportionate increases of output as compared to increase in employment. Over the period of 1973 to 1981 output of MNEs in manufacturing had increased 4.4 times while employment had only risen by 78 per cent of the 1973 figure. This demonstrates that the growth of productive capacity of MNEs in recent years has far exceeded its employment generation capacity. It further implies an increase in the high degree of capital-intensity of MNEs in relation to domestic firms. This is even so for progressive labour-intensive industries such as the electrical machinery industry.

4.5 Labour productivity and techniques of production

It is evident from table 3.11 that labour productivity, measured in terms of output-employment ratio, is higher in MNEs. This corresponds to the higher degree of capital-intensity in terms of fixed asset-employment ratio. This in turn implies the lower employment generation capacity of MNEs. The same conclusion is exhibited by the sample survey conducted as shown in table 4.7.

Table 4.7: Comparison of labour productivity of MNEs and domestic firms

No.	Item	No. of responses	% of total
1.	Labour productivity higher than local firms	23	69.7
2.	Labour productivity lower than local firms	-	-
3.	Labour productivity same as local firms	8	27.3
	Total	31	100.0

Similarly, the conclusion of lower level of labour intensiveness among MNEs is also confirmed in the sample survey. About two-thirds of the MNEs surveyed responded that their production techniques are less labour-intensive than local firms (table 4.8).

Surprisingly the respondents revealed that the higher productivity of the labour of MNEs is attributed mainly to the better training, management and production concepts being impressed upon their employees, and not the advanced technologies utilised. The production techniques of most of the MNEs surveyed are the same as those used in the parent companies. There is therefore little adaptation of production technology except for the food industry. This could be due to the longer period of establishment of this import-substitution

industry which had spawned their own indigenous methods of production. Respondents, however, generally had not responded on why the production techniques utilised locally are the same as those used by the parent companies. This lack of adaptation according to the few that responded to this question is due to the stipulations in the technology agreements the local firms had with their parent companies. Some managers had revealed that there is a lack of research and development and the necessary qualified staff to innovate or adapt technology to suit local conditions. However, such adaptations will be prohibitively expensive.

Table 4.8: Comparison of labour-intensiveness of production techniques of MNEs with local firms

No.	Description	No. of responses	% of total
	Production technique of MNEs is:		
1.	More labour-intensive than local firms	4	12.1
2.	Less labour-intensive than local firms	21	63.6
3.	Same in terms of labour-intensiveness as local firms	7	21.2
4.	Cannot compare	1	3.1
	Total	33	100.0

4.6 Training programmes

4.6.1 Manpower training and the Industrial Master Plan

The Industrial Master Plan (IMP)[1] had identified fundamental human resources factors which had contributed to the problems of slow transformation of the industrial structure away from primary production; the narrow base of the sector with emphasis on a few industries, particularly electronics, textile and clothing which have heavy dependence on foreign investment particularly in the area of technology, marketing, managerial and components supply; and weakness in the export structure arising out of the narrow base of manufacturing exports and low skill-intensive production activities. These three factors are:

(i) the low level of technology and lack of indigenous technological capability;

(ii) the short supply of engineer/technical-level manpower;

(iii) inadequacy of current incentive systems for industrial training.

In view of the above problems, the IMP has also identified three principal human resource development areas which are considered critical in ensuring that the IMP strategies and targets are met. These areas are:

(i) the development of local R&D capability;

(ii) the development of high-level technical manpower such as engineers and technicians with advanced skills; and

(iii) the attainment of a labour productivity and labour cost mix that will promote competitiveness and improve the quality of manufactures for international markets.

The IMP report has projected a need to improve the production workers to engineers/technicians ratio estimated at 35:1 in 1985 to 8:1 in 1995 in order to catch up with the productivity levels prevailing in newly industrialised countries. This calls for a substantial increase in the number of engineers and technicians with advanced skills to support the development of the manufacturing sector. The projected additional number of such personnel from 1985 to 1995 is 35,000. In recognising the long gestation period in the restructuring of employment to increase the proportion of engineers and technicians, the IMP has recommended several short-term measures to meet skill shortages in the short run. These measures are:

(i) in-service training: this is deemed the best short-term measure whereby the private sector conducts in-service training programmes to impart advanced skills and techniques to existing staff. The relevance of the training can be assured;

(ii) return of Malaysian personnel from overseas: this measure involves the attraction of overseas-based personnel who have acquired valuable experience and skills abroad;

(iii) employment of foreign expatriates: this involves the utilisation of foreign technical specialists who can be mobilised to work in Malaysia when critical skills are not available locally in the short run.

The relevance of MNEs in realising IMP targets is embodied in the measures (i) and (iii) above. In the long run, however, MNEs can contribute more than just the filling in of the short-run needs for skills. In fact, MNEs had been attributed with making significant contributions in the host countries in terms of improving the local production, technology and managerial skills qualitatively.

The measure (i) above will be discussed in the next section. It not only can fill the short-term needs but also may prove useful in the long run. The merits of measure (iii) above are debatable. Employment of excessive numbers of foreign expatriates will deprive locals from an opportunity to be trained. Moreover, the pressing need for the required skills will force MNEs to provide the necessary training, thereby imparting the advanced skills to locals.

4.6.2 Training provided by MNEs

Before the training aspect of MNEs is examined, it will be prudent to first examine the employment structure of the manufacturing industry. The employment in the manufacturing industries by category of works in 1983 is shown in table 4.9. It can be seen that production and related workers form the bulk of workers in the manufacturing sector, followed by technical and

TABLE 4.9

Employment in the Manufacturing Industries by Category of Workers, 1983

Category of Workers	Number Of Persons Engaged during December or Last Pay Period, 1983							Average Number During 1983
	Total Malaysian and Non-Malaysian	Malaysian			Non-Malaysian			
		Total	Male	Female	Total	Male	Female	
Managerial and Professional								
(i) Professional	9,139	8,206	7,429	777	933	915	18	9,086
(ii) Non-Professional	10,949	10,647	9,518	1,129	302	288	14	10,930
Technical and Supervisory (e.g. nurses, draughtsmen, etc)	40,776	40,485	33,778	6,707	291	260	31	40,261
Clerical and Related Occupations (e.g. clerks, typists, stenographers, personal secretaties, sales personnel, etc)	39,574	39,476	18,080	21,396	98	58	40	39,655
General Workers								
(i) Drivers, conductors, and lorry attendants	7,706	7,592	7,503	89	114	114	-	7,665
(ii) Other General Workers (e.g. telephone operators, office boys, watchmen, gardeners, etc)	19,801	19,656	13,992	5,664	145	93	52	19,520
Other Directly Employed Workers								
(i) Skilled	123,609	123,251	57,352	65,899	358	327	31	123,126
(ii) Semi-skilled	46,121	45,105	22,480	22,625	1,016	949	67	45,745
(iii) Unskilled	135,660	133,729	57,743	75,986	1,931	1,655	276	134,998
Workers Employed Through Labour Contractors								
(i) Skilled	18,177	18,078	12,379	5,699	99	97	2	18,046
(ii) Semi-skilled	10,794	10,148	7,920	2,228	646	643	3	10,699
(iii) Unskilled	19,763	19,235	11,658	7,577	528	503	25	19,798
Total Paid Employees (full-time)	482,069	475,608	259,832	215,776	6,461	5,902	559	479,529

Source: Department of Statistics.

supervisory, clerical and administrative and general workers. The smallest group of workers lies in the professional workers (1.9 per cent). Total employment of foreigners is low, a significant number of which are professional workers.

The employment structure of the MNEs according to the survey conducted is shown in table 4.10. Again the bulk of the workers is in the production and related categories. Compared to that of the whole manufacturing sector the percentage of professional and technical staff in MNEs is slightly higher than the manufacturing sector. The percentage of managerial staff is however much higher in MNEs. The employment of foreign expatriates, although low (0.5 per cent), is concentrated in the managerial and professional and technical categories. This is due mainly to the government policies on employment of foreigners (see Chapter III and table 4.11).

