Developing Countries’ Outward Investment: Push Factors for Malaysia

Rosfadzimi Mat Saad\textsuperscript{a,}\*, Abd Halim Mohd Noor\textsuperscript{a}, Abu Hassan Shaari Md Nor\textsuperscript{b}

\textsuperscript{a}Faculty of Business Management, Universiti Teknologi MARA, KM 26 Jalan Lendu, Alor Gajah 78000 Melaka, Malaysia
\textsuperscript{b}School of Economics Studies, Universiti Kebangsaan Malaysia, 43600 Bangi, Selangor Darul Ehsan, Malaysia

\section*{Abstract}
Outward investment enables firms to enter new markets, import intermediate products at a lower cost and accessibility to foreign technology. The FDI outflows marked the strength of economies, the dynamism of transnational corporations, TNCs and growing aspiration to compete in new markets. Thus in relation to the contemporary economic development mainly globalisation and regionalism issue, in the context of Malaysia as one of the emerging developing countries, identifying the primary determinants contributed to OFDI of Malaysia is crucial for sustainable growth. This study focuses on the factors that determine Malaysia’s OFDI using Dunning’s Push Factors theory. Multiple regression analysis is performed on time series data beginning from 1981 to 2011. The study finds that GDP, level of IFDI (inward FDI) stocks, productivity level, exchange rate, export level and patent, a new variable added in the study of Malaysia, are the major pushing factors of Malaysia’s OFDI.

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1. Introduction

Proponents of outward investment point out that outward FDI enables firms to enter new markets, to import intermediate goods from foreign affiliates at lower costs, and to access foreign technology while the entire domestic economy benefits from outward FDI due to the increased competitiveness of the investing companies and associated productivity spillovers to local firms. Desai et al. (2005), using time-series data for the US firms, find a positive relationship between domestic and foreign investment consistent with a study by Lipsey (1995), who reports a positive correlation between foreign production and domestic employment levels by the US firms. Results by Navaretti, Venables and Castellani (2004), find that in Italian firms, outward investment increases domestic output and productivity growth.

\* Corresponding author. Tel.: 019-630-3188; fax: 06-558-2001.
\textit{E-mail address:} rosfadzimi@melaka.uitm.edu.my
Global outward FDI had undergone a series of waves, recorded a peak of US$813.1 billion in 2004 but slightly decline to US$778.7 billion in 2005 (United Nations, 1996). According to Narula and Nguyen (2011) the first outward FDI wave originated from 15 countries, that contributed 81% of all outward FDI from developing countries in 1980. Outward FDI stock from Brazil and Argentina were 13.4% and 20.4% respectively followed by the Asian NICs (Korea, Singapore, Taiwan, and Hong Kong) which together accounted for almost 22%. Other significant players identified of OFDI are Malaysia, Brazil, Argentina, India and China (Dunning et al 1998; Dunning and Gugler, 2008). In 1980, China, Mexico and Brazil invested more than 50% of their stock in the developed countries, with the rest of the player concentrating their activities in the developing areas. At that point of mid 1980s, this ‘first wave’ was clearly distinct from the ‘conventional’ investment activities. By the end of the 80s, there had been a fundamental shift in both the characteristics and motivation of outward FDI activities from certain developing countries.

Multinational firms activity showed a growing tendency to simultaneously invest in industrialised countries in market-seeking, asset-exploiting activities and a limited amount of asset-augmenting activities, as well as in developing countries to acquire natural assets as in the first wave. Prominent first-wave home countries such as India, Philippines, Argentina and Colombia did not show any significant increase in either the level of the total outward FDI between the early 1980’s and 1990’s, nor a significant shift towards developed country hosts. On the other hand firms from Korea, Taiwan, China, Singapore and Hong Kong began to act as second wave (Dunning et al, 1998; Dunning and Gugler, 2008). Indeed, the Asian NICs as a share of all developing country outward FDI stock increased from 21% to 66% by 1993 leading in the second wave reflecting the dynamism of their home economies and the competitiveness of their firms (Narula and Nguyen, 2011). Develop countries are the largest net outward investor with FDI outflows of US$0.9 trillion in 2010. The outflows of FDI from developing countries increase by 20.9% from US$270.7 billion in 2009 to US$327.6 billion in 2010. Malaysia being the second after Singapore has the FDI outflows amounted US$13.3 billion in 2010.

