4. Foreign Investment

4-1. State of Foreign Investment Policies

4-1-1. Relaxation in Foreign Investment Policies

Since Malaysia's independence, the government has shown a consistent stance of welcoming foreign investment. In particular, since the establishment of the 1968 Investment Incentive Act, the government has offered various incentives to export-oriented companies in an attempt to promote such investment.

The basic framework of the foreign investment policy is given by the New Economic Policy (NEP, 1971 to 1990), which aims at uniting the various racial groups of Malaysia into a single nation and at eliminating the economic gap among the racial groups and eradicating poverty. The NEP has as its goal the reconstruction of domestic capital to a ratio of 30% Bumiputra, 40% non-Bumiputra, and 30% foreign investment by 1990. This has become a basic guideline for equity ratios in foreign investments. However, the government has adopted a considerably flexible stance in regulating equity ratios, taking into consideration the export ratios, technical levels, and scale of investments. In particular, it allows up to 100% foreign ownership for companies with export ratios over 80%.

Further, companies engaged in manufacturing activities in Malaysia are obliged to obtain manufacturing licenses under the provisions of the 1975 Industrial Coordination Act (ICA), but the Government currently considers companies with shareholders' capitals of less than M$2.5 million and fewer than 75 permanent employees to be exempt from this and allows them complete freedom from all restrictions, including equity ratios.

The year 1986 was an epoch-making one in terms of the foreign investment policies of Malaysia. First, the Promotion of Investment Act of 1986 was enacted to take the place of the 1968 Investment Incentive Act. The main incentives for investments were established by this law and the 1967 Income Tax Law.

The 1986 Promotion of Investment Act has as its main objectives (1) creation of employment opportunities, (2) promotion of exports, (3) regional development, (4) active use of domestic resources, and (5) development of technology and human resources. In basic stance, it was the same as the 1968 Investment Incentive Act.

The IMP announced in February 1986 (1986 to 1995) functions as the guideline for industrial promotion in Malaysia in the medium- and long-term and states that "investment incentives are part of the strategy of industrialization and must encourage private investment in fields where Malaysia has relative superiority or may be expected to

have the same in the future." In accordance with this, it makes recommendations on introduction of measures to encourage resource-dependent industries, relaxation of restrictions under the Industrial Coordination Act, promotion of small-sized companies, etc. The 1986 Promotion of Investment Act may be said to have been heavily influenced by these recommendations.

In September 1986, Prime Minister Mahathir stated at an investment seminar in New York that Malaysia would be considerably relaxing its restrictions on foreign equity holdings and posts for expatriate posts. After this, Malaysia expanded its range of incentives, streamlined investment procedures, and took other steps to improve rapidly the Malaysian investment environment, announced together with the draft budget for FY1987/88. Below, a description will be made of the improvements made in the foreign investment policy since 1986.

(1) Relaxation of Restrictions on Foreign Equity Holdings

Companies making application for investment with the MIDA from October 1, 1986 to December 31, 1990 will be allowed to hold up to 100% of the equity of the local companies when any one of the following conditions are fulfilled:

[1] The company exports over 50% of its production (sales to companies in FTZs and LMWs considered exports)

[2] The company employs over 350 Malaysians on a permanent basis

(2) Relaxation of Restrictions on Expatriate Posts

Companies with paid-up capitals of over US$2 million are automatically allowed 5 expatriate posts, including 1 for a key post, for the first 10 years. A "key post" is a post which a foreigner may hold indefinitely.

(3) Relaxation of Coverage of Companies by ICA

Based on the ICA, copanies are obliged to obtain industrial licenses. The conditions for this were relaxed from companies with a paid-up capital of over M$250,000 and over 25 permanent employees in 1975 to companies with capital of M$500,000 or more and over 25 employees in 1977 and to companies with a capital of over M$1 million and over 50 employees in 1985. In October 1986, this was further relaxed to companies with a paid-up capital of over M$2.5 million and over 75 permanent employees, thus increasing the freedom of activity of SMIs.

(4) Expansion of Incentives

[1] The term of tax exemption for pioneer status companies (5 years) may be extended 5 more years based under certain conditions.

[2] Introduction of system of abatement of adjusted income for exports

[3] Introduction of system of export allowancw of 5% for trading companies

[4] Introduction of system of abatement of5% of adjusted income for companies complying with requirements of NEP

These have all be applied since the 1987 tax year.

(5) Liberalization of Selection of Expatriate Posts

Companies with foreign capitals of US$2 million are automatically allowed 5 expatriate posts. As to the types of the posts, if desired, all 5 may be given key posts.

In addition to the relaxation in the institutional environment and expansion of incentives, the Malaysian government has been simplifying and speeding up administrative procedures involved in investment applications and approvals.

In June 1986, the government established the Cabinet Council for Investment (CCI), headed by the Vice Prime Minister, which deliberates on improvements of the investment environment. The effects of the council are beginning to appear. The CCI have notified all government offices to make all decisions on investment procedures, examinations of incentives, etc. within two months and to process manufacturing licenses, technical agreements, etc. within six weeks.

Along with the rapid improvements, the government has gone far in drafting clear-cut, detailed foreign investment regulations, thus earning the confidence of investors.

Fig. III.4-1 Main Incentive Systems for Manufacturing Industries

General incentives	(1) Pioneer status, 5-year exemption from corporate tax with a possible 5 year extension on a case-by-case basis	
	(2) Investment Tax Allowance (ITA) in respect of qualifying capital expenditure incurred within five years from the date of approval of the project.	Export ratio, maximum 30% deduction Added value ratio, maximum 20% deduction Local content rate, maximum 20% deduction No. of employees, maximum 15% deduction Site location, maximum 15% deduction
	Special income deduction system (3) 5 percent deduction of adjusted income for companies located in regions designated for promotion	
	(4) 5 percent deduction of adjusted income for SMIs	
	(5) 5 percent deduction of adjusted income for companies complying with new economic policies	
	(6) Accelerated deceleration system, initial 20% and annual 40%	
	(7) Reinvestment deduction system, 25%	
Export incentives	(1) Export Credit Refinancing	
	(2) Abatement of adjusted income from exports	For value of export sales, 50% For usage of domestic materials, 5%
	(3) Deduction of 5 percent of exports for trading companies	
	(4) Double deduction of export credit insurance premiums	
	(5) Double deduction for export promotion	
	(6) Industrial Building Allowance system	
Incentives for R&D	(1) Deductions for research expenses	
	(2) Deductions for research buildings, initial 10% and annual 2%	
	(3) Deductions for research plants and machinery	
Incentives for training	(1) Deductions for training buildings, initial 10% and annual 2%	
	(2) Deductions for expenses for training	

4-1-2. Current State of Investment Incentives

The incentives offered to the manufacturing sector in Malaysia are briefly summarized in Fig. III.4-1. The export incentives are described in detail in III.3, so here an explanation will be given of the state of the other three types of incentives as of June 1988.

(1) General Incentives

The investment incentives come in various forms, primarily reductions of taxes. Malaysian companies are taxed 40% in corporate taxes and 5% in development taxes. In the past, there was an excess profits tax of 3%, but this was abolished starting from the 1988 fiscal year.