The issue that matters in employment of foreigners in MNEs is the degree of control they have over managerial and technological matters. It is the opinion of the holders of key posts in most of the MNEs interviewed that the policy, production and technological matters are decided by their parent companies. This is particularly so in the advanced-technology industries such as the electrical machinery and electronics industry. Due to the small number of foreigners employed, the production functions related to the technology currently in use are therefore handled by Malaysians. Employment of Malaysians in such capacities has a beneficial effect in the industrial sector in Malaysia as these technicians and professionals will form the mainstream of trained manpower who have skills well-suited to the industry concerned. The retention of key posts to implement policies, production and technological matters decided upon by their parent companies is an agreeable matter to the Government which has expressed understanding of the need of the foreign investors to safeguard their interests here. It should be noted that there exists a large number of managerial, as well as professional and technical, staff in the MNEs surveyed. The proportion to foreign employees in these categories is about 1:30. It can therefore be concluded that the MNEs of Malaysia have achieved a maturity of technological development in terms of human resources.

In terms of future employment trends, most of the MNEs felt that more Malaysians should be employed. It should be mentioned that 35 per cent of the MNEs interviewed have already relinquished posts of technological importance to locals and only key posts such as managing director, financial controller and chief production executives are held by expatriates (table 4.12). A significant degree of transfer of technology in terms of human resource development has therefore been achieved. Only one response was received for the employment of more foreigners in the future. This firm, in the electrical machinery industry and which is the only manufacturer of the product in Malaysia, has reasonably indicated that Malaysians lack skilled manpower in the industry.

The main findings on the training programmes organised by the MNEs are summarised in tables 4.13 to 4.17. All the MNEs interviewed have some form of training programme. In fact, the respondents revealed that all employees have to undergo on-the-job training at least once a week. Such training, especially in the advanced-technology, high-volume industries such as the electrical machinery industries involves production management concepts such as quality control circles and the just-in-time concepts. Only one firm, however, provides training to the local users of its manufacture. Several other firms which also provide training to personnel outside the firm mostly offer on-the-job training opportunities of the lower level skills to students in technical colleges and undergraduates of local universities. Most of the firms in the chemical and electrical machinery industries provide training to

TABLE 4.10

Employment Structure of Selected MNEs in Malaysia

Industry	No. of Firms	Total No. of Employees	Managerial	Professional & Technical	Clerical & & Adminis-trative	Sales	Production & Related Workers	General Workers
Food	5	1,426	69	233	180	49	829	66
		(100.0)	(4.8)	(16.4)	(12.6)	(3.4)	(58.2)	(4.6)
Beverages	1	278	46	17	45	24	134	12
		(100.0)	(16.5)	(6.1)	(16.2)	(8.6)	(48.3)	(4.3)
Tobacco	1	1,425	51	192	114	279	477	312
		(100.0)	(3.6)	(13.5)	(8.0)	(19.6)	(33.5)	(21.8)
Printing & Publishing	1	48	3	4	4	0	37	0
		(100.0)	(6.3)	(8.3)	(8.3)	(0.0)	(77.1)	(0.0)
Rubber Products	1	775	37	147	62	0	502	27
		(100.0)	(4.8)	(18.9)	(8.0)	(0.0)	(64.8)	(3.5)
Chemicals	5	959	111	131	141	48	503	25
		(100.0)	(11.6)	(13.7)	(14.7)	(5.0)	(52.4)	(2.6)
Non-Metallic Mi-neral Products	5	1,528	57	330	133	15	924	69
		(100.0)	(3.7)	(21.6)	(8.7)	(1.0)	(60.5)	(4.5)
Basic Metal	1	134	4	3	28	3	82	14
		(100.0)	(3.0)	(2.2)	(20.9)	(2.2)	(61.3)	(10.4)
Electrical Machinery	9	10,069	155	877	369	10	8,437	221
		(100.0)	(1.5)	(8.7)	(3.7)	(0.1)	(83.8)	(2.2)
Transport Equipment	2	527	64	70	27	113	227	26
		(100.0)	(12.1)	(13.3)	(5.1)	(21.4)	(43.2)	(4.9)
Total	31	17,169	597	2,004	1,103	541	12,152	772
		(100.0)	(3.5)	(11.7)	(6.4)	(3.1)	(70.8)	(4.5)

TABLE 4.11

Employment of Foreign Employees in Selected MNEs in Malaysia

Industry	No. of Firms	Total No. of Employees	Total No. of Foreign Employees	% of Foreign Employees	Managerial	Professional /Technical	Sales/ Production
Food	5	1,426	11	0.8	7	4	0
Beverages	1	278	1	0.4	1	0	0
Tobacco	1	1,425	3	0.2	3	0	0
Printing & Publishing	1	48	1	2.1	0	1	0
Rubber Products	1	775	6	0.8	6	0	0
Chemicals	5	959	10	1.0	6	3	1
Non-Metallic Mineral Products	5	1,528	16	1.0	13	3	0
Basic Metal	1	134	1	0.7	1	0	0
Electrical Machinery	9	10,069	36	0.4	22	14	0
Transport Equipment	2	527	0	0.0	0	0	0
Total	31	17,169	85	0.5	59	25	1

TABLE 4.12

Employment Trend of Selected MNEs in Malaysia

Industry	No. of Firms	More Foreigners	More Malaysian	No Change	All Employees are Malaysians	Currently Only Key Post Retained by Expatriates
Food	5	-	3	-	-	2
Beverages	1	-	-	-	-	1
Tobacco	1	-	-	-	-	1
Printing & Publishing	1	-	-	1	-	-
Rubber Products	1	-	1	-	-	-
Chemicals	5	-	2	1	-	2
Non-Metallic Mineral Products	5	-	3	-	1	1
Basic Metal	1	-	-	-	-	1
Electrical Machinery	9	1	5	-	-	3
Transport Equipment	2	-	-	-	2	-
Total	31	1	14	2	3	11

TABLE 4.13

Training Programmes of Selected MNEs in Malaysia

Industry	No. of Firms	No. of Firms with Organised Training	Location of Training		Nature of Training Provided to Personnel Outside firm		
			Off-the-Job In Plant	Out of Plant	Vocational	Technical	Managerial
Food	5	5	131	101	3	3	1
Beverages	1	1	0	73	-	-	-
Tobacco	1	1	73	170	-	-	-
Printing & Publishing	1	1	0	5	-	1	-
Rubber Products	1	1	0	95	-	1	1
Chemicals	5	5	108	78	3	1	1
Non-Metallic Mineral Products	5	5	414	136	2	-	-
Basic Metal	1	1	15	11	1	1	-
Electrical Machinery	9	9	988	629	2	5	1
Transport Equipment	2	2	11	4	-	-	-
Total	31	31	1,740	1,302	11	12	4

TABLE 4.14

Number of Employees Trained for Selected MNEs in Malaysia

Industry	No. of Firms	Total No. of Employees	Total No. of Employees Trained	Category of Workers				
				Managerial	Professional/ Technical	Clerical/ Production	Sales	Services
Food	5	1,426	232	30	25	10	16	-
Beverages	1	278	73	47	19	5	-	-
Tobacco	1	1,425	243	30	118	11	36	-
Printing & Publishing	1	48	5	1	1	-	-	-
Rubber Products	1	775	95	10	30	15	-	-
Chemicals	5	959	186	25	27	35	22	21
Non-Metallic Mineral Products	5	1,528	550	62	268	33	7	-
Basic Metal	1	134	26	3	21	-	-	-
Electrical Machinery	9	10,069	1,617	62	358	101	2	-
Transport Equipment	2	527	15	2	10	-	3	-
Total	31	17,169	3,042	272	877	210	86	21

TABLE 4.15

Duration and Number of Employees sent for Training Outside the Plant in Selected MNEs in Malaysia

Industry	No. of Employees Sent for Out of Plant Training		Length of Training*			
	Locally	Abroad	0-1 Month	1-3 Month	3-6 Month	>6 Month
Food	230	15	1	1	2	1
Beverages	10	5	1	-	-	-
Tobacco	65	30	1	-	-	-
Printing & Publishing	20	5	1	-	-	-
Rubber Products	35	12	-	1	-	-
Chemicals	65	32	4	1	-	-
Non-Metallic Mineral Products	24	18	4	-	1	-
Basic Metal	10	4	1	-	-	-
Electrical Machinery	86	79	4	2	3	-
Transport Equipment	3	1	-	1	-	-
Total	548	201	17	6	6	1