There exists limited literature on outward FDI from the developing economies. There are studies that examined the trends in outward FDI from the developing countries and analysed the drivers, but only few studies empirically estimated the impact of these drivers on outward FDI, especially from the developing countries. Generally OFDI is not being comprehensively studied in Malaysia. Factors such as business, production, management and corporate strategy influencing Malaysian TNCs decision to invest abroad are the topic of investigation undertaken by Ragayah Mat Zin (1999). Major finding of Ragayah was that to expand and to find new markets for growth are found to be the main reason for Malaysian companies investing. The trends, patterns and policy issues of Malaysian OFDI is evaluated by Tham (2006) which had a myriad of findings on why Malaysians invest overseas. These studies used a case study approach due to lack of secondary data on OFDI.

Malaysian OFDI trends and developments had been analysed by Zainal (2007) and Mohamed Ariff and Lopez (2006). Kueh, Apoi and Puah (2008) and Kueh, Puah and Mansor (2009) aim to investigate the selected macroeconomic determinants of outward FDI of Malaysia, namely income, exchange rate and openness. The findings verified that the outward FDI of Malaysia is determined by income, exchange rate and openness of the economy in both the short- and long-run. Khoon and Wong (2010) finds that there is a positive long-run relationship between Malaysia’s outward FDI and its key determinants of foreign market size, real effective exchange rate, international reserves and market openness. Masron and Shabudin (2010) find that domestic market condition plays the most important role in attracting OFDI of Malaysia and Thailand.

This study aims to investigate selected macroeconomic determinants of Malaysia’s outward FDI, namely GDP level, level of IFDI stocks, productivity level, exchange rate, export level, natural resources availability and patent. The authors of this study consider the model framework developed by Dunning (1974; 1978; Dunning and Gugler, 2008) arguably the most exhaustive framework referred to as the eclectic theory – better known as the OLI theory, with “O” for ownership, “L” for location and “I” for internalization. Then the analysis of the results follows before the ending of conclusion and recommendations. This article hopefully will add to the existing literature as it will be estimating the impact of exports, exchange rate, inward FDI, productivity, GDP, natural resources availability of natural gas and oil as well as patent on Malaysia’s OFDI for the period of 1981 to 2011. Two new variables of natural resources availability and patent are added to check on ownership advantage of owning productive processes in Malaysia.

2. Theoretical Background
Foreign Direct Investment (FDI) is defined in the IMF Balance of Payments manual (5th edition) as investment that involves a long-term relationship reflecting a lasting interest of a resident entity in one economy (direct investor) in an entity resident in an economy other than that of the investor’s. The direct investor’s purpose is to exert a significance degree of influence on the management of the enterprise resident in the other economy. Direct investment comprises not only the initial transaction establishing the relationship between the investor and the enterprise but also all subsequent transactions between them and among affiliated enterprises, both incorporated and unincorporated (International Monetary Fund, 1993).

Debates over job losses, skills transfer, lower productivity, among other things arise whenever national firms make the decision to set up subsidiaries overseas. The issue is whether local firm’s outward investment strengthens or weakens the remaining economic activities at home. Immediate reaction to this issue is that it leads to production and employment to be shifted abroad. Evidence on this claim is however, mixed (Navaretti, et al., 2004). The majority of the arguments seem to support OFDI (ibid). That is, outward foreign direct investments is generally seen as strengthening economic activities at home by the ways of increasing output, competitiveness, home employment, skill of labour, efficiency, and profit.