1) Pioneer Status

Companies given pioneer status by the Minister of Trade and Industry are exempted from taxes for 5 years starting from the initial day of production.

Further, they are allowed a further 5 years of exemption when fulfilling any of the following conditions:

[1] Their fixed assets, including land, as of 5 years from the date of establishment, total over M$25 million

[2] They hire over 500 fulltime Malaysian employees

[3] They are projects recognized by the Minister of Trade and Industry as contributing to economic or technical innovation in Malaysia.

The Ministry of Trade and Industry is preparing a list of pioneer status industries so as to speed up examinations and give investors the criteria for selection of incentives. Companies in industries given on the list will automatically be given pioneer status. At the present time, lists of promoted activities and products are prepared as guidelines.

2) Investment Tax Allowance (ITA)

Companies allowed to make deductions on their investment taxes may deduct up to a maximum 100% of the eligible capital invested within 5 years from the date of approval of the project. The standards for eligibility are as follows:

Basic item	Standard	ITA deduction	Upper limit
(1) Export ratio	50%-80% 80%-100%	15% 30%	30%
(2)-1 Added value rate -2 Local content rate	Min. 25% Min. 50%	20% 20%	20% 20%
(3) No. of employees	Min. 100 fulltime Malaysian employees	15%	15%
(4) Site location	Location in region designated for promotion of industry based on Article 32-4 of 1986 Investment Promotion Act	15%	15%
			Total 100%

3) Special Income Deduction System

a) Companies located in regions designated promoted industrial areas may deduct 5% from their adjusted income (minimum 5 years).

The following regions are now designated promoted industrial areas:

Pahang: Jengka, Dara
Kelangtan: Kesedar
Kedah: Keda
Penang: Perda
Johore: Kejora
Trengganu: Ketengah

In the July 9, 1987 issue of the Official Gazette, the following regions were designated as promoted industrial areas, thus expanding the regions covered by this system. (To take effect retroactive to January 1, 1986.)

Perlis
- Jejawa
- Chuping
- Kuala Perits

Kedah
- Bakar Arang
- Kulim
- Kulin (Pulau Langkawai)
- Mergong Barrage Tambahan
- Banadar Baru Daruleman (Kubang Pasu)
- Baling

Penang
- Pulau Jerjak

Perak
- Parit Buntar
- Kemunting Tambahan II
- Simpang
- Kuala Kangasar
- Sungai Siput
- Padang Rangas
- Gunong Rapat
- Kanthan
- Menglembu
- Lahad
- Keramat Pulai
- Sungai Pulai
- Mambang Daiwan
- Changkat Larang
- Batu Gajah
- Kampong Acheh
- Batu Undan
- Sri Iskandar
- Tambun
- Bercham

Selangor
- Kuala Selangor
- Banting
- Salak Tinggi
- Sungai Besar

Negri Sembilan
- Nilai
- Chembong
- Lukut
- Simpang Pertang

Malacca
- Tanjung Kling Fasa II
- Alor Gajah
- Bukit Rambai
- Merlmau
- Durian Tunggal

Johore
- Tanjung Agas
- Parit Raja
- Seri Ganding
- Kota Tainggi
- Sungai Semberong
- Senai II
- Tabrau

Pahang
- Semambu
- Bentong
- Peramu

Trangganu
- Gong Badak
- Kuala Ibai
- Jakar II
- Dungun
- Kerteh
- Telok Kalong
- Cacar (Dungun)
- Gong Medang (Besut)
- Kerteh Ringan (Bandar Baru Kerteh)

Kelantan
- Penekalan Chepa II
- Gua Musang
- Kemubu

Sarawak
- Pending
- Upper Lanang III
- Piasau III
- Limbang
- Sejinkat I
- Sejinkat II
- Sejinkat III
- Lutong

Saba
- Sandakan II
- Lok Kawi II
- Meruntum
- Lahad Datu
- Sepangar Bay
- Kimanis
- Woodford Beaufo
- Semporna
- Keningau
- Papar
- Ranau

b) Small-scale enterprises, defined here as manufacturing enterprises with shareholder capitals of under M$500,000, are allowed to deduct 5% from the adjusted income.

c) Deduction of 5% from adjusted income for companies complying with NEP. (Does not cover companies fulfilling any one of the conditions of capital or employees since January 1, 1986 and those complying with NEP before January 1, 1986).

4) Accelerated Depreciation System

This covers companies which made eligible capital investments before December 31, 1988 and allows an initial 20% and subsequent 40%.

5) Reinvestment Deduction System

Companies which make eligible capital investments for the purpose of expansion may deduce 25% of their capital expenditures on plants, machinery, and factory buildings (for projects approved before end of December 1988). Further, this system was announced as extended along with the announcement of the fiscal 1988 budget and allows a 40% deduction for capital expenditures made from January 1, 1988 to the end of December 1990.

(2) Incentives for Research and Development

There are the following incentives provided to companies to encourage research and development in industry:

(a) Expenses required for scientific research for projects run by a company directly or through an agent and of a nature which would lead to earnings in the future may be deducted. Expenses required for research approved by the Minister of Finance may be deducted doubly.

(b) Buildings used for the purpose of approved research are allowed the industrial building deduction of an initial 10% and subsequent 2%.

(c) Plant and machinery used for the purpose of approved research are subject to capital deductions.

(3) Incentives for Training

The following incentives have been introduced to improve technical skills and productivity:

(a) Industrial building allowance is granted to companies investing in buildings used for approved training programs. The system allows for an initial 10% deduction and subsequent 2% deductions.

(b) Double deductions of operating expenses are allowed for manufacturing companies spending money on approved training programs. This system is being applied from the 1988 tax year.

Companies may select any of the pioneer status incentives, ITA, or special income deductions. The ITA and special income deductions may be used after the expiration of pioneer status and so the investors tend to want to acquire pioneer status first. Some companies, however, use the ITA when it appears it will take to much time after the start of production until profits are generated.

Two main problems were mentioned in the current incentive systems. One was that most of the incentives favor large scale companies which meet their conditions of eligibility. Most large companies are foreign capital companies established in Malaysia for the purpose of exports and while these companies enjoy generous incentives, not enough is being done to promote local small-scale industries.

Also, there is a difference in the treatment of existing companies and newly entering companies. Restrictions are being relaxed and incentives expanded for companies entering after 1986, but there are few incentives given to existing companies. Even companies which originally were set up for the purpose of sale to the domestic market, but later try to start exports, are hampered by the local-content restrictions at the time of entry and have to use expensive parts produced in-house, so cannot achieve cost competitiveness in some cases.

4-1-3. Implementing Organizations

(1) Malaysia Industrial Development Authority (MIDA)

MIDA was established in 1967 in order to promote industrialization in Malaysia. In particular, it plays a central role in the promotion of foreign investment - an effective means toward that end. MIDA is in charge of authorization of manufacturing licenses and examination of eligibility for incentives, so is the organization which investors first contact.

MIDA has 9 local offices and 12 overseas offices.