*
This refers to the number of firms

TABLE 4.16

Selection Criteria for Training Employees

Industry	No. of Firms	Suitability to Job	Long Service	Outstanding Performance	Employees Potential
Food	5	5	1	-	3
Beverages	1	1	-	-	-
Tobacco	1	1	1	-	-
Printing & Publishing	1	1	-	1	1
Rubber Products	1	1	1	-	-
Chemicals	5	4	1	1	2
Non-Metallic Mineral Products	5	5	1	2	2
Basic Metal	1	1	-	-	1
Electrical Machinery	9	9	2	2	2
Transport Equipment	2	2	-	-	-
Total	31	30	7	6	11

TABLE 4.17

Reaction and Expectation of Employees After Being Trained in Selected MNEs in Malaysia

Industry	No. of Firms	Go Back to Their Job	Promoted to a Higher Job	Leave the Firm
Food	5	5	0	0
Beverages	1	1	0	0
Tobacco	1	1	0	0
Printing & Publishing	1	1	0	0
Rubber Products	1	1	0	0
Chemicals	5	5	0	0
Non-Metallic Mineral Products	5	4	1	0
Basic Metal	1	1	0	0
Electrical Machinery	9	9	0	0
Transport Equipment	2	2	0	0
Total	31	30	1	0

engineering undergraduates on a yearly basis. This training is important as it will attract the necessary manpower to the manufacturing sector by exposing the potential employees to the manufacturing environment. One of the problems faced by the local manufacturers in the early 1980s is in fact their inability to recruit the skilled manpower familiar with their industry. Moreover, the undergraduates, particularly of engineering disciplines, are required to specialise in their respective fields in their final years after receiving the necessary industrial training.

The number of managerial, professional and technical personnel trained by MNEs appears high. This reflects the commitment of the MNEs in establishing a highly trained local workforce. The number of workers sent abroad to be trained in their parent companies also reflects such an attitude among MNEs. Such training may not be entirely altruistic as most MNEs consider it as a way to improve productivity and the stationing of expatriates in posts where local personnel of the same level of skill in Malaysia will be expensive. Most firms also voice the need to comply with the Government's guide-line on increasing the number of trained Malaysians. These trained personnel in fact have not shown any desire to leave the firms after training. Most of them in fact go back to their old jobs. However, several MNEs also indicated that staff sent for advanced training are usually those designated to take up more responsibilities and the training provided is more geared towards suiting the staff in their new positions. Interviewees have also revealed that staff sent for training were carefully selected and they were also required to sign service contracts with the firm after completion of their training, particularly if the training is held abroad.

4.7 Labour mobility

In a previous country report on employment effects of MNEs, it was stated that labour mobility provides one of the most important and effective mechanisms through which technology, or more specifically technical know-how, can be diffused through an economy.[2] It was further pointed out that this type of technology transfer, from the viewpoint of the impact of MNEs on purely domestic enterprises, can best be accomplished under the following circumstances:

(a) The techniques of production utilised in MNEs of a modern, technologically advanced industry are noticeably more advanced, especially in terms of labour skills requirements, than purely domestic enterprises of the same industry. A point to add here is that there must exist a firm of a relatively similar industry before there can be meaningful transfer of technology.

(b) The existence of labour mobility between MNEs and purely domestic enterprises. The type of labour consists mainly of labour with special skills, acquired through the training programmes of MNEs.

(c) The extent of this type of labour mobility is significant enough to have a noticeable impact on the less advanced sector of the economy.

The survey data will now be examined in this direction. It should be mentioned again that in order for the technology transfer to be effective, labour mobility must occur among the highly skilled, professional and managerial employees. An examination of the data in table 4.18 shows that high turnover occurs mainly in sales and production workers. The high turnover rate occurring in the beverage and rubber products industries, particularly among professional/technical and managerial employees were due to retrenchment exercises carried out on a voluntary basis. Other than these two

TABLE 4.18

Employees' Rate of Turnover in Selected MNEs in Malaysia
(in Percentages)

Industry	No. of Firms	Managerial	Professional/ Technical	Clerical/ Administrative	Sale/ Production	Other
Food	5	0	0	11.7	84.3	4.0
Beverages	1	11.5	57.4	18.0	13.1	0
Tobacco	1	0	0	0	100.0	0
Printing & Publishing	1	0	0	0	50.0	50.0
Rubber Products	1	11.1	44.4	11.1	33.3	0
Chemicals	5	11.6	0	11.6	51.2	25.6
Non-Metallic Mineral Products	5	0	0	15.4	77.0	7.7
Basic Metal	1	0	0	0	0	0
Electrical Machinery	9	0.2	1.3	1.7	38.1	58.6
Transport Equipment	2	0	5.0	10.0	85.0	0

industries' mobility of professional/technical employees in MNEs is minimal. Mobility of managerial employees is however high in the chemical products industry. This high percentage is not highly significant as the number of employees actually switching jobs is small. It was gathered that the higher level staff that left their firms more often than not join other MNEs and very seldom joint purely domestic enterprises. This may be due to the lower level of technology currently utilised in domestic firms thereby rendering the highly advanced skills unsuitable for them unless these domestic firms have intentions to improve their plants. To enable such labour mobility to be meaningful, therefore, an additional supporting instrument is for the Government to provide better incentives for purely domestic firms to expand, discard the outdated production methods and progressively turn into more modern enterprises. Needless to say, the support of readily available, cheap financial facilities must also be made available.

Although changing jobs appears to be the most popular reason for labour mobility, it is believed that this occurs mainly among lower level employees of MNEs. The labour mobility among MNEs according to most of those interviewed is lower than local firms or, at the most, the same as local firms. The higher turnover in the beverage and rubber products industries is due to recent retrenchment exercises carried out to adjust to the prevailing economic recession then. The reluctance of the higher level employees to leave their existing firm has been attributed to several reasons. Firstly, there must be an increase in financial remuneration. Secondly, an improvement in the benefits accruable and thirdly the prospects of promotions in the new jobs must be brighter. Therefore, unless the purely domestic enterprises can offer such conditions, the reluctance of these levels of employees to leave the MNEs is understandable and logical. Contrary to the fulfilment of these conditions, the domestic firms normally pay less than MNEs who are more capital-intensive and advanced and whose skill requirements offer greater opportunities to professional than domestic firms. Additionally, the training of MNEs has been said to be so specialised that it is hardly possible for these professionals in MNEs to apply them elsewhere (see tables 4.19 and 4.20).

It can therefore be concluded that unless the domestic enterprises employ modern advanced technologies, and the professionals and skilled workers are provided with sufficient enticements to hop over from MNEs, the contribution of labour mobility from MNEs to technology transfer is highly impossible.

4.8 Wages and salaries

Critics of MNEs had blamed them for bringing in highly advanced production methods and employing Malaysians at salaries higher than the "going rate", thereby disrupting the smooth operation of similar local firms. Higher salaries paid by MNEs than domestic firms for the same category of employees is not a desirable fact. But for the above criticism to stand, there must be a lack of either trained or trainable manpower that could also be employed by domestic firms. The criticism which may hold true in the 1970s may not be correct any more. This is because of the increasing number of trained manpower and the existence of unemployment among engineering graduates.

MNEs generally pay higher than local firms. This can be illustrated by the data in table 4.21. Wage levels have also generally increased faster over time than local firms. In this survey it was also found that most of the MNEs still pay higher than domestic firms although there are now a substantial number of them that pay the same as domestic firms (table 4.22).

