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doi: 10.18411/ij2016-3-45

Foreign Direct Investment policies towards sustainable development in Malaysia and lessons for Vietnam

Malaysia was ranked the second after Singapore among 10 countries in Southeast Asia, and 26th in the world that has potential to attract Foreign Direct Investment (FDI) (UNCTAD, 2011). According to OECD, Malaysia reached the first place in the global green revolution through policies attracting FDI towards sustainable development. This means that besides attracting foreign capital investment, Malaysia is also focusing on the environmental and social protections. Thus, what is the FDI situation in Malaysia now? Which strategies and policies that Malaysia has imposed? Our research will provide essential information for some objects, who have the need to use in research and practice, and some lessons for Vietnam in attracting FDI towards sustainable development.

Keyword: FDI, Policies, Malaysia, Vietnam.

1. Introduction

In the recent year, FDI has basically changed the national infrastructure so countries, which have advantages in attracting Foreign Direct Investment (FDI) towards sustainable development, will dramatically develop. In Southeast Asia, Malaysia is one of the top three countries having ability to attract FDI. Moreover, according to OECD, Malaysia was ranked the 1st place in the green revolution through policies attracting FDI towards sustainable development. To achieve this success, efficient FDI policies are considered the key factor towards sustainable development.

The Malaysia Government issues many policies including the initiatives, policy framework to support green growth investment, attracting FDI in the biotechnology sector, focusing research and development, the corporate social responsibility, links with investment partner, and through bilateral agreements. On the contrary, although Vietnam government imposed many FDI policies, these are not efficiency. Particularly, FDI with low technology, harming to the environment, threatening to the social welfare have been increasing. Thus, researching the FDI policies towards sustainable development of Malaysia is very important for Vietnam to learn and harmonize three pillars of sustainable development in the future.

2. Attracting FDI towards sustainable development in Malaysia

a. The initiatives

The Malaysian Government indicates that FDI is a powerful motivation for the economic development. Policies to attract FDI are mainly imposed for high-tech industries oriented to export and Back Office¹. To attract FDI towards sustainable development, the number of incentives, which are tax exemption, investment tax allowance, business locations subsidies, building the infrastructure, reinvestment allowance, encouraging exports, import duty exemption on raw materials, components and machinery, has been created. However, restrictions in some sectors, which are based on natural resources, are still maintained to ensure sustainable development objectives.

In addition, to attract sustainable FDI, the government has launched several initiatives, including *Economic Transformation Program (ETP)* focused on policy measures to improve the competitiveness and investment in 12 *National Key Economic Areas (NKEAs)*², which can promote the economic growth in harmony with

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¹ Bank office is a part of administrative office and solve the logistics for a company

² 12 NKEAs as announced in the Tenth Malaysia Plan include Oil, Gas & Energy; Palm Oil & Rubber, Financial Services, Tourism, Business Services, Electronics & Electrical; Wholesale & Retail; Education; Healthcare; Communications Content & Infrastructure; Agriculture; Greater Kuala Lumpur Expand / Klang Valley.

society and environment. Among the 12 areas, green energy, renewable energy, tourism towards nature conservation, and health care are emphasized.

Another initiative to attract FDI towards sustainable development is *Government Transformation Program (GTP)* related to the governance and ensuring the quality of life. These programs aim to reduce corruption and crime, improve education, public transportation, infrastructure in rural and urban areas, and reduce the number of low incomes households.

Industrialized Building System (IBS) is conducted to decrease the construction costs for foreign investors towards sustainable development. The Malaysian Government is encouraging private enterprises to participate in infrastructure projects. The IBS will support the construction and installation of energy-saving products and renewable energy.

b. Policy framework to support green growth investment

In The 11th Malaysia Plan (2016-2020), green growth, which is a fundamental of natural resources and environment conservation, is considered as a pillar in the national development goals. Accordingly, investment in green growth will help Malaysia balance between the interests of social-economic development with biodiversity. To create a favorable environment to support the green growth, cooperation between the foreign investment frameworks and the Government's commitment is required. Therefore, many policies and laws, which are National Policy on the Environment (2002), National Policy on Climate Change (2009), Green Technology Policy (2009), Renewable Energy Policy and Action Plan (2010), are issued by the Government. These policies guide investors towards developing human resources, encouraging environmental responsibility of companies; and provide strategies to promote customers demands on environment friendly products and services.

Specifically, in order to implement mechanisms, which encourage and attract the green investment, the Government has provided financial supports for private investors in the field of renewable energy, green buildings and high-low carbon

technologies. For example, two financial packages³ in 2009 to support the development of renewable energy are created. In 2011, the Government has imposed feed-in-tariff⁴ with preferential electricity price subsidies and tax exemption for 15 years to encourage renewable energy. This will attract interest from manufacturers, especially foreign investors in the field of renewable energy such as wind and solar. In addition, Malaysia is also efforts to attract the support of the domestic financial institutions and foreign funding for green projects, creating a favorable environment for investors in this sector.

c. Attracting FDI in the biotechnology sector.