It is comprised of 9 divisions engaged in the following work:

Organization Chart
Malaysian Industrial Development Authority

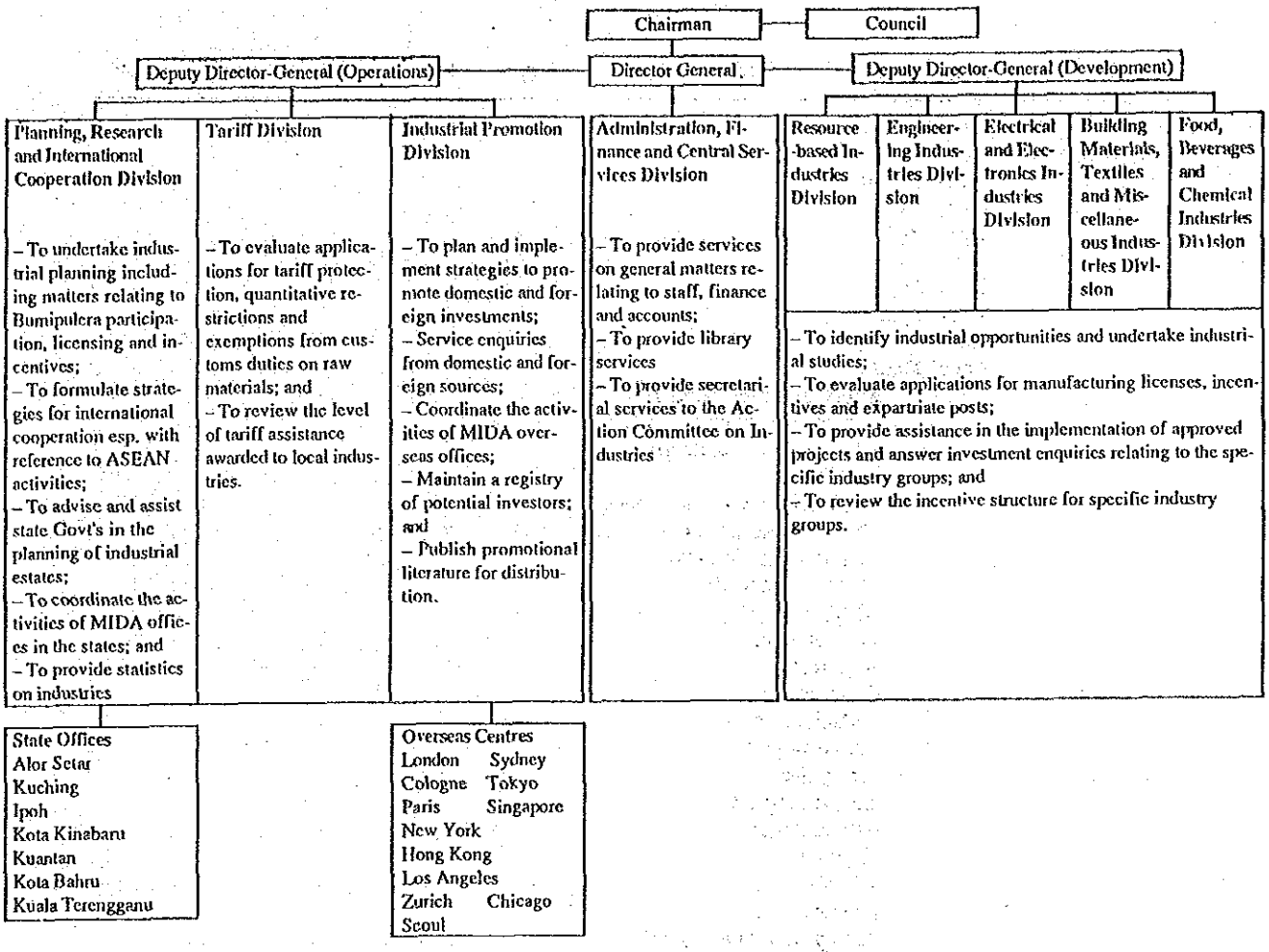
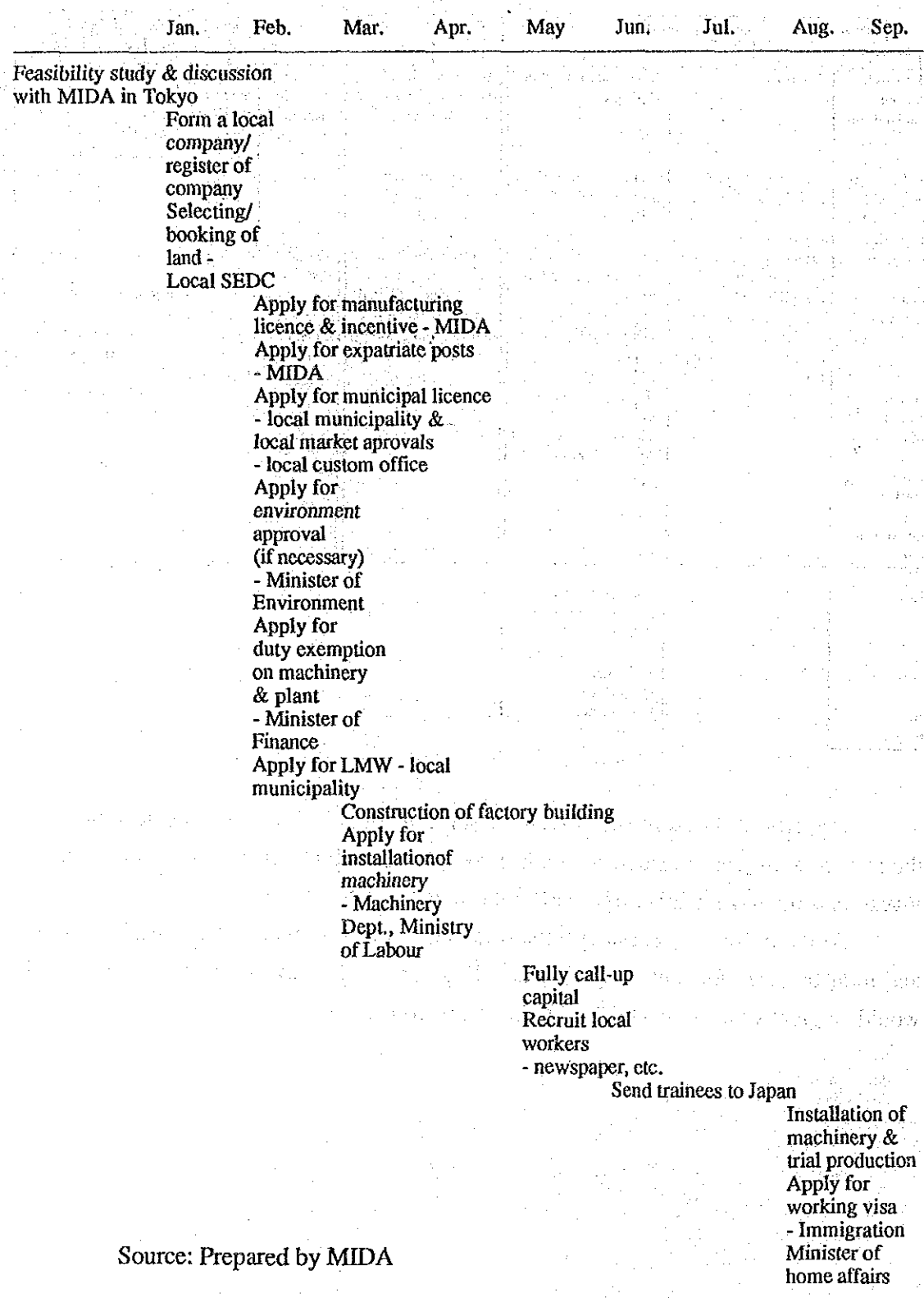


Fig. III.4-2 shows a case of the time schedule of procedures and application up to the start of a project, prepared by the Tokyo office of MIDA. One of the complaints of investors is the large number of procedural channels.