TABLE 4.19

Reasons for Employees Leaving Selected MNEs in Malaysia

Industry	No. of Firms	Retirement	Marriage/Family Reasons	Change Jobs	Retrenchment	Working Environment	Further Studies
Food	5	-	2	2	1	-	1
Beverages	1	-	-	1	1	-	-
Tobacco	1	-	1	1	-	-	1
Printing & Publishing	1	-	-	1	-	-	-
Rubber Products	1	-	-	-	1	-	-
Chemical	5	-	-	3	-	1	-
Non-Metallic Mineral Products	5	1	3	4	-	-	-
Basic Metal	1	-	1	-	-	-	-
Electrical Machinery	9	-	6	7	-	1	3
Transport Equipment	2	-	-	1	1	-	1
Total	31	1	13	20	4	2	6

TABLE 4.20

Comparison of Turnover Rate in Selected MNEs with Domestic Firm

Industry	No. of Firms	Higher than Local Firms	Lower than Local Firms	Same as Local Firms
Food	5	-	4	1
Beverages	1	1	-	-
Tobacco	1	-	1	-
Printing & Publishing	1	-	-	1
Rubber Products	1	1	-	-
Chemicals	5	-	3	2
Non-Metallic Mineral Products	5	-	3	2
Basic Metal	1	-	1	-
Electrical Machinery	9	-	6	3
Transport Equipment	2	-	-	2
Total	31	2	18	11

TABLE 4.21

Comparison of Salaries and Wages Between FCC and LCC
(xM$1,000)

Industry	Salaries & Wages/Employee					
	1968		1973		1981	
	LCC	FCC	LCC	FCC	LCC	FCC
Food Manufacturing	0.18	0.25	0.18	0.27	0.46	0.77
Beverages & Tobacco	0.21	0.42	0.12	0.53	0.32	1.01
Textile & Textile Products	0.09	0.13	0.13	0.17	0.39	0.41
Leather & Leather Products	0.14	0.24	0.12	0.16	0.37	-
Wood, Cork & Furniture	0.38	0.15	0.22	0.28	0.49	0.47
Paper, Printing & Publishing	0.23	0.27	0.23	0.33	0.55	1.10
Chemical & Chemical Products	0.20	0.41	0.21	0.46	0.58	1.11
Petroleum & Petroleum Products	0.13	-	1.10	-	0.67	2.11
Rubber	0.17	0.26	0.17	0.26	0.39	0.75
Plastics	-	-	0.14	0.15	0.36	0.48
Non-Metalli Mineral Products	0.21	0.30	0.22	0.33	0.51	0.81
Basic Metal	0.25	0.26	0.23	0.44	0.73	0.67
Fabricated Metal Products	-	-	0.17	0.27	0.47	0.76
Machinery & Equipment & Electrical Machinery	0.23	0.02	0.21	0.16	0.49	0.50
Transport Equipment	0.20	0.50	0.26	0.34	0.75	0.75
Professional, Scientific & Measuring Equipment	-	-	0.18	-	0.37	0.60
Miscellaneous	0.01	0.14	0.10	-	0.38	0.38
Total	0.18	0.24	0.19	0.26	0.48	0.58

Source: Tabulated from Census of Manufacturing Industries, 1968, 1973 and 1981.

TABLE 4.22

Comparison of Salaries Paid by Selected MNEs with Local Firms

Industry	No. of Firms	Salary of Locals in MNEs Compared to Local Firms			Salary of Locals Compared to Foreigners in Same MNEs			
		Higher than Local	Lower than Local	Same as Local	Local is Higher	Local is Lower	Same	N.A.
Food	5	3	-	2	-	-	2	3
Beverages	1	-	-	1	-	-	-	1
Tobacco	1	1	-	-	-	-	-	1
Printing & Publishing	1	-	1	-	-	1	-	-
Rubber Products	1	1	-	-	-	-	-	1
Chemicals	5	4	-	1	-	1	3	1
Non-Metallic Mineral Products	5	4	-	1	1	1	3	1
Basic Metal	1	1	-	-	-	-	-	1
Electrical Machinery	9	7	-	2	-	1	1	2
Transport Equipment	2	-	-	2	-	-	1	1
Total	31	21	1	9	1	4	15	12

Surprisingly, however, the expatriates in MNEs of comparable positions are paid the same salaries as locals. They are however compensated in other forms such as overseas allowances, vacations, family allowances, children's education subsidies, etc. Being firms that offer higher pay, the MNEs have been able to attract better personnel than local firms. The employees themselves are not expected to sacrifice for national interests. The result of this disparity cannot be evaluated. Besides the higher pay, the fringe benefits accrued to local employees are not significantly more than benefits normally granted (table 4.23).

4.9 Research and development

The establishment of research and development (R&D) in a host country will reflect the MNEs' commitment towards developing the industry to its full potential. The more involved an MNE is in R&D the more committed it is in establishing itself in the host country. The need for significant expansion of Malaysian-based R&D was identified by the IMP report as being significant in the future development of Malaysia's industries. It calls for the development of local capability to design, develop and manufacture components and parts of export quality, as a means of enhancing value added within the Malaysian industries. It also found that R&D was mostly concentrated in public institutions and is directed mostly at the primary sector.

The survey shows that 12 out of 31 MNEs interviewed are involved in R&D activities. The extent of involvement, except for the food industry is low as demonstrated by the low allocation for such activities. Moreover, most of these R&D activities are carried out for short periods in a year and the R&D staff seconded from various departments in the company will be disbanded once the R&D project is over. There are not many full-time R&D employees in the MNEs interviewed. Of the 31 MNEs interviewed, however, 21 expressed that R&D was handled by their parent companies who have research stations in other countries, not necessarily in the country of origin. Some of these firms expressed that there is no need for R&D activities here as all the R&D is carried out in the parent companies (and elsewhere) and the domestic MNE factory takes predetermined production techniques and technology that are prescribed by the parent company. Other reasons cited by MNEs in the lack of R&D is the inadequacy of facilities and trained manpower to conduct these activities (see table 4.24).

One of the reasons for the lack of R&D activities is the relatively high cost involved that have to be disbursed over short periods of time, the benefits of which are still uncertain and, even if it materialises, will take long periods to be realised. Another reason may be the Government's overall lack of adequate attention on this issue. Perhaps with the identification of this matter in the IMP, it may receive the attention that it deserves. This lack of local R&D and the high degree of capital intensity in MNEs may finally be factors that will impede the transfer of technology to Malaysia.

Notes

[1] The IMP is a plan for the development of the manufacturing sector in the 1985-95 period. It was commissioned by the Government in 1983 and was completed in 1985.

[2] Farhad Daftary and Maryam Borghey, 1976: Multinational enterprises and employment in Iran, WEP 2.28/WP. 14, International Labour Office, Geneva.

TABLE 4.23

Fringe Benefits Exceeding Normal Benefits According to Employees of Selected MNEs

Industry	No. of Firms	Paid Vacation	Medical	Housing Subsidy	Meal Allowance	Subsidised Loans	Retirement Benefits
Food	5	-	3	2	2	2	-
Beverages	1	-	-	-	-	-	-
Tobacco	1	-	1	1	1	1	-
Printing & Publishing	1	-	-	-	-	-	-
Rubber Products	1	-	-	-	-	-	-
Chemicals	5	1	1	1	2	1	-
Non-Metallic Mineral Products	5	-	-	-	-	-	-
Basic Metal	1	-	-	1	1	1	-
Electrical Machinery	9	-	2	2	3	4	-
Transport Equipment	2	-	-	-	-	-	1
Total	31	1	7	7	9	9	1

TABLE 4.24

Local R & D Activities of Selected MNEs

Industry	No. of Firms	No. of Firms With R & D Activities	No. of Employee Engaged in R & D	R & D Undertaken by Parent Company/ Elsewhere	Reasons For Lacking R & D			
					No Necessity for R & D	Lack of Facilities	Lack of Trained Manpower	Limited by License
Food	5	4	27	1	-	1	1	-
Beverages	1	1	5	-	-	-	-	-
Tobacco	1	-	-	-	-	1	1	-
Printing & Publishing	1	1	1	1	-	-	-	-
Rubber Products	1	1	11	1	-	-	-	-
Chemicals	5	2	5	3	2	1	1	1
Non-Metallic Mineral Products	5	2	9	3	1	1	1	-
Basic Metal	1	-	-	1	1	-	-	-
Electrical Machinery	9	1	21	8	4	4	4	-
Transport Equipment	2	-	-	2	2	-	-	-
Total	31	12	79	21	10	8	8	1

CHAPTER V

INDIRECT EFFECTS OF EMPLOYMENT

Besides the direct employment effects of MNEs, the indirect effects also play an important part in strengthening the inter-sectoral and intra-sectoral linkages within the economy of a developing country. Such linkage is also an objective of the government in attracting foreign investment particularly for investment of capital-intensive industries which are resource based. The seriousness of the Malaysian Government in moving towards this direction is reflected by Malaysia's ambition to become the world's leading producer and exporter of tyres and the feasibility study towards this end has been recently initiated.

