

The Effect of Malaysia's Outward FDI on Manufacturing Exports

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Abstract : There are growing concerns about the effect of increasing outward foreign direct investment (OFDI) from Malaysia. These concerns emerged when OFDI surpassed inward FDI for the first time in 2007 and in the subsequent years as well. From a theoretical point of view, the effect of OFDI on exports remains inconclusive depending on the types and/or motivations of investment. Therefore, the objective of this paper is to investigate the effect of Malaysia's OFDI on manufacturing exports, using a reduced form exports model. The manufacturing data used in this study covered 24 manufacturing industries for the period 2003-2010. The manufacturing sector is the fourth largest sector invested by Malaysia's OFDI abroad. However, this sector is chosen for this study because total manufacturing trade contributed significantly to Malaysia's economy growth as reflected by its significant share in the country's gross domestic product (138.7%) in 2013. Furthermore, Malaysia's exports are dominated by manufacturing goods. Consequently, the drastic increase in OFDI added concerns about its impact on the country's exports. Since OFDI activities are still relatively new in Malaysia, this study is exploratory in nature due to a lack of firm level data. Using industry level panel data, the value added of this paper is to meet the research gap by examining the effect of Malaysia's outward FDI on manufacturing exports. Overall, the findings show that lagged inward FDI, technology development, and industry size are found to positive and significantly influence manufacturing exports as compared to other factors. The insignificant impact of OFDI on manufacturing exports suggests market seeking investment is the main form of OFDI from Malaysia and the destination markets are not served by exports before so that there are no new exports created or displacement of exports. While the results show that there is no need to worry about OFDI's negative impact on exports, policies should be undertaken to encourage OFDI from Malaysia to create new exports for the country.

Keywords : OFDI, manufacturing industries, exports, Malaysia

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