At the present time, Malaysia is studying whether to make the Ministry of Trade and Industry the "sole authority" for handling various investment related permits. This would be greatly welcomed by foreign investors, if realized.

Fig. III.4-2 Time Schedule of Procedures Up to Start of Project and Applications (Example)



Source: Prepared by MIDA

(2) State Economic Development Corporations (SEDC)

The SEDCs are engaged in actual development and management of industrial estates promoted and regulated by MIDA.

The SEDCs raise some of their own funds and draw the rest from the national government (the fiscal 1988 budget allocated M$52 million for this purpose).

Activities are slightly different in each state. Below, an explanation will be made of the activities in Penang and Sarawk, which were visited for this study.

1) Penang Development Corporation (PDC)

The PDC commands a staff of 450. Its main activity is the development of industrial estates, but it is also involved in the housing construction field.

In order to strengthen the linkage between large corporations established in the FTZs and small local firms, the PDC (1) sponsors meetings between large companies and the SMIs once a year, and (2), has prepared a directory of local firms (metal packing, plastic) and is distributing the same to large firms. The biggest problem for local firms is access to financing. The PDC is studying a venture capital corporation concept of the Singapore model. The PDC itself will not engage in any joint ventures with the local firms, but has participated with capital in investments into new fields (primarily with foreign investment).

2) Sarawak Economic Development Corporation (SEDC)

The SEDC is engaged in diverse activities from the establishment and running of industrial estates to the management of hospitals and shopping complexes. It participates directly in many projects and is engaged in the production of cement with the Saba Economic Development Corporation (SEDC) and in steelmaking with a Taiwanese partner, Yao Teh Enterprises Ltd. In 1988, it was planning a venture with a Japanese firm for a silica sand project and has taken a positive stance in studies for other projects showing future promise.

The state has large reverses of silica sand and clay, so a study is being made of projects such as lead crystal glass and vitreous china tableware. Malaysia has large hopes for technical tie-ups with Japan.

In this way, the SEDCs are very active. They have leaflets for promoting investment and are eager to attract investors. They should arrange for further chances to inform potential Japanese investors of these activities and features.

4-1-4. Foreign Investment Policies of Asian NIES and Japan

In sections 4-1-1 and 2, a grasp was obtained of the current state of the foreign investment policies of Malaysia. Here, the foreign investment policies of South Korea, Taiwan, and Japan will be introduced.

(1) Korea

1. Course of Foreign Capital Introduction Laws

South Korea, which suffered an extreme shortfall of the necessary capital for economic development, enacted its first piece of legislation related to foreign capital introduction in 1960. Although that legislation, the "Foreign Capital Introduction Promotion Law", contained measures for taxation reductions and exemptions, and remittance guarantees for principal and profit for foreign investors, investment came mainly from the introduction of foreign capital through loans rather than through direct investment.

In 1966 new legislation, the "Foreign Capital Introduction Act", encouraging direct investment over loans was enacted. The first clause in the law states that the objectives for the introduction of foreign capital are " the appropriate application and administration of foreign currency which will contribute towards the independence of the economy, its sound development and an improvement in the balance of international payments". Based on the objective of improving the balance of international payments export industries and import substitution industries were designated as investment priority industries. The incentives that were offered were preferential measures relating to taxation and also various kinds of guarantees affording the same treatment as given internally, such as foreign remittance guarantees for profits and dividends, recovery guarantees for principal, and assets guarantees. Although no limits whatsoever were set for foreign capital investment ratios, the administration directed that for non-exporting industries the ratio of internal capital must be over 50%. Also, in cases where companies not involved in export industries set themselves up independently the details of their applications for licensing were subject to examination.

In March 1970 the bureaucratic procedures related to investment were simplified and in August of the same year the Economic Planning Agency announced a list of 228 industries for which the introduction of foreign capital was to be encouraged.

Because at around this time the First and Second Five-year Economic Development Plans had recorded results which exceeded the original targets and the

infrastructure for receiving foreign investment was being put in place, with the Masan Export Processing Zone as one such example, manufacturing industry investment from Japan and the U.S. became very active.

In March 1973 the 1966 Foreign Capital Introduction Act was revised with a change towards greater regulations regarding foreign capital. The major changes as a result of the revision were: 1) emphasis was laid on regulations relating to foreign investment, approval criteria were tightened and joint venture investment was given priority; 2) clauses for the revocation of approvals and registration were newly established; and 3) unrestricted recovery of principal was permitted.

In October the same year the Economic Planning Agency announced investment promotion areas which consisted of 138 export industries and 71 import substitution industries. This was followed by the announcement of a set of criteria for licensing in February 1972 in order to prevent companies with unsatisfactory performances from entering industries. Then a month later in March, a new list of investment promotion industries comprising of 17 industries and 236 items was announced. The list specified foreign capital investment ratios, investment quotas and export criteria for each item, and that investment by foreign investors in areas outside the list was forbidden as a rule. The minimum level for investment was set at $200,000 and investment ratios were, in principle, set at an even 50:50.

Thus, a change was made from the once free investment policy to a policy which contained a higher degree of selection and regulations. The reasons for this change were: 1) to restrict foreign investment in labor intensive areas and to safeguard the devlopment of smaller enterprises; and 2) the perception by the South Korean government that there was a lesser need to rely on foreign investment as a result of the steady growth of private companies, mainly centered around the *zaibatsu*.

However, during this period Japanese companies were pulling out of Korea as a consequence of the 1973 oil shock crisis and the tightening of investment regulations. Consequently, since 1976 the amount of forign investment entering Korea has fallen to below a third of previous levels. Then, the second oil crisis in 1978, the 1979 assassination of President Park, the export supremacy of the 1970's, and the appearance of strains in the course of heavy and chemical industrialization all combined to worsen the investment environment.

Faced with this situation, the Zen Do Huan administration relaxed the various regulations governing foreign investment in September 1980. Areas for investment were expanded from the heavy and chemical industries to include energy-related industries and domestic resource development industries, making a total of 56 industries for which 100% investment by foreign investors was permitted. But because the flow of foreign

investment stayed at a standstill the "New Foreign Investment Liberalization Policy" was announced in October 1982 as part of a policy to open up the economy. This was implemented because of the increase in the foreign debt and it was the intention of the South Korean government to control loans, increase the amount of foreign investment, improve international competitiveness through intra-enterprise competition, and improve the level of the industrial structure.