Indirect effects are numerous and take various forms, and attempts to define them fully will be difficult. Detailed studies of the indirect effects are time-consuming and it entails studies of alternative situations in the absence of the investments or its replacement with other sources of investment. Bearing this in mind, this chapter will only review the indirect employment effect qualitatively and it will be based on the survey findings. An attempt will however be made to examine linkage and displacement effects of MNEs based on secondary data. Other quantitative evaluations on the balance of payments were carried out in Chapter III and will not be repeated here.

Extensive use of domestic materials promotes significant linkage affects to stimulate the growth of domestic input industries. The data collected from the survey will only enable an examination of backward linkage effects. This is because most of the firms interviewed were producers of final products or producers of intermediate products that were heavily exported.

At first glance, it would appear that about half local MNEs source are significant amounts of their raw materials, parts and components requirements locally. On closer examination, however, there appears to be a correlation between material sourcing and the type of industry. It is apparent that purely import-substituting industries such as the food, beverage and tobacco industries source more of their raw material requirements from domestic sources. In the other extreme, most of the export-oriented electrical machinery industry source their materials, parts and components from sources outside the country (see tables 5.1 and 5.2). This was also the findings of Chee and Lee (1979)[1] for electrical machinery firms from Japan. They cited that although the Japanese economy is well-known for its reliance on subcontracting, the Japanese firms that have invested in Malaysia have not made useful contributions in this aspect. It was also revealed that many of the Japanese firms are of the opinion that local components are either expensive, not manufactured or not up to specifications.

The use of services and consumable supplies by the MNEs interviewed revealed a more conclusive picture (table 5.3). Almost all the firms indicated a heavy dependence on domestic firms for services such as finance, advertising, insurance, transport and utilities as well as for consumable supplies. It can therefore be said that MNEs have contributed to the growth of the services sector although the level of such contributions is difficult to measure.

Table 5.4 shows the purchasing practices of MNEs for machinery and equipment. There is again a heavy dependence of MNEs for imported machinery and equipment. This is understandable as the machinery industry in Malaysia is plagued with problems from production techniques to marketing and management. There is consequently a lack of ability to produce sophisticated

TABLE 5.1

Sourcing of Raw Materials, Parts and Components of Selected MNEs

Industry	No. of Firms	% of Local Raw Materials Sourced				% of Local Parts & Components Sourced			
		0-25	26-50	51-75	>75	0-25	26-50	51-75	>75
Food	5	-	1	1	3	1	1	1	2
Beverages	1	1	-	-	-	-	-	-	1
Tobacco	1	-	-	1	-	-	-	1	-
Printing & Publishing	1	-	-	1	-	-	-	1	-
Rubber	1	-	1	-	-	1	-	-	-
Chemicals	5	-	2	2	1	-	2	1	2
Non-Metallic Mineral Products	5	-	2	1	2	1	2	-	2
Basic Metal	1	1	-	-	-	-	-	-	1
Electrical Machinery	9	5	2	1	1	4	2	2	1
Transport Equipment	2	1	-	-	1	1	1	-	-
Total	31	8	8	7	8	8	8	6	9

TABLE 5.2

Level of Exports of Selected MNEs

Industry	No. of Firms	% of Exports			
		0-25	26-50	51-75	>75
Food	5	5	-	-	-
Beverages	1	1	-	-	-
Tobacco	1	1	-	-	-
Printing & Publishing	1	1	-	-	-
Rubber	1	1	-	-	-
Chemicals	5	4	1	-	-
Non-Metallic Mineral Products	5	3	2	-	-
Basic Metal	1	1	-	-	-
Electrical Machinery	9	2	-	-	7
Transport Equipment	2	2	-	-	-
Total	31	21	3	-	7

TABLE 5.3

Sourcing of Services and Supplies of Selected MNEs

Industry	No. of Firms	% of Local Sourcing of Services				% of Local Sourcing of Supplies			
		0-25	26-50	51-75	>75	0-25	26-50	51-75	>75
Food	5	-	-	-	5	-	-	-	5
Beverages	1	-	-	-	1	-	-	-	1
Tobacco	1	-	-	-	1	-	-	-	1
Printing & Publishing	1	-	-	-	1	-	-	-	1
Rubber	1	-	-	-	1	-	-	-	1
Chemicals	5	-	-	-	5	-	-	-	5
Non-Metallic Mineral Products	5	-	-	-	5	-	-	-	5
Basic Metal	1	-	-	-	1	-	-	-	1
Electrical Machinery	9	1	-	-	8	-	-	-	9
Transport Equipment	2	-	-	-	2	-	-	-	2
Total	31	1	-	-	30	-	-	-	31

TABLE 5.4

Machinery and Equipment Purchasing Practices of Selected MNEs

Industry	No. of Firms	% of Local Purchase of Machinery and Equipment			
		0-25	26-50	51-75	>75
Food	5	4	-	-	1
Beverages	1	-	-	1	-
Tobacco	1	-	1	-	-
Printing & Publishing	1	1	-	-	-
Rubber	1	1	-	-	-
Chemicals	5	4	1	-	-
Non-Metallic Mineral Products	5	5	-	-	-
Basic Metal	1	1	-	-	-
Electrical Machinery	9	8	-	-	1
Transport Equipment	2	2	-	-	-
Total	31	26	2	1	2

machinery required for production processes of these firms. Moreover Malaysians also lack the capability to design such machinery and research and development in such fields is rare. Several MNEs especially those in the electrical machinery industry import their production machinery wholesale from their country of origin and plant expansion requirements are also similarly catered for from their country of origin. This practice of extensive sourcing of machinery and equipment notably by MNEs but also by local firms from abroad, cannot be done away with unless and until the local machinery industry is more highly developed.

A survey of the marketing practices of MNEs also revealed that import substituting industries tend to engage local distributors (table 5.5). This trend is obvious as the goods manufactured are meant for local consumption. In the electrical machinery industry, however, there is an absence of marketing which discloses their role as assembly type firms which produce and export to their parent companies. Only one electrical machinery firm which manufactures electrical appliances for local consumption has appointed a local distributor. Not much can be said on the extent of influence on the domestic marketing sector as the data gathered are not conclusive enough.

Table 5.6 shows the number of FCCs and LCCs of industries in the manufacturing sector for the years of 1968, 1973 and 1981. Over the period 1968-81 the number of LCCs has increased while the number of FCCs has risen to 613 in 1973 before falling to 501 in 1981. For the manufacturing sector as a whole there appears to be a form of linkage effect and displacement apparently does not occur. The bulk of the increase in the number of LCCs appears to lie in the import-substituting industries. This can be attributed partly to the fall in number of FCCs due to the foreign equity participation guide-lines set by the government. However, after discounting the decrease in the number of FCCs over the period, there appears to be a real increase in the number of LCCs. Instead of a displacement effect, the FCCs apparently have partly resulted in a higher number of LCCs. The data in table 5.6 will not allow us to examine inter-industry linkage. However, if we examine the data at intra-industry level it may be observed that there is an increase in the number of LCCs in all industries over the said period except for the professional, scientific and measuring instrument industry. This increase may be attributed to the demonstration effect and technology transfer through training of FCCs especially in the import-substitution industries such as food manufacturing, beverage and tobacco industries. The increase in the number of LCCs in the advanced technology industries such as the electrical and electronics machinery industry may be deduced to come in the form of backward linkage. The exact reasons for the increases are however difficult to define accurately. The alternative situation of the absence of FCCs also cannot be examined. Unless detailed studies at industry level are carried out or unless data at industry level are sufficiently disaggregated, further study of linkages is not possible.

