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Department of Statistics, Malaysia

Dealing with Uncertainties: Unearthing Measures for Recovery

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## MALAYSIA'S FOREIGN INVESTMENT: INTER-LINKAGES BETWEEN APPROVED AND REALISED INVESTMENT OF THE MANUFACTURING SECTOR

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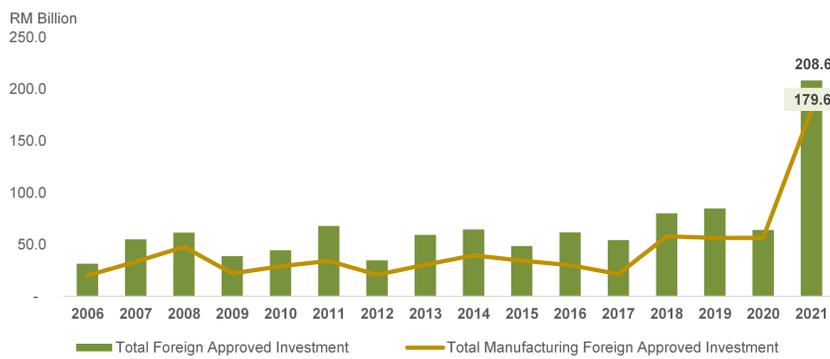
BALANCE OF PAYMENT DIVISION, DEPARTMENT OF STATISTICS MALAYSIA

### INTRODUCTION

#### ❖ Approved Investment

- Approved investments are the investments proposed for projects which has been granted approval for license, incentive or permit by various ministries or agencies.
- In 2021, approved investments for the Manufacturing sector in both foreign and domestic accounted for RM195.1 billion from 702 projects, which is a significant improvement from 2020 (RM91.3 billion; 1,050 projects as reported by MIDA).

Chart 1: Foreign Approved Investment, 2006 - 2021

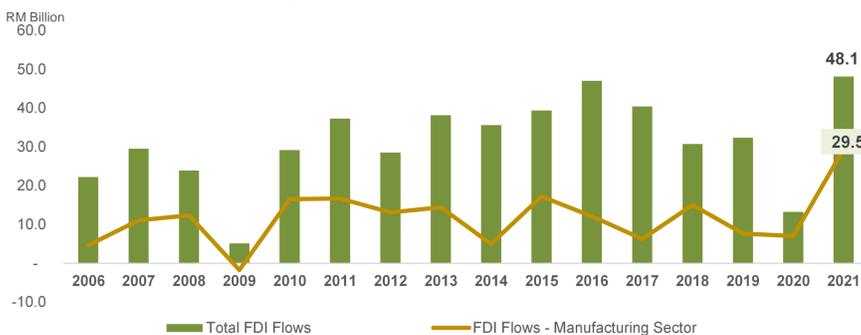


Source: Malaysian Investment Development Authority (MIDA)

#### ❖ Realised Investment

- Referring to the statistics released by DOSM, FDI in Malaysia can be defined as investment from foreign direct investors that owned at least 10 per cent of the equity of a company in Malaysia. This was also classified as a realised investment, with the transactions being recorded as flows into Malaysia.
- Focusing on the FDI flows in Malaysia by Manufacturing sector, the investment showed a significant increase to RM29.5 billion, surpassed the Services at RM12.0 billion.

Chart 2: Foreign Direct Investment (Flows), 2006 - 2021



Source: Department of Statistics Malaysia (DOSM)

### OBJECTIVE

- To study the nature of causal relationship between Malaysia's approved foreign investment and realised FDI in the Manufacturing sector.

### METHODOLOGY

- The variables used are the approved foreign investment and realised FDI flows in Malaysia as published by MIDA and DOSM respectively, using quarterly data from 2008 to 2021.
- The causal relationship was explored using a modified version of Granger causality test procedure developed by Toda and Yamamoto (1995), which examines the long-run effects of the variables within a vector autoregressive (VAR) framework.

### RESULT

#### ❖ Unit root test

Table 1: ADF Unit Root Test

Variables	t-statistics		Confidence Level	Critical value
	Level	First Difference		
Approved Foreign Investment	0.3960	-8.4555	99%	-2.60
			95%	-1.95
			90%	-1.61
Realised FDI	-1.5076	-8.1124	99%	-2.60
			95%	-1.95
			90%	-1.61

Table 1 demonstrates the output of the ADF test at level and first difference. At levels, both the variables are non-stationary as test statistics are larger than the critical values at all significance levels. Next, continue to ADF test at first difference. The result showed the series become stationary at 99% confidence level. Hence, both variables are non-stationary at levels but stationary at their first differences, being integrated of order I(1).

#### ❖ Granger Causality Test

Table 2: Toda-Yamamoto Test of Granger Causality

Null Hypothesis	F-statistics	p-value
Approved foreign investment does not Granger cause Realised FDI in Manufacturing sector	6.8523	0.0017*
Realised FDI does not Granger cause Approved foreign investment in Manufacturing sector	2.3840	0.0976

\* Reject the null hypothesis at 5% level

The result in Table 2 shows that Approved foreign investment does Granger cause Realised FDI in the Manufacturing sector at 1% significance level. On the other hand, the null hypothesis that Realised FDI does not Granger cause Approved foreign investment in the Manufacturing sector cannot be rejected at 5% significance level. Therefore, the result concludes that Granger causality runs one-way or unidirectional causality from Approved FDI to Realised FDI in the case of the Manufacturing sector in Malaysia.

### CONCLUSION

- In 2021, Malaysia's approved foreign investment in the Manufacturing sector developed even faster, roughly thrice the investments recorded in 2020.
- This trend is in line with the finding of this study which indicates one-way causality from Approved foreign investment to Realised FDI in the case of the Manufacturing sector in Malaysia.
- Therefore, it can be said that the Approved foreign investment by government institution does play a major role in influencing the Realised FDI inflows particularly in the Manufacturing sector.