The obligation to export was abolished for some industries in March 1978, and in the autumn of the same year export obligation ratios were decreased or abolished. However, at this time there was a noticeable incidence of companies experiencing business difficulties or withdrawing from business altogether.

In 1984 the 1973 Foreign Capital Introduction Act was revised and in July of that year the excessive regulations and systems governing the introduction of foreign capital were either eased or abolished. The main changes that were made were: 1) a negative list system was adopted for industries for which investment was possible. As a result, industries permitted foreign investment totalled 762 (with a liberalization rate of 76.3%), and the liberalization rate for the manufacturing industry became 92.5%; 2) an automatic approval system was adopted; 3) regulations governing foreign capital investment ratios were abolished; and 4) the introduction of technology was liberalized.

The depreciation of the U.S. dollar which has continued since September 1985, combined with the drop in the price of oil and primary goods and the decline in interest rates, has brought about the "three low" effect which has had the effect of increasing foreign investment in South Korea. This "Three Low Effect" and the 1984 revision of the Foreign Investment Act have increased the amount of direct foreign investment in South Korea. As a means of countering the strong yen the advantages for Japanese companies of using South Korea as a production and exporting base are increasing. Also, the Korean economy itself is improving and there has been significant investment aimed at guaranteed markets and growth areas such as the automotive parts industry.

Although the result of easing regulations relating to foreign investment by the Korean government has been considerable, it is also the move to liberalize policies which has caused foreign investors to reconsider South Korea.

2. Characteristics of South Korea's Foreign Investment Policies

It could be said that generally the fundamental stance taken by the South Korean government in regard to direct foreign investment has been cautious. This is based on the view that when it comes down to it industrialization lies with Korean companies and that it is the role of investment companies to complement this. Up until now the percentage of

direct foreign investment has been no greater than 5.7%, and this is because loans have accounted for the greater part of foreign investment (refer Table 1). However, loans bring with them a serious obligation to pay principal and interest, as illustrated by Mexico's debt problem in the early 1980's. On this point, direct investment does not require repayment, and it is also different from loans in that it is accompanied by the transfer of technology and business knowhow. Recent Korean companies have established a base and have grown to the extent that they support an independent economy. It could be said that it is because of this that the Korean government has moved in the direction of inducing direct foreign investment.

Also, past industrial polcies have had the effect of laying particular emphasis on the *zaibatsu*, so that the small and medium-scale companies which comprise the base of industries have been slow to develop. One of the objectives of the investment in Korea by small and medium-sized Japanese companies as a result of the appreciation of the yen is to strengthen this industrial base.

The increase in South Korea's industrial competitiveness and the increasing level and future potential of its markets have made investment in South Korea attractive to companies from countries such as Japan, the U.S. and European countries. More and more companies are devising strategies which place emphasis on Korea as an international base in the Asian and Pacific region.

The way in which South Korea will absorb the technology and management which foreign companies will bring in the future and the role which the strengthening of the structure of local companies will play will in turn determine the country's future foreign investment policies.

(2) Taiwan

1. The Flow of Foreign Capital Policies

The history of foreign capital introduction legislation in Taiwan goes back to the "Foreigner Investment Act" of 1954 and the "Kikoku Investment Act" of 1955. When these laws were enacted, however, the reputation of the Taiwanese economy abroad was less than shining, and the resulting inflow of foreign capital was correspondingly limited.

It would take until 1960, when the "Investment Promotion Act" was passed and private investment began to be promoted, before the inflow of foreign capital would begin to increase.

This "Investment Promotion Act" was a set of general rules regarding investment relationships and served as something of a supplement to the existing "Statute for Investment by Foreign Nations" and "Statute for Investment by Overseas Chinese." In essence, its aim was to activate private investment with no concern as to whether the capital was domestic or foreign in origin. Among its concrete provisions were investment incentives such as tax reductions and exemptions for investment in specified fields (designated in associated legislation such as the "Types of and Standards for Promotion of Production Ventures" and the "Mining and Manufacturing Industries and Creation of New Ventures and Expansion Promotion Standards"), as well as facilitation of the acquisition of land for factory use.

Concerning the introduction of technology as well, the "Statute for Technological Cooperation" was put into law in 1962 as one link in a group of industrial modernization policies, and modernization of local industry products and enterprises themselves through the introduction of technology from foreign enterprises was encouraged. Both of these laws were put into effect during the third economic construction plan (1961-64), thus appearing just as export channels began to increase.

While the passage of foreign capital introduction laws helped to bring about increasing foreign capital inflows (the total figure for the period 1951-68 is approximately $1.5 billion), U.S. economic aid, which had made such an important contribution to the development of the Taiwanese economy during that time, was cut off in 1968. In response to this, Taiwan intensified its efforts to attract foreign investment in private enterprise. Specifically, the "Statute for Encouragement of Investment" and "Statute for Tehnological Cooperation" were significantly reformed in 1964 to allow even more beneficial treatment of foreign capital and strengthen

export obligations, and in 1965 the "Processing Exit Zone Facility Management Act," under which Taiwan's first export free region was created at Kaohsiung, was established.

With the improvements in the investment environment created by these policies, a more stable political situation, and favorable economic performance, foreign investment in Taiwanese private enterprise grew rapidly from the fourth economic plan (1965-68) onwards. Foreign investment during this period was dominated by U.S. and Japanese electrical home appliance and electronics manufacturers. Due to the large technological gaps which were present in the first stages of development, the introduction of foreign capital was accompanied by the introduction of new technologies, and these were to help to bring about drastic development in Taiwanese industry. As a result, the electric and electronics industry grew to become Taiwan's second largest export industry, second only to textiles.

2. Foreign Capital Policies

The security provisions contained in the "Statute for Investment by Foreign Nations" (current as of late 1986) and the incentives described in the "Statute for Encouragement of Investment" are as follows:

1) Statute for Investment by Foreign Nations
- Remittance of invested capital and profits
- Inapplicability of restrictions concerning foreigner (including foreign corporations) investment ratio
- Inapplicability of restrictions concerning the nationality and residence of corporate officials

2) Statute for Encouragement of Investment
- A chioce of exemption from corporate taxes for five years from the time of establishment or accelerated depreciation of fixed assets
- Deduction of investment in production facilities
- Reduction of corporate tax on important production ventures
- Reduction of withholding tax for dividends payable
- Exemption from business tax for exported goods
- Deduction of research and development costs

3) Industrial Parks

In addition to the above, it is worthy of note in relation to Taiwan's foreign capital introduction policies that a number of industrial parks have been developed. Based on the park development regulations provided in the Investment Act(?), the first industrial park was opened in 1986, and by mid-1986 industrial parks, export processing zones, and science and industry districts had been set up by the government at 64 locations around the nation. Six industrial parks have also been developed by private enterprise. Finally, 30 additional sites have been selected for industrial use, with plans to develop according to need.

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Peat Marwick, Investment in Taiwan, 1986.

Taiwan's Industrialization and Export Expansion, JETRO, 1979.