Firms that involve in outward investment to gain some cost savings in production may lead to stronger operations in the home market as the firms are able to reap greater profits due to reduction in production costs. If the firm invests overseas in order to gain some savings in distributing its product to these overseas markets, increased output at home will be the resultant effect. In addition to that, if foreign production is complementary to home production, the foreign subsidiary will be using inputs from home to produce it outputs abroad. This will lead to an increase in domestic output. Thus, the greater the number of foreign plants the greater will be the level of output in the home market. Logically we can deduce that, if foreign production is complementary to home production, output at home will rise and employment will also rise directly or indirectly.

There will also be movement of employees from subsidiaries to national firms at home. If subsidiaries use inputs from home for their production process, this may result in improved infrastructure at home and may also lead to improved demand conditions in the home market. Thus, the quality of demand conditions in the home market is seen as an important indicator of national competitiveness for a country (Porter, 1990). As a result, it can be clearly seen that outward FDI is an important source of improved national competitiveness.

Positive impact of foreign investments on the skill intensity at home is reflected in the way things are produced in the domestic market between skilled and un-skilled labour. Researchers such as Berman et al. have argued that the relocation of activities may change the division of labour in the multinational firm leading for example, to a concentration of skilled-labour intensive activities at home (Berman, Bound, & Griliches, 1994). If the relocation leads to a more efficient use of resources, efficiency and profits at home may also increase. This will result in the economy becoming highly specialized in one type of production over the other. As an example, if the relocation leads to more skilled-labour remaining at home, then the home economy will be more specialized in production of high quality labour intensive goods and services. Thus it can be concluded that foreign direct investments whether inward or outward, are good for an economy.

The current literature on FDI from emerging economies is based on theories and studies that aim to explain the motives and patterns of FDI in general. In Dunning and Lundan (2008), Hymer (1960), Vernon (1966), Kindleberger (1969), Caves (1971) and Buckley and Casson (1976) were prominent authors in providing basic assumptions, explaining FDI by market imperfections. They proposed that would-be multinationals must possess specific advantages over local firms in order to make up for higher transactional costs and subsequently succeed in foreign markets. Dunning (1974; 1978; Dunning and Gugler 2008) provided the most extensive framework referred to as the eclectic theory – better known as the OLI theory, with “O” for ownership, “L” for location and “I” for internalization.

Accordingly, firms undertake FDI when they have certain ownership (O) advantages, which they exploit through the internalization (I) process in countries that offer the required locational (L) advantages. This scheme has emerged as the central paradigm during the 1980s and 1990s and is still dominant in the literature on “international business”. However, the rise of multinational firms from developing countries has pointed out some limitations in the explanatory capacity of the OLI theory and it has therefore had to be adapted. Dunning proposed the “investment development path” (IDP) hypothesis which asserts that a country’s higher income levels are to be associated with higher levels of outward FDI.

The current stage of the world economy is a tremendous force that greatly affects the activities of multinational firms in general (Dunning, 2005). Dunning and Gugler (2008) goes further and explains that the home-country’s
advantage is the main driver for emerging countries’ firms by adopting a systematic approach (push versus pull factors) to categorize the constraints and incentives relating to investment decisions while still upholding the conventional approach.

3. Trends and Patterns of Malaysian OFDI

Starting from the mid-1970s there has been record on Malaysian companies’ investment abroad. However, in the early 1990s with the changes in the global economic order that came about with end of the Cold War, the intensities of Malaysian OFDI became more significant. Among the factors identified in prompting Malaysian OFDI are globally; the completion of the GATT/WTO Uruguay Round that began in 1986 and completed in 1994, regionally; the formation of the ASEAN Free Trade Area (AFTA) in 1992 and domestically; the economic liberalization processes that begins in the mid-1980s.

In the South-eastern Asia region, Malaysia is the second largest exporter of capital after Singapore, maintaining that position since the 1980s. Malaysia’s stock of outward direct investment rose from a low of US$305 million in 1980 to US$21,919 million in 2005 and further increased to US$75,618 million in the year 2009. The liberal administrative ruling of foreign exchange, high domestic savings rates and a strong economic growth that led to the rising accumulation of wealth among domestic firms have enable companies in Malaysia the possibility to invest overseas. The increasing level of outward direct investment has yielded positive results, as reflected in the higher profits and dividends accumulated by Malaysian companies investing abroad, especially after 2002.