Note

[1] P.L. Chee and P.P. Lee, 1979, The role of Japanese direct investment in Malaysia, occasional paper No. 60, Institute of Southeast Asian Studies, Singapore.

TABLE 5.5

Product Distributions Practices of Selected MNEs

Industry	No. of Firms	% Output Distributed by Local Firms		% Output Distributed by Foreign Firms	
		<50%	>50%	<50%	>50%
Food	5	3	2	-	-
Beverages	1	-	1	-	-
Tobacco	1	-	1	-	-
Printing & Publishing	1	-	-	-	-
Rubber	1	-	1	1	-
Chemicals	5	2	3	1	-
Non-Metallic Mineral Products	5	-	1	1	-
Basic Metal	1	-	-	-	-
Electrical Machinery	9	1	-	1	-
Transport Equipment	2	-	1	-	-
Total	31	6	10	4	-

Note: Numbers do not tally because some firms distribute on their own.

TABLE 5.6

Growth of LCCs and FCCs in the Manufacturing Sector, 1968-1981

Industry	No. of Establishment					
	1968		1973		1981	
	LCC	FCC	LCC	FCC	LCC	FCC
Food Manufacturing	2,722	101	2,923	129	3,128	70
Beverage & Tobacco	174	16	223	18	285	11
Textile & Textile Products	227	29	412	44	2,448	42
Leather & Leather Products	30	2	50	3	65	-
Wood, Cork & Furniture	1,425	42	1,815	52	2,811	26
Paper, Printing & Publishing	330	41	579	48	957	9
Chemicals & Chemical Products	275	38	242	95	397	70
Petroleum & Petroleum Products	6	-	10	-	11	4
Rubber	210	21	496	65	492	55
Plastics	-	-	279	20	614	17
Non-Metallic Mineral Products	301	21	394	21	759	18
Basic Metal Products	44	33	191	7	411	10
Fabricated Metal Products	-	-	1,440	49	2,369	25
Machinery Equipment, Electrical Machinery	748	17	908	58	1,656	101
Transport Equipment	122	1	169	4	325	11
Professional, Scientific &Measuring Equipment	-	-	26	-	26	13
Miscellaneous	438	13	290	-	524	19
Total	7,052	375	10,247	613	15,723	501

Source: Tabulated from Census of Manufacturing Industries, 1968, 1973 and 1981

CHAPTER VI

CONCLUSIONS AND RECOMMENDATIONS

The dependence of Malaysia on the primary sector prior to its independence in 1957 from the United Kingdom was evident. British capital dominated the FDI then and it was found mainly in the extractive industries. After its independence, Malaysia proceeded with its industrialisation programmes, drawing in the first wave of import-substitution industries using partly the incentives in the Pioneer Industries Ordinance, 1959. Most of the FDI in the early 1960s came from the United Kingdom. The foreign investment scene changed during the 1970s with declining British participation and increasing volume of FDI from Japan, the United States, the area of Hong Kong and Singapore. In recent years, there is an increasing significance of FDI from Third World countries and there is also a declining concentration of FDI in terms of country of origin.

Among the factors that prod the growth of FDI are the supportive policies of the Malaysian Government. These policies which began with the Pioneer Industries Ordinance, 1959 were followed up quickly with spendings to improve and build basic infrastructure and efforts to make the investment climate more conducive. Another legislation, which was subsequently amended to suit prevailing or forecasted conditions of the times, is the Investment Incentives Act, 1968. FTZs were set up in the early seventies, bringing in the labour-intensive export-oriented industries to reduce the employment surplus. Tariffs were also imposed to protect existing industries and stimulate industries with potential. To ensure that national aspirations are safeguarded, the NEP topped with the Industrial Co-ordination Act, 1975 was drawn up. Foreign equity guide-lines were more strongly enforced and many import-substituting industries which produce for the domestic market were reorganised to conform with it in the 1970s. Despite such regulations, FDI is still heavily sought after.

In the study of locational impact of MNEs, it was found that regional economic imbalances still occur despite attractive locational incentives and programmes to correct it. The MNEs in this aspect have not contributed to the alleviation of this geographical imbalance.

In terms of tax contribution, it was found that contribution of direct taxes by MNEs had increased from $298 million in 1970 to $1,480 million in 1982 at a remarkable average annual growth rate of 14.3 per cent per annum. The significance of tax contributions from MNEs has however decreased. The percentage contribution by MNEs had fallen from 62.6 per cent in 1970 to 27.6 per cent in 1982 and the largest contributing sector to the direct taxes paid is the mining (other than tin) sector. The manufacturing sector also contributed significantly. Such a substantial contribution may be partly ploughed back by the Government as development expenditure, thereby creating employment indirectly.

The balance of payment effect of MNEs was however found to be adverse. The negative effect, which was examined over the period 1980-84, was found to be due mainly to the high outflow of investment income to non-residents. This negative balance effect has occurred despite favourable trade surplus of the MNEs. Over this period the total outflow of investment income by MNEs amounted to $14,003 million. The three main sectors which have contributed to the high outflow of investment income and losses due to transactions other than trade were the mining (other than tin), manufacturing and the banking and financing sectors. The total negative balance effect over this period amounted to $4,237 million.

In the examination of the direct employment effect of MNEs it was found that the employment share of MNEs among that of limited companies in Malaysia was 8.9 per cent in 1962, 8.4 per cent in 1970 and a substantial 30.9 per cent in 1984. Employment of MNEs which were incorporated as limited companies stood at 215,000 in 1984, of which 62 per cent of the employees were in manufacturing. This 62 per cent accounted for about 20 per cent of the total employment of limited companies in Malaysia. Manufacturing MNEs can also be credited with creating more than half the employment generated by limited companies over the period 1976-84. It is, however difficult to establish whether the amount of employment generated could have been higher if there were equivalent domestic capital to replace the foreign investments from MNEs. Based on this, the employment generation capacity of MNEs was examined in comparison with that of the domestic firms at industry level. It was found that the number of jobs created per unit of output produced by MNEs is generally less than that of domestic firms in most industries although the employment generated by each MNE is larger than domestic firms. Despite such a finding manufacturing MNEs have been credited with remarkable employment generation as explained above using data from the financial survey of limited companies. This huge employment generation volume is confirmed by another source of data. This source is the census of manufacturing industries whose coverage is wider. Over the period 1968-81, 385,019 jobs were created in the manufacturing sector, out of which 30 per cent or 114,500 were attributed to MNEs. It was further found that the two main industries that have such huge employment generation effect are the electronics and textile industries. Each contributed about 70,000 and 16,700 jobs respectively. Together these two industries accounted for three-quarters of the jobs created by MNEs in the manufacturing sector. The potential of FTZs as a centre for absorption of labour is therefore illustrated by the huge employment in the two industries that are generally located in them.

The labour productivity of MNEs revealed from survey findings was high and the production techniques used by MNEs were generally less labour-intensive than domestic firms. This high productivity has been attributed to better production techniques, training, management and higher pay. Adaptation of technology by MNEs to suit local conditions is rare and occurs mainly in the longer-established import-substitution industries such as food, beverages and tobacco industries. The employment structure of MNEs was found to be heavily saddled with production workers.

Employment of expatriates was not rampant. The expatriates are concentrated mainly in the managerial and professional categories. Such an employment outlook reflects the strength of the government policies in localising human resource. Despite their low number, expatriates however had retained substantial control over technological and policy decisions and in this regard they appear to act as implementors of the decisions of their parent companies.

The local employees of MNEs were found to have achieved substantial control in management of production technologies. The fact that most MNEs intend to employ more Malaysians in future reveals their confidence in the quality of their local personnel.