Taiwan's Industrial Parks

(As of August 1986)

	Export processing zone	Science and industry park	Ordinary industrial park
Characteristics	Special industrial parks for export operations	Parks for the promotion of leading-edge technology and industrial technology R&D	Ordinary industrial park
Locations	Taichung, Kaohsiung, Nanhsia (Kaohsiung suburb)	One location in Hsinchu City	60 sites across Taiwan
Conditions	Although there are no absolute conditions, the following two requirements are hopefully to be met: a. A local corporation based on the Foreigner Investment Act (FIA) b. Minimum capital of NT$5 million required to obtain import/export permits • In principal, all products were to be exported, but since 1985 certain percentage of domestic sales allowed. • Added value of the products is to be at least 25% • The operation is to be free of pollution.	• To be engaged in the manufacture or the research and development of advanced technological industrial products and to employ a large number of Taiwanese engineers.	• There are pollution regulations depending on park in question, tending to become harsher each year.
Industries	1. Precision machinery 2. Electronics products 3. Optical products 4. Metal products 5. Plastic products 6. Machine products 7. Furniture, wood decorations, etc. 8. Handicrafts 9. 25 types of electrical, rubber, and chemical products	1. Electronics and information processing industries 2. Precision measuring devices and precision machinery 3. Special industrial materials 4. Energy-saving-related 5. Aeronautics-related 6. Bioengineering-related 7. Other advanced scientific and technological industries	No particular specifications, although certain parks are limited to firms in the petrochemical industry
Tax incentives	1. Those operations falling under the "Productin Venture Promotion Items and Standards" of the Investment Promotion Act are entitled to choose an exemption from corporate taxes for five years (four years in the case of capital expansion) from the time of establishment or accelerated depreciation of all fixed assets. 2. Those firms to which the "Capital-Intensive or Technology-Intensive Important Production Venture" of the Investment Promotion Act is applicable are entitled to a reductin of the corporate tax rate from 25% to 22%.		

	3. Those firms to which the "Production Venture" section of the Investment Promotion Act is applicable are eligible for the following tax incentives: a. 5%-20% deduction of production facility acquisition costs b. An increase in the retained earnings limit such that up to 100% (20% for enterprises engaged in strategic production) of the paid-in capital may be retained 4. Withholding tax on dividend payments by corporations established under the FIA wil be reduced from 35% to 20% 5. Exported goods are exempt from corporate taxes. 6. Tariffs and commodity taxes are eliminated for imported machinery and equipment, raw materials, components, and fuels necessary for productin.	7. Imported raw materials required in the production of products for export are allowed the same exemption as items in the left category. 8. 20% of the increased research and development costs may be deducted (up to 50% of the corporate tax paid by the corporation in the given period)
Other incentives	Investment in formof patent rights and know-how is alowed up to 25% of total capital.	
Other	1. Firms may either purchase standard factories or construct their own; the land is rented. 3. Thanks to the collective procesing of administrative duties, the time required to fill out applications for permits, etc. has been reduced. 5. Various administrative agencies have been established.	2. Firms purchase the land and construct their own buildings. 4. Although it depends upon the site, the securing of manpower is relatively easy.

Note: The tax incentives described above are not dependent upon the type of industrial park but rather upon factors such as the industry to which a firm belongs, the presence or absence of FIA, and the presence or absence of exports. The above types, therefore, are provided purely for reference.

Source: Investment in Taiwan, 1986

(3) Japan's Foreign Investment Policies

In the postwar reconstruction period, the Japanese economy was far behind those of the western countries in terms of capital stock and technical level and suffered from a lack of the foreign currency required for importing raw materials and capital goods. The government took steps to resolve these problems all at once with the establishment in 1950 of the Law Concerning Foreign Investment (below, "foreign investment law") to promote the introduction of foreign investment. There were, however, strong apprehensions over the effect on the growth and development of domestic industries and the development of domestic technology by foreign enterprises with their superior business resources. Further, stress was placed on the protection of fledgling industries still in the process of growth. For this reason, the law was considerably restrictive in content.

With its basic intent being the promotion of foreign investment, the law set forth the following two criteria for approval and one for rejection:

Criteria for approval

1. Contribution directly or indirectly to improvement of international balance
2. Contribution directly or indirectly to development of key industries or public works

Criteria for rejection

1. Possible adverse influence on reconstruction of Japanese economy

While the above three criteria were used for judging foreign investment, the government did not release detailed conditions for approval and thus had considerable leeway for decision in actual practice. At the time, Japan may be considered to have still enforced strict controls over investment.

On the other hand, to raise the level of technology, in 1951, the government established a system of exemptions for import duties on new-type, high performance industrial machinery difficult to produce domestically, designating them as important machinery, so as to promote an infusion of advanced technology.

In 1956, the government moved to relax some of its controls over foreign investment and established a system for free acquisition of yen-denominated shares. This system enabled free acquisition by corporations of the U.S. and certain other designated countries of a certain amount of shares not involving remittance of foreign currency. This continued up to 1963. Quite a few of the multinational corporations now operating in Japan made their initial investments in Japan under this system.

The foreign investment concentrated in the electrical, gas, metal, transportation and communication, oil refining, and other industries. In particular, it played a large role

in the rationalization and modernization of the electric power and steelmaking industries. On the other hand, most of the technology introduced was for the machinery, chemical, and other heavy industries.

In 1964, Japan became an Article VIII member of the IMF and simultaneously joined the OECD. In doing so, it signed the "capital movement liberalization agreement" and "invisible trade liberalization agreement". As a result, Japan was obliged to push ahead with liberalization of capital etc.

Even after signing these agreements, however, Japan took a cautious approach in its liberalization of foreign investment, liberalizing the investment in four stages. The first stage was in 1967, when it began gradually expanding the numbers of industries for which foreigners could free acquire shares from the previous 33 industries for which up to 50 percent foreign equity was allowed and the 17 industries for which up to 100 percent foreign equity was allowed. By 1973, Japan had in principle liberalized all investment.

Trends in Liberalization of Direct Investment in Japan

Class	Time of liberalization	Group 1	Group 2	Total
First liberalization	July 1967	33	17	50
Second liberalization	*Mar. 1969*	135	20	155
Third liberalization	Sept. 1970	315	0	6
Fourth liberalization	Aug. 1971	-	151	-

Note: Group 1 indicates industries in which up to 50 percent foreign equity was allowed and Group 2 those in which 100 percent was allowed.
Source: Customs and Tariffs Bureau, Ministry of Finance

The relaxation of the foreign investment law had good effects on introduction of technology as well. The government allowed new technology to be introduced for companies considered to have high potentials for growth into hard currency generating enterprises through future exports. The numbers of new technologies introduced rose from the average 103 cases per year from 1950 to 1959 to an average 469 cases from 1960, when the foreign investment law was relaxed, to 1967, to 1061 cases in 1968, when foreign investment was further liberalized, and to 1154 cases in the following 1969.

On the other hand, the controls under the foreign investment law had for a temporary period limited the companies able to import technology and this resulted in a stronger negotiating position for them vis-a-vis technology vendors, thus helping to suppress foreign currency payments for technology transfers. The Ministry of International Trade and Industry held down fees of imported technology to less than

US$30,000 and, on the other hand, made announcements of technology for which assistance was sought. The fields covered incuded the chemical industry, metal industry, machinery industry, aircraft industry, and electrical machinery industry, all aimed at a transition to a more sophisticated industrial structure. The aim was to purchase advanced foreign technology at as low a cost as possible so as to eliminate the technological gap, which the domestic industries would have difficulty closing on their own.