According to UNCTAD (2006), the increasing role of developing economies implied the existence of potential opportunities to both home and host country’s economies. Recent Outward FDI from developing countries contributes these countries not only in terms of exploring investment opportunities but also developing a competitive position. Malaysian companies are also noted as expanding globally and the trends of outward and inward investment are converging with inward FDI increase from 23.4% to 36.5% while OFDI significantly increases from 6% to 34% of GDP in 1990 to 2005. In 2006 the volume of Malaysia’s OFDI is reported at US$8192.9 million approaching the value of inward FDI which is at the amount of US$8246.3 million.

Companies cross border acquisition and expansion of businesses lead to a jump in the Malaysia’s OFDI to US$14,141 million in 2007 overtaking the value of inward FDI at the level of US$10,742.3 million. The volume of OFDI peaked at US$17,202.7 million in 2008 before decreasing to US$9400.3 million in 2009 (Figure 1). The decline in OFDI and also FDI level in 2009 is mainly due to the global economic crisis which started in the year 2008 and continued to 2009. This has caused global FDI to decline by 37% as investors worldwide were being careful in deciding on investment decisions that involve large funds.

![Fig. 1: Malaysia’s Foreign Direct Investment Outflows and Inflows - US$ million - Constant 2012 Prices - Fixed 2012 Exchange Rates Source: UNCTAD](image)

4. Variables and Hypotheses

In order to determine the factors influencing Malaysian OFDI the authors use a model framework that will test the home macroeconomics factors. Based upon Dunning’s home country’s advantage or push factors theories and previous research, the hypothesis on Malaysian OFDI will concentrate on the home country (main) determinants or push factors of OFDI flows such as level of exchange rate (EXCR), EXPORTS, GDP, inward FDI (IFDI), natural
resources availability (NGRES-proxied by natural gas and oil reserves), PATENTS and productivity (PY). Accordingly, the model is estimated as follows:

$$OFDI = f \left( \text{EXCR, EXPORTS, GDP, IFDI, NGRES, PATENTS, PY} \right)$$

Where OFDI denotes the stock of outward FDI (in 2011 US million dollars). The rationale and measurement for these variables are as follows:

**OFDI**

The degree of multi-nationality of an economy’s production is determined by the extent of production in other economies by domestically-owned firms, and by production located in the economy in question by foreign-owned firms. In the absence of direct measures, international production (that is, production under foreign ownership) is normally measured at a national level by outward and inward foreign direct investment (FDI) stocks. We have estimated FDI stocks in constant values, at 2011 fixed exchange rate. The stock of OFDI provides a better measure of the actual inflow of FDI than does the increment in the FDI stock (Jaumotte, 2004).

**EXCR**

One potential determinant of OFDI is the ringgit exchange rates (EXCR). It can be rationalized that firms from countries with strong currencies tend to have financial advantage than firms from countries with weak currencies as far as financing or acquiring foreign operations is concerned (Kohlhagen, 1997). Besides, as pointed out by Kyrkillis and Pantelidis (2003), home currency appreciation tends to reduce the nominal competitiveness of exports and increase the desire for domestic firms to invest abroad in order to serve overseas markets. Therefore, an appreciation of exchange rate is postulated to have a positive effect on OFDI.

Research Hypothesis 1: Malaysian OFDI is associated positively with appreciation of the Ringgit.

**EXPORTS**

Export earnings is a source of financing for OFDI projects. Total exports are a general proxy for the international competitiveness and revenues of Malaysian firms. Based on the traditional product cycle theory a complementary relationship between trade and investment exists; with exports dominating early stages of foreign market penetration, and investment the later stages (Vernon, 1966). However, this sequencing has become increasingly truncated and therefore TNCs of all countries increasingly serve foreign markets through exports and FDI simultaneously, and in a manner that trade immediately reinforces outward FDI. This relationship is expected to be particularly strong in the case of emerging-country TNCs, which often leapfrog to a global status in very short time (United Nations, 1996).