Malaysia identified biotechnology as an industry supporting sustainable development objectives, so looking for investors in this sector with advanced technological resources is important. To attract foreign investment in biotechnology⁵, Malaysia has also issued strict regulations on products. On 8th July, 2010, the Ministry of Health Malaysia amended Food Regulation 1985 [PU (A) 437/1985], requiring companies to label⁶ the detail biotechnology components of their products. The company will not allow to manufacture, import, advertise any biotech products unless the consent of the Ministry of Health. This strict requirements force domestic firms to focus on their production processes, thereby creating a healthy competitive environment for foreign investors in the biotechnology sector.

d. Research and development

To achieve the goal of attracting FDI towards sustainable development, research and development (R&D), playing a very important role in creating the potential and sustainability environment for FDI, is identified. Malaysia has positioned itself as a

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³ The 1st package is exempting 10 years tax for FDI in the field of solar energy, bio-fuel, and hydropower. The 2nd package is investment tax allowance for capital expenditure in the first 5 years for companies using renewable technologies

⁴ The government will conduct business subsidies to renewable energy production, according to which the price of electricity from renewable energy is less than or equal to the price of electricity from conventional energy sources.

⁵ Including in agricultural and food

⁶ The labeling requirement only applies to foods and ingredients produced by modern biotechnology except genetically modified food

technology center by increasing the value of R & D for knowledge and innovation of the industries. This means that R&D will support for the 12 NKEAs meet the international standards. Therefore, instead of attracting FDI with average technology, high-tech industries have been focused. This will improve national productivity, protect the environment and also increase labors' income.

e. The corporate social responsibility (CRS)

One of the three pillars of sustainable development is society. Determining this, FDI with high CRS is facilitated by many supports from the Government. Since 2006, the Securities Commission of Malaysia has decided to publish a CSR framework for all publicly listed companies, which require the company announced the programs of social responsibility in their annual financial statements.

In 2007, the Ministry for Women - Family and Community launched The Social Responsibility Award of the Prime Minister in recognition of the company's contribution to the community. These actions help foreign investors consider CRS as an opportunity to promote the image of the company and in return Malaysia will receive the supports from FDI in improving the lives of people and ensuring social security.

f. Links with investment partners.

Malaysia Investment Development Authority (MIDA) continues to play an important role in linking investment partners and relevant agencies to create investment-friendly environment. These partners cooperating with the Government support enterprises and investors in developing environmentally friendly products such as bio-products, renewable energy. Thanks to this collaboration, investors will be assured in the decision to invest in the Malaysian market without facing obstacles in the application of clean technologies, or the rules affecting sustainable development in Malaysia.

g. Attracting FDI towards sustainable development through bilateral agreements.

During the current globalization, Malaysia took many advantages from the bilateral agreements in attracting FDI towards sustainable development. The bilateral agreement signed earlier, having no provisions related to the environment and the green investment. However, in the recent years, the environmental protection provisions are added in the bilateral agreements. The investors from the partner countries must guide their business to environmental protection and social development in order to get the preferential agreements. For example, in the Malaysia-New Zealand free trade agreement⁷, the two sides emphasized the role of the FTA towards sustainable development. In addition, the agreement on environmental cooperation agreement, which aims to protect the environment such as water resource management, ecotourism, increasing the responsibility of manufacturers, conserving resources and ecosystems, is signed.

2. Lessons for Vietnam

With these policies and measures taken by the Government along with the assistance of the relevant authorities, Malaysia has quickly achieved sustainable development goals by attracting FDI. This will help the country quickly overcome the middle-income trap towards high technology, ensure the social security, and protect the environment. Similarly, Vietnam has set a target of growing faster but still harmonized three pillars of sustainable development. From the policy and action plan of Malaysia, Vietnam can draw some lessons as following:

Firstly, to attract FDI for sustainable development, Vietnam itself must enact and implement national sustainable development policies. The Government should redirect from low labor cost to high quality labor forces through education and training. Since then, it could improve the lives of workers and attracting high-tech FDI. In addition, R&D and infrastructure should be invested more to create an attractive investment environment, bringing more benefits to foreign investors. Besides, raising the awareness of domestic customers about green consumption is

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⁷ *Malaysia- New Zealand was signed on 26th October in Kuala Lumpur*

needed in order to attract the foreign manufacturers in the field of clean and green industries.

Secondly, Vietnam should encourage FDI for sustainable development by reducing tax, providing information, and promoting foreign investors with high conscious of environmental protection and responsible high society. FDI must be selected carefully and having more preferences for renewable energy and biotechnology. Also, some limited measures should be issued to reduce FDI in some industries using fossil fuels such as oil drilling, coal, etc.

Thirdly, Vietnamese Government should cooperate with related partners in attracting FDI towards sustainable development. Specifically, these partners include organizations and agencies, and research institutes to support and advise the foreign investors when investing in Vietnam. Also, when signing the bilateral agreements, Vietnam needs to negotiate environmental and social security regulations as a prerequisite to the investors from the partner countries.

In summary, despite encountering difficulties when going into middle income trap, with clear and flexible policies, Malaysia becomes one of the leading countries in attracting FDI towards sustainable development. With these achievements, Vietnam should learn from the experience of Malaysia to develop the country with harmony among Economy, Society and Environment.

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