As seen above, up until the liberalization moves of 1973, Japan, in its development policies, adopted a cautious approach to liberalization of foreign investment in its territory while striving to increase the competitiveness of domestic industry through selective technological transfers.

4-2. Investment Environment of Malaysia

4-2-1. Infrastructure

(1) Industrial Estates

MIDA is in charge of the promotion and general coordination of industrial estates. The SEDCs of the individual states are in charge of the actual development and management of the industrial estates.

The first industrial estate was established in 1952 at Petaling Jaya (suburbs of Kuala Lumpur). This was followed by development of numerous other estates with the aim of industrial development and dispersion of industry to the regional areas.

As of the end of 1987, Malaysia had a total of 107 industrial estates (including free trade zones) with a total allotable area of 8,979.58 ha, of which 6,095.20 ha, or an average 67.9 %, had already been allotted. Comparing these figures with 1985, there has been an 18.7% increase in the allotable area and a 8.6% increase in the area already allotted (average sales for 1985 74%).

A summary of the industrial estates is given in Table III.4-1. A look at the distribution by state according to the rate of allotted area shows the states with the highest rate to be Selangor at 19.2%, Johore at 15.7%, and Penang with 12.8%, these states being advanced in economic development. These were followed by Perak at 10.8% and Sarawak at 8.4%. Industrial estates were first established on the western coast near Kuala Lumpur and Penang, which were convenient in terms of labor, markets, and infrastructure, but later were established in the eastern coastal region, the center of the peninsula, and in East Malaysia along with the dispersion of industry to the regional areas. Next, a look at the allotment rate, one of the measures for determining the degree of entry of factories, shows a high allotment rate overall in the states on the western coast of the peninsula (except Perlis) and a low one in the states on the eastern coast and East Malaysia. Note that the allotment rate in Penang is a low one overall, since rate of the peninsula portion of the state, but that the rate of the island portion is higher.

The above industrial estates include the FTZs, which were established to give special privileges to companies producing export-oriented products. As of the end of 1985, there were eight FTZs with an allotable area of 375 ha, of which 318 ha or 85% was already allotted. The FTZs are currently located around Kuala Lumpur, Georgetown, Butterworth, Malacca, and Johore.

Note that in regions where no FTZs were set up for some reason or another, export-oriented industries are being promoted through the establishment of licensed

manufacturing warehouses (LMW) instead of FTZs. The incentives provided to the LMWs are the same as those of FTZs.

(2) Roads

Table III.4-1 No. of Industrial Estates and Area of Same by State (as of end of 1987)

State		No.	Available area (1)	Allotted area (2)	(2)/(1)
Johore		13	1,526.87	958.76	62.8
Malacca		7	342.87	234.90	68.5
Sembilan		7	354.90	289.74	81.6
Selangor		17	1,263.68	1,170.38	92.6
Perak		11	768.56	658.90	85.7
Penang		8	1,063.34	779.56	73.3
Kedah		5	403.73	310.75	77.0
Perlis		2	24.94	11.59	46.5
Pahang		9	592.65	319.12	53.8
Trengganu		11	1,332.50	333.21	25.0
Kelantan		5	382.62	217.83	56.9
Sarawak		6	551.72	513.95	93.2
Saba		4	147.72	129.33	87.6
Federal territories	Kuala Lumpur	1	31.37	29.07	92.7
	Labuan	1	192.11	138.11	71.9
Total		107	8,979.58	6,095.20	67.9

Source: MIDA materials

Table III.4-2 Road Length and Density

State	Length (km) 1980	Length (km) 1985	Average annual growth 1981-85 (%)	Road density km/km^2	Road length per population km/1000 persons
Johore	3,290	4,410	6.5	0.23	2.38
Kedah	2,440	3,230	5.7	0.34	2.67
Kelantan	1,190	2,125	12.3	0.14	2.02
Malacca	830	980	3.4	0.59	1.99
Negri Sembilan	1,600	2,440	8.8	0.37	3.90
Pahang	3,810	4,470	3.2	0.12	4.45
Perak	2,750	3,455	4.7	0.16	1.79
Perlis	435	485	2.2	0.61	2.94
Penang	950	1,325	6.9	1.28	1.26
Saba	4,560	7,555	10.6	0.10	5.90
Sarawak	1,725	4,620	21.8	0.04	2.99
Selangor	2,850	4,300	8.6	0.54	2.34
Trengganu	1,770	2,130	3.8	0.16	3.19
Federal territories	670	805	3.7	3.30	0.70
Malaysia overall	28,870	42,330	7.9	0.13	2.68

Source: Fifth Malaysia Plan

Table III.4-3 Roads by Surface Type and Jurisdiction

(Unit: km)

Jurisdiction	National		State		Municipal		Total	
Surface	1980	1985	1980	1985	1980	1985	1980	1985
Paved (a)	4,940	7,060	15,550	17,390	—*	3,595	20,490	28,045
Gravel	760	1,820	5,300	11,210	—	—	6,060	13,030
Dirt	520	295	1,800	960	—	—	2,320	1,255
Total (b)	6,220	9,175	22,650	29,560	—	3,595	28,870	42,330
Paved rate (a/b)	79.4	76.9	68.7	58.8	—	100.0	71.0	66.3

Note: *) Included in state roads

Source: Fifth Malaysia Plan

West Malaysia's road network was established in the British colonial period and is reputed to be the best in Southeast Asia.

Malaysia had a total of 42,330 km of roads in 1985, of which about three-fourths are state roads. The rate of paving is a somewhat low 58.5% for state roads, but a high 76.9% and 100% for national roads and municipal roads.

Regions with high road densities are concentrated in the North and South of the west coast of peninsular Malaysia

The main trunk roads are National Highway No. 1, which runs from Singapore through Johore, crosses the west of the peninsula, and reaches Thailand, National Highway No. 2, which links Port Kelang on the west coast with Kuantan on the east coast, and National Highway No. 3, which links Kuantan with Kota Bharu.

The road network in East Malaysia is still undeveloped and just links the major cities.

(3) Ports

The main ports are Penang, Port Kelang, Johore Bharu, and Kuantan in peninsular Malaysia, Bintulu, and Kuching in Sarawak, and Kota Kinabalua, Sandakan, and Tawau in Saba.

Comparing the capacities of the facilities from Table III.4-4, it will be clear that Port Kelang is far ahead of the others. Penang is specialized in bulk cargo. Of the main peninsular ports, only Johore and Kuantan are equipped with oil jetties.

By cargo handled from 1980 to 1984, according to Table III.4-5, Port Kelang and Penang took first and second place in both loading and unloading. There was a striking increase in cargo handled in 1980 to 1984 by Saba in loading and by Port Kelang and Penang in unloading. There was large growth in both in Johore.

In the Fourth Malaysia Plan, emphasis was placed on expanding port facilities to improve services and achieve high efficiency in commercial ports.

Specifically, terminal facilities were constructed for both dry and liquid cargo and general cargo wharves were expanded in Port Kelang and general cargo and container cargo wharves were expanded in Penang.