OFDI and export can be viewed at as alternative strategies for firms to either produce at home and export, or produce abroad and substitute local sales of foreign affiliates for exports. The current phenomenon of high OFDI from developing countries may be caused by this trade-related driver since high export levels can assure firms of access to existing markets, lowering investment risks and uncertainties; hence promoting OFDI.

From previous studies on Malaysia’s OFDI (e.g., Kueh et al. (2008) and Kueh et al. (2009), it was found that an increase in trade openness of the host economy was instrumental in encouraging OFDI. For instance, a higher degree of trade openness provides exporting firms more exposure in terms of learning about the foreign market and relevant regulations and standards, overcoming linguistic, cultural and legal differences, locating foreign buyers, organizing foreign operations and marketing their products internationally etc. (see Kogut, 1983; Kim, 1997; Bernard and Wagner, 2001), which is seen to play an important role in encouraging OFDI, especially when it has become a more viable strategy than exporting. Thus, trade openness is expected to be positively associated with OFDI.

Research Hypothesis 2: Malaysian OFDI is associated positively with Malaysian export level.

**GDP**

Home country environment such as its GDP is an important factor in determining outward FDI. GDP level represents ownership advantage of OLI theory and a high correlation between the size of the domestic market and investment abroad is expected to hold (Kalotay and Sulstarova 2010). GDP level is used as a proxy for domestic
market size and it is expected that they will have positive relationship with OFDI level.

Research Hypothesis 3: Malaysian OFDI is associated positively with Malaysia’s GDP level.

IFDI

In addition to having the trade-related drivers that may provide opportunities for developing countries to undertake OFDI, the economy must have the capability of undertaking outward investments, since OFDI requires knowledge and information of the host, managerial, marketing and entrepreneurial skills and cutting-edge technology. The capability-related driver refers to the necessary skills, technology, information and capital, which are needed to undertake outward FDI. Inward FDI flows may be a potential factor that may influence the capability of domestic investors to undertake outward FDI as it is also associated with advancement of the technological standards, efficiency and competitiveness of the domestic industry. It is thus expected that inward FDI will be positively correlated to OFDI.

Research Hypothesis 4: Malaysian OFDI is associated positively with Malaysian inward FDI level.

Natural Resources Availability: NGRES, OILRES

Resource seeking is one of the major motives for FDI activity (Dunning, 1993) and the main reason for backward vertical FDI. FDI, encouraged by the need to gain access to foreign natural resources is common to both developed and developing economies. The objective for resource seeking FDI is to provide inputs into investing firm’s downstream operations (Buckley and Casson, 1976). Internalisation theory stresses on the importance of equity-based control in the exploitation of scarce natural resources; thus it is expected that the lower the availability of natural resources, the higher will be the outward FDI.

This study uses natural gas reserve, NGRES and oil reserves, OILRES as the proxies for natural resources availability. Malaysia’s national oil company (PETRONAS) and plantation companies have been actively investing overseas in search of resources. The said resources (oil fields and plantation land) have become scarce in Malaysia forcing these companies to seek these resources abroad. Oil and gas is also a strategic resource. PETRONAS underpinned by its vast knowledge and experience in domestic oil and gas exploration and extraction activities and the anticipation of higher global energy demand had embarked on a strategy of global diversification (BNM, 2006). It is postulated that the lower the level of natural resources availability there will be more push for the local companies to involve in OFDI.

Research Hypothesis 5: Malaysian OFDI is associated negatively with the level of natural resources of the home country.