A general characteristic of training programmes organised by MNEs is their emphasis on and constant practice of general training for all levels of their employees on production concepts such as quality-control circles and the just-in-time concept. Most of the MNEs interviewed have invested substantially in training their employees and generally have no reservations of sending their staff for training in their parent companies should the need arise. It was found that mobility of trained employees appears low and is controlled by impending promotion and service contracts.

Labour mobility has been explained as a means of technology transfer under defined conditions. It was found that this means of technology transfer is limited as most of the turnover in MNEs occurs among lower level production workers. Some MNEs felt that their technology is so specialised that the trained employees will not find use of their skills in local firms. Moreover mobility of professional and managerial workers was low as a result of the higher salaries paid by MNEs.

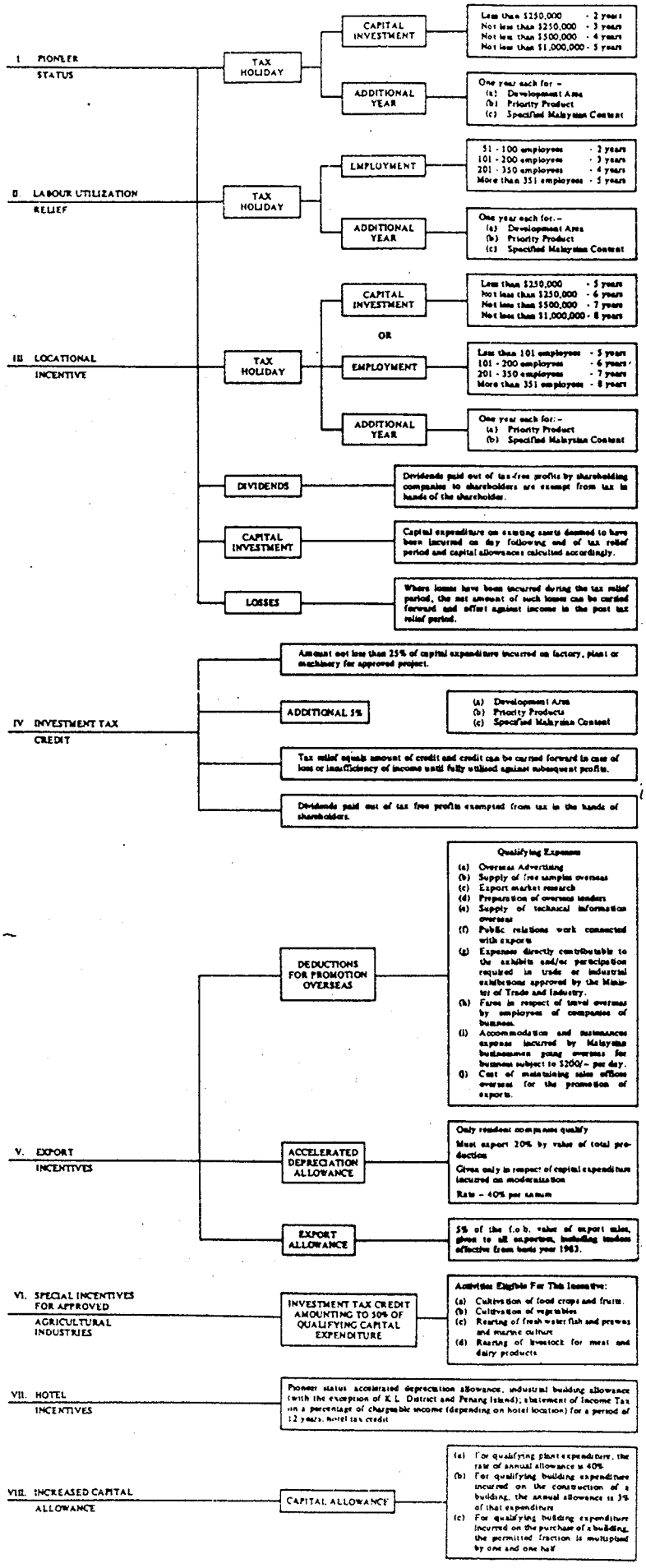
The low level of R&D among MNEs in Malaysia is a growing concern of the authorities. The MNEs had blamed lack of facilities and trained manpower for the low level of R&D. Existing R&D is mainly conducted by public institutions and is concentrated on the primary sector. Some reasons for the lack of commitment by MNEs in indulging in R&D are the high cost involved, uncertain profitability, long gestation periods and inadequate attention by the Government.

The indirect employment effects of MNEs are more difficult to examine in quantitative terms due to the absence of relevant data. As such the conclusions on it are drawn on a qualitative basis. A major deduction observed is that most MNEs sourced their needs for services from domestic firms. Raw materials, parts and components are sourced significantly only from import-substituting MNEs. Marketing of products also has the same trend where import-substituting industries appear to contribute positively to indirect employment effects. An attempt to examine linkage effects by correlating growth of the number of manufacturing establishments of local firms and MNEs reveals that there is apparently no displacement of local firms by MNEs. On the other hand, the large increase in the number of local firms compared to MNEs points to possible linkages between the establishment of MNEs and the growth of the local manufacturing firms.

In a broad sense, it can be concluded that MNEs have contributed significantly to employment, both direct and indirect, in Malaysia. There are however means to improve or enhance the contribution made by MNEs. One of these is the carrying out of selective encouragement of MNEs in industries which hold vast potential for external economies. This step can be boldly taken now as there appears to be no lack of foreign investment. This is demonstrated by the huge inflow of foreign investment due partly to the relaxation of investment regulations in late 1986. In the first five months of 1987, MIDA had approved 151 investment projects worth $2.2 billion while the Ministry of Trade and Industry had approved 57 joint ventures worth $572 million. As selective encouragement of industries proceeds, attention should be paid to improve the domestic ancillary firms to ensure that their manufactures meet the specifications stipulated thereby enabling more local content in exports and domestically consumed goods to be achieved.