Development under the Fifth Malaysia Plan is fundamentally the same as under the Fourth Malaysia Plan and calls for expansion of the facilities at Port Kelang and also Johore, Kuantan, Kota Kinabalu, and Kuching.

Table III.4-4 Main Port Facilities

Port name	Berth length (m)	No. of berths and depth (m) by type						
		Container	General cargo	Bulk/ dried	Bulk/ liquid	Oil jetty	Coastal	Other
Peninsular Malaysia								
Port Kelang	4,700	2	10	2	2		3	1 (10.9)
		(13.4)	(9-11.5)	(9, 10)	(9, 10)		(5-6)	2 (5.4)
Penang	1,559	1		4 (10)				1 (9.75)
		(9.75)		8 (9.75)				
Johore			2 (11)			2	1	
						(11)	(5)	
Kuantan	1,065		3			2		All purpose 1
Saba								
Kota Kinabalu	1,055	1	9					
		(9.1)	(5.5-7.6)					
Sandakan	648	4				1		
		(6.1-9.1)				(9.4)		
Tawau	732	2	3			1		
		(9.1)	(6.1)			(9.8)		
Sarawak								
Bintulu	843		3			1		
			(10.5)		1 (13.5)	(—)		
Kuching	554							3
								(5.8-8.5)
Sibu	444		5					
			(9.1)					

Note: Figures in parentheses indicate depth (m).

Source: Information Handbook of Malaysian Port Facilities

Table III.4-5 Cargo Handled by Main Ports (1980 to 1984)

(Unit: 1000 t)

Outgoing

	1980	1981	1982	1983	1984	Main items in 1984
Port Kelang	3,014	2,956	3,071	3,307	3,403	Palm oil, lumber, plywood
Penang	2,175	2,342	2,220	2,588	2,740	Rubber products, palm oil
Johore	980	1,266	1,802	1,933	2,146	Palm oil, granite
Kuantan	—	—	—	—	363	Palm oil, lumber
Saba	6,220	6,512	8,877	9,060	8,015	Lumber, palm oil
Kuching	172	180	113	131	146	Rubber products, paper
Sibu	1,697	1,753	103	2,347	2,693	Lumber

Incoming

	1980	1981	1982	1983	1984	Main items in 1984
Port Kelang	3,982	3,872	4,280	4,736	5,378	Oil, oil products, ferrous metals, steelplate
Penang	3,608	3,883	7,295	5,055	5,221	Oil, oil products, ferrous metals, steelplate
Johore	824	855	1,340	1,478	1,832	Fertilizer, oil, oil products
Kuantan	—	—	—	—	193	General cargo, palm oil
Saba	2,406	2,545	2,726	2,857	2,977	Oil, oil products, transport equipment
Kuching	783	854	1,139	1,183	1,322	Oil, oil products, ferrous metals
Sibu	497	581	437	330	343	Rice, ferrous metals

Source: Yearbook of Transport Statistics Malaysia, 1984.

(4) Airports

Malaysia has international airports at Penang and Kuala Lumpur in peninsular Malaysia, Kota Kinabalu in Saba, and Kuching in Sarawak. Further, it has 7 large and small domestic airports served with regular flights in peninsular Malaysia, 4 in Saba, and 3 in Sarawak.

The cargo handled by the main airports in 1984 is given in Table III.4-6.

Table III.4-6 Cargo Handled by Main Airports (1984)

(Unit: t)

	International lines			Domestic lines		
	Departures	Arrivals	Total	Departures	Arrivals	Total
Kuala Lumpur	24,473.9	27,091.3	51,565.2	6,868.8	1,787.8	8,656.6
Bulao Pinang	5,135.6	7,106.9	12,242.6	2,425.7	1,946.2	4,374.9
Kota Kinabalu	1,251.8	3,649.0	4,900.8	3,200.3	4,267.5	7,467.8
Kuching	245.4	3,259.5	3,504.8	2,694.8	2,549.5	5,244.3
Johore Bahru	—	—	—	866.5	286.9	1,153.4
Alor Star	—	—	—	24.9	58.8	83.7
Ipoh	—	—	—	37.2	153.6	190.9
Kota Bharu	—	—	—	180.7	2,059.7	2,240.4
Kuala Trengganu	—	—	—	22.7	69.9	92.6
Kuantan	1.7	16.6	18.3	11.1	51.4	62.5
Malacca	—	0.5	0.5	0.2	0.1	0.3
Lahad Datu	0.004	—	0.004	44.5	345.6	390.1
Sandakan	—	—	—	1,203.7	871.2	2,074.9
Tawau	—	—	—	1,587.1	876.2	2,463.3
Bintulu	0.6	8.3	8.9	69.4	615.7	685.1
Sibu	—	—	—	285.5	792.4	1,078.0
Miri?	—	—	—	286.1	848.7	1,134.8
Labuan	0.8	—	0.8	193.8	487.2	681.0

Source: Yearbook of Transport Statistics Malaysia 1984

(5) Sewerage

The rate of distribution of waterworks by state is given in Table III.4-7. The rate of distribution of waterworks nationwide in Malaysia was 70.9% in 1985, but there was a large difference between the urban and rural regions, with the rate in the cities being 93.1%, and in the country, 57.6%. The distribution rate in the cities was 90 to 100% in all states other than Kuantan and Trengganu.

In 1985, there was a supply of 4,218.6 million liters per day as opposed to a demand of 3,737.3 million liters per day. There were shortages, however, in individual states such as Kedah, Perlis, and Selangor.

Table III.4-7 Distribution Rate of Waterworks by State

(Unit: %)

State	1980			1985			1990 (plan)		
	Urban	Rural	Total	Urban	Rural	Total	Urban	Rural	Total
Johore	87.0	28.0	49.0	91.6	61.3	73.3	96.0	72.9	83.0
Kedah	90.0	52.4	57.9	95.0	57.7	63.4	98.0	76.4	79.9
Kelantan	58.0	17.0	28.4	65.0	30.0	40.4	75.0	51.6	59.2
Malacca	98.0	70.0	76.6	100.0	81.7	85.9	100.0	95.6	96.6
Negri Sembilan	86.8	66.0	72.8	89.3	75.0	80.3	92.7	90.7	91.5
Pahang	92.0	47.0	58.9	95.0	65.0	72.6	98.0	94.9	95.6
Perak	96.0	55.0	68.3	98.0	75.0	82.6	99.0	80.6	86.8
Perlis	90.0	45.0	49.0	93.0	50.0	54.3	98.0	68.7	71.9
Penang	97.0	78.0	87.0	98.0	85.0	92.0	99.0	87.5	94.5
Saba	99.0	18.0	34.2	100.0	38.0	52.0	100.0	54.4	66.1
Sarawak	87.0	20.0	31.8	95.0	33.0	44.9	98.0	47.3	57.9
Selangor*	90.0	65.0	80.0	94.5	73.0	87.3	98.0	82.1	93.7
Trengganu	75.0	25.0	46.5	85.0	40.0	61.1	95.0	89.8	92.5
Total	89.0	42.9	58.7	93.1	57.6	70.9	96.5	72.8	82.4

Note: * Including federated territories.

Source: Fifth Malaysia Plan