Patents

One of the major driving forces for FDI from firms in developing economies is to compensate their competitive disadvantages in terms of proprietary technology, management know how and product brands while competing with multinationals from developed countries (Child and Rodrigues, 2005; Luo and Tung, 2007; Rugman and Li, 2007). Malaysian companies have managed to move up the value chain or develop integrated supply chain management through acquiring interest in or by forming joint ventures with foreign counterparts. These often involved acquiring physical assets such as manufacturing facilities, high technology and management expertise, brands and trademark rights to established products (BNM, 2006). Patent registrations are used as a proxy of development level for technology and management know-how. If the level of technology and management know-how in the home country is low, Malaysian firms will be pushed to invest outside especially in the developed countries in the quest for better technology.

Research Hypothesis 6: Malaysian OFDI is associated negatively with the number of patents in the home country.

PY

Cost factors can influence the choice of an investment location for the resource-seeking and efficiency-seeking FDI significantly. Relative labour costs and attributes of the workforce such as skill and educational levels are
sometimes included as independent variables in FDI equations. In principle, lower relative labour costs and a more highly educated and skilled workforce should encourage inward FDI, all other things constant; however, the empirical performance of such variables has been mixed, at best. Specifically, wage rates and related variables are not consistently statistically significant in FDI models. In part, this is because labour cost are an incomplete measure of unit costs, and measured levels of formal education may not accurately identify labour productivity differences across countries given different national educational standards and differences in “on-the-job” training and education across countries. While several studies of emerging Europe find that lower relative labour costs and a more educated workforce encourage inward FDI, this is not uniformly the case for all emerging countries (Globerman et al., 2004).

FDI from, and in developing countries is usually influenced by low labour costs, thus reducing the production costs. This low cost resource seeking FDI, which is also termed as “vertical FDI”, attempts to benefit from lower labour costs in the other developing countries. Nevertheless, according to Jaumotte (2004), for other types of FDI, quality labour would be more important factor than the cheap labour issue. This argument is particularly true if the TNCs are skilled-oriented firms and therefore, high wage which represents high productivity of labour would be inevitable. The impact of increase in wage could lead to a negative consequence if the former is considered, while it could be positive, if the latter is considered (Masron and Shahbudin, 2010). The availability of skilled labour is proxied by the productivity of labour, where the productivity of labour is defined as value added per unit of labour.

Research Hypothesis 7a: Malaysian OFDI is associated positively with home country’s productivity level in the case of vertical FDI.

Research Hypothesis 7b: Malaysian OFDI is associated negatively with home country’s productivity level in the case of other types of FDI.

5. Data Description and Estimation Method

This study uses multiple regression analysis to analyze the various factors effects on FDI outflows from Malaysia using time series data for the period of 1981 to 2011. Mainly data is taken from various sources such as statistics department, UN World Investment Report and Global Market Information Database (GMID). The ordinary least square (OLS) method would be used as an analytical technique. Due to non-linearity the data has been transformed into log OFDI. The model is estimated as follows:-

\[
\text{LOFDI}_t = \alpha + \beta_1\text{EXCR}_t + \beta_2\text{EXPORTS}_t + \beta_3\text{GDP}_t + \beta_4\text{IFDI}_t + \beta_5\text{NGRES}_t + \beta_6\text{PATENTS}_t + \beta_7\text{PY}_t + \epsilon_t
\]

where \( t \) stands for the time period (1981-2011) and \( \epsilon_t \) is the residual.

Table 1: Drivers of Outward FDI in Malaysia, 1981-2011, Dependent Variable: LOFDI Stock
The EViews statistical software has been used for computation. Result of the analysis is presented in Table 1 above. The necessary diagnostic test is performed on the model. The estimated residuals have normal distribution pattern, homoscedasticity variances, serially uncorrelated and well specified. CUSUM test indicates that the model is stable as the cumulative sums revolve around zero within its confidence bound as can be seen in Figure 2, 3, and 4 for Model 1, 2 and 3 respectively.

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6. Result and Discussion

Exchange rate is found to be negatively related to OFDI level and the result is statistically significant in all models defying the hypothesis. This result is however consistent with the studies on Russian FDI (Kalotay and Sulstarova, 2010) where they find negative relationship between Russian OFDI and a group of develop countries exchange rate. There may be an explanation on ‘reverse’ import OFDI to this occurrence and this is a subject to be investigated further.