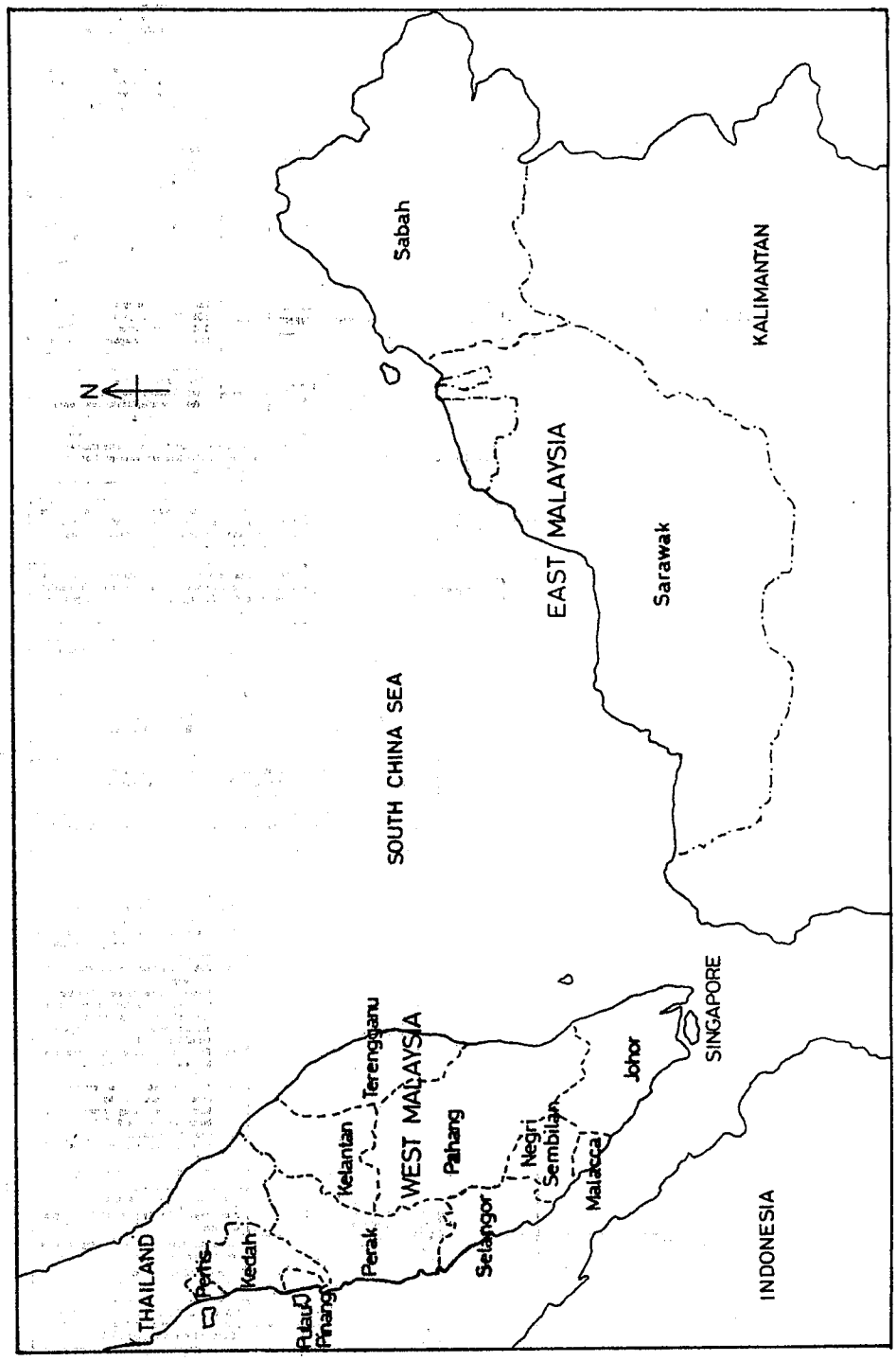
APPENDIX I

INVESTMENT INCENTIVES ACT 1968



APPENDIX II

MAP OF MALAYSIA



APPENDIX III

A SURVEY ON EMPLOYMENT OF MULTINATIONAL ENTERPRISES IN MALAYSIA, 1987

A. General Information

1. Name of firm: _____

2. Home country of parent firm: _____

3. Year local production began. 19___

4. Please indicate the distribution of capital investment of your firm (% of ownership) in 1986.

	Current
Local Foreign	
Total	100%

5. Which of the major industrial activities is your firm involved in? (If more than one, indicate the most important).

- ☐ Food
- ☐ Beverages
- ☐ Tobacco
- ☐ Textiles
- ☐ Clothing
- ☐ Wood
- ☐ Furniture
- ☐ Paper & paper products
- ☐ Printing & publishing
- ☐ Leather & leather products
- ☐ Rubber products
- ☐ Chemicals
- ☐ Petroleum products
- ☐ Non-metallic mineral products
- ☐ Basic metals
- ☐ Metal products
- ☐ Machinery (non-electrical)
- ☐ Electrical machinery
- ☐ Transport equipment
- ☐ Miscellaneous

6. Does your firm source the following inputs locally? If yes, indicate the proportion sourced locally as follows:

	% sourced locally
a) raw materials	
b) parts and components	
c) services: i) financial	
ii) advertising	
iii) insurance	
iv) transport	
v) utilities	
d) supplies, e.g. packagings, stationery, etc.	

7. What percentages of your total output was exported in 1986?

____%

8. What percentage of your machinery and equipment were purchased locally?

____%

9. How are your products distributed?

a) own distribution ____%

b) outside distributor: i) local ____%

ii) foreign ____%

Total 100%

10. What was the total value of your output in 1986? $_____ million

B. Employment

1. Employment structure of your firm in 1986.

Category	Malay	Chinese	Indian	Other	Male	Female
1) Managerial						
2) Professional & Technical						
3) Clerical & Administrative						
4) Sales						
5) Production & related workers						
a) skilled						
b) unskilled						
6) General workers						
Total						

2. How many foreigners are employed in your firm and in what category?

Category	No. of Foreigners
Managerial	
Professional/Technical	
Clerical/Administrative	
Sales/Production	
Other	
Total	

3. What is the localisation policy of your firm?

4. What is the rate of turnover among the following groups of employees in the firm?

Category	Rate of Turnover (%)
Managerial	
Professional/technical	
Clerical/administrative	
Sales/production	
Other	

5. What is the main reason for the turnover in your firm?

6. How does the turnover rate in your firm compare with a similar local firm?

a) higher than local firm* ☐
b) lower than local firm* ☐
c) same as local firm ☐

*If the turnover rate is higher or lower than that of a local firm, please explain why:

7. What is the proportion of part-time employees compared to the total employment of your firm? ____%

8. How do you compare the proportion of part-time to total employment in your firm with the same proportion in a similar local firm?

a) higher than local* ☐
b) lower than local ☐
c) same as local ☐

*If the proportion of part-time employment is higher, please explain why:

9. What percentage of your firm's total expenditure in 1986 was paid out as wages and salaries?

Less than 10%	☐	40 - 49%	☐
10 - 19%	☐	50 - 74%	☐
20 - 29%	☐	75% and above	☐
30 - 39%	☐		

10. How do you compare the average salaries paid to your workers with those paid by a similar local firm?

a) higher than local ☐
b) lower than local ☐
c) same as local ☐

11. Is the salary of your local and foreign employees in the same positions comparable? If not, what are the reasons for the disparity?

12. How do you compare the labour productivity in your firm with a similar local firm?

a) higher than local firm* ☐
b) lower than local firm ☐
c) same as local firm ☐

*If the productivity is higher or lower please explain why:

13. Does your firm provide more fringe benefits to its workers compared to a similar local firm? If yes, please state the additional fringe benefits provided. If not, please state the fringe benefits not provided.

14. How do you compare industrial relations in your firm with that of a similar local firm?

a) better than local firm* ☐
b) worse than local firm ☐
c) same as local firm ☐

*If the answer is a) or b) explain why:

15. How many industrial disputes does your firm have in the last five years?

_____

C. Training

1. Did your firm have any training programme for your employees in the last 5 years? If yes, please indicate the type of training programme provided, as follows:

Category of Workers	No. of Workers			
	On-the-job In Plant	Off-the-job In Plant	Out of Plant	Total
Managerial				
Professional/technical				
Clerical/administrative				
Sales				
Service				
Production/related				
General				
Total				

2. For each of the above training programme, please indicate details as follows:

	Average length of training (months)
a) On-the-job in plant	____
b) Off-the-job in plant	____
c) Out of plant	____

3. If your firm provided out-of-plant training in the last 5 years, please indicate number of workers who were sent out-of-plant training.

a) locally ____ no. of workers

b) abroad ____ no. of workers

4. On what basis does your firm select employees for training?

5. On the average, how many employees are trained by your firm per year? ____ no. of workers

6. What do the trainees mostly do when the training programmes are completed?

a) go back to their old job ☐
b) promoted to a higher job ☐
c) leave the firm ☐
d) others (please specify) ☐

_____

_____

7. How many of the workers which you sent for training have left your firm to work in another firm? ____ no. of workers

8. Have you provided any training for personnel outside your firm? If yes, please indicate details as follows:

	No. of Personnel	Type of Training	Average length of training (months)
Personnel from other firms			
Personnel from suppliers			
Trainees from vocational/ educational institutes			
Others (specify _____ _____)			

D. Technology

1. How do you compare the factor intensity in your production technique with that of a similar local firm?

a) more labour intensive than local firm* ☐
b) less labour intensive than local firm* ☐
c) same labour intensive as local firm ☐

*If the answer is a) or b) explain:

2. Is the production technique in your firm different from that used by your parent firm to produce the same product? If yes, please explain the difference and the reasons for the difference.

3. Does your firm engage in any R & D activity? If yes, what kind of R & D activity? If no, why not?

4. If your firm engages in R & D activity, please provide details as follow:

   a) % of firm's total budget allotted to R &-D in 1986:

      ____%

   b) number of employees engaged in R & D in 1986:

      ____ professionals/technical

      ____ non-professional/technical

5. Has your firm transferred any technology to Malaysia? If yes, please explain what technology and how the technology was transferred. If not, please explain why not.

6. Please suggest how the government in Malaysia can encourage your firm:

a) to employ more workers

b) to train more workers

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