Country in the red as 2009 FDI nosedives 81%
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A nosedive in foreign direct investments in Malaysia in 2009 follows a continued downward trend in FDI, increasingly overshadowed by regional players, noted a United Nations report.

azlanAccording to the World Investment Report 2010 unveiled today, FDI plunged 81 percent from US$7.32 billion (RM23.47 billion*) in 2008 to just US$1.38 billion (RM4.43 billion) last year.

(*Calculated based on exchange rate of US$1 = RM3.20650)

The 2009 FDI is less than half of the annual average FDI inflow between 1995 to 2005, which encompasses the long recovery period following the 1997 economic crisis.

Malaysia's performance also pales in comparison with neighbouring economies like Thailand and Indonesia whose FDI figures did not contract as severely, despite the global financial crisis.

azlanThailand suffered a decline of US$4.44 billion (RM14.24 billion) while Indonesia saw a more modest drop of US$2.60 billion (RM8.32 billion) in foreign investments in 2009.

The severe dip also places Malaysia in the red for the first time in the last 15 years, with figures for cumulative FDI (see chart right) surpassing incoming investments by about US$1 billion (RM3.21 billion).

Doubts over high income target

Speaking at the UN Headquarters in Kuala Lumpur today, Universiti Malaya economist Rajah Rasiah (at podium in photo) said that Malaysia's poor performance casts doubts over whether it can achieve the targets set to achieve high income status.

NONE"Malaysia is fortunate to be in a good neighbourhood, located among growing countries. The three largest recipients of FDI are located in Asia (but) Malaysia does not even make the top 10 list of recipients," he said.

He added that this is remarkable for a country with a specific FDI policy, unlike Taiwan which is placed 10th in the list.

Conversely, Malaysia is "doing well in FDI outflows", ranking fifth in the list of South, East and Southeast Asian countries investing abroad.

"Speaking to fund managers, I get the impression that we have the resources to invest locally but not many viable options to do so. Even local investors find us less attractive," he said.

Human capital a barrier

The main stumbling block, he said, remains our narrow human capital pool which leaves industries stagnating in low-end production.

He added that while foreign investor laud the ease of doing business in Malaysia, a lack of skilled labour, research and development and technological capabilities is placing the country on the losing end of the increasingly competitive FDI battle.

NONEMalaysia had 367 researchers and engineers for every 1 million persons, as opposed to 4,000 in Taiwan and South Korea in 2006.

Similarly, the country is under-investing in research and development at only 0.64 percent of GDP, while others like Taiwan and South Korea are investing about 3 percent of theirs.

It should also look at mirroring such nations in developing a "vetting mechanism" for FDI to ensure that the investments can be a catalyst for human capital and technology development.

This will include screening FDI by choosing those with technologies that could be upgraded along the value chain and monitoring to ensure a transfer of expertise takes place.

"We allow foreign firms in by giving grants and tax incentives, so we must ensure that spillovers (in terms of technology transfers) occur," he said.

The bottom 40 percent of the population should also be assisted insofar as developing their skills to meet the shortage in industry.

"In assisting the lower income population, we should look at developing skills like precision engineering and die casting, which are sought after by foreign investors," he said.

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