The results show that export level is a significant driver of OFDI from Malaysia. As postulated, export earnings as a major source of OFDI is positively influencing OFDI. The results with respect to exports are found to be robust across all models. This is similar to the result found in other studies on Malaysia such as Kueh, Puah and Apoi (2008); Kueh, Puah, and Mansor (2009); and Goh and Wong (2010). The result is also consistent with the study on Korean OFDI (Seungjin Kim, 2000).

The domestic factor proxied by GDP level can be important push factors for outward FDI. The results show that this variable, proxied by GDP level is significant in Model 2 and Model 3 and it follows the expected positive
relationship between market size and OFDI level in all models. This supports the contention that higher income is needed to fund OFDI activities of Malaysian firms. The result concurs with the study of Masron and Shabudin (2010).

The variable inward FDI flows also positively influence OFDI as it brings with it more up-to-date technology, skills and information to the home economies thus helping to improve the capability of the domestic firms to undertake outward FDI. The result tallies with the study of Masron and Shabudin (2010). Model 1, 2, and 3 differs in natural resources availability; NGRES and OILRES variables as these variables are included to check for resource seeking motives of Malaysian OFDI. Natural resources availability affect in Malaysia’s OFDI however is found to be not significant. The result on patent shows negative relationship with OFDI and is statistically significant in Model 2 and Model 3.

Other domestic push factors that may operate with respect to OFDI are labour-related. The results show that, labour productivity is a highly significant variable in the home economy and have significant negative impact on OFDI as the result is found significant in all models. The result on productivity level indicates the requirements of technical capabilities cannot be met thus pushing our MNCs to involve in overseas production. The result supports hypothesis 7b indicating that quality labour is more sought after by Malaysian firms than cheap labour and the horizontal type of FDI is undertaken by Malaysian MNCs since the OFDI is more concentrated in the service sector and oil and gas manufacturing which requires high-skilled high-paid labour. The result corresponds with the study of Masron and Shahbudin (2010) that finds firms from Malaysia are more resource seeking and less-likely market-seeking.

To sum up, the results of the analysis indicate that IFDI, EXCR, PY, and EXPORTS are strong driver of outward FDI in Malaysia. The rising volumes of exports reflect the increasing competitiveness of the Malaysian economy. Other strong drivers of Malaysia’s OFDI are GDP and PATENTS. The capability of undertaking outward FDI has also improved due to higher FDI inflows and rising imports of technology as there is strong quest for technical capabilities from overseas.

7. Conclusion

OFDI from developing economies is a relatively new phenomenon, especially when these investments go to developed countries. The article attempts to identify the drivers of outward FDI from Malaysia during the period between 1981 and 2011. An empirical analysis is undertaken using time-series data. An attempt is made to conceptualize the process of outward FDI from developing economies using the combination of Dunning’s eclectic theory of OLI and the new theory of trade. The results of the analysis show that OFDI from Malaysia has been greatly facilitated by the level of IFDI, EXCR, PY and EXPORTS. Greater integration of markets has made outward FDI and exports complementary in nature since larger markets increase the possibility of vertical OFDI integration. However, trade in itself may not be able to boost outward FDI if the domestic investors lack the capability to invest abroad.

Inward FDI flows have been identified as one of the drivers of outward FDI, which improve the capabilities to undertake OFDI. Better technology, better skills and information regarding the home economies of inward FDI are all necessary ingredients for enhancing domestic competitiveness. The decision makers especially in developing economies should be looking forward to an increase in outward foreign direct investments from their economies. Policymakers should undertake these investments and policies should be designed in place to encourage local firms to invest abroad. In addition to that, policymakers will have to be aware of the motivating factors in the home environment that motivate these investments such as IFDI, EXCR, PY and EXPORTS level in order to design effective policies. This knowledge will prevent them from outlining inappropriate or incorrect stimuli to firms in order to encourage more outward foreign direct investments. Further investigation is needed especially in the case of exchange rate influence on Malaysia’s OFDI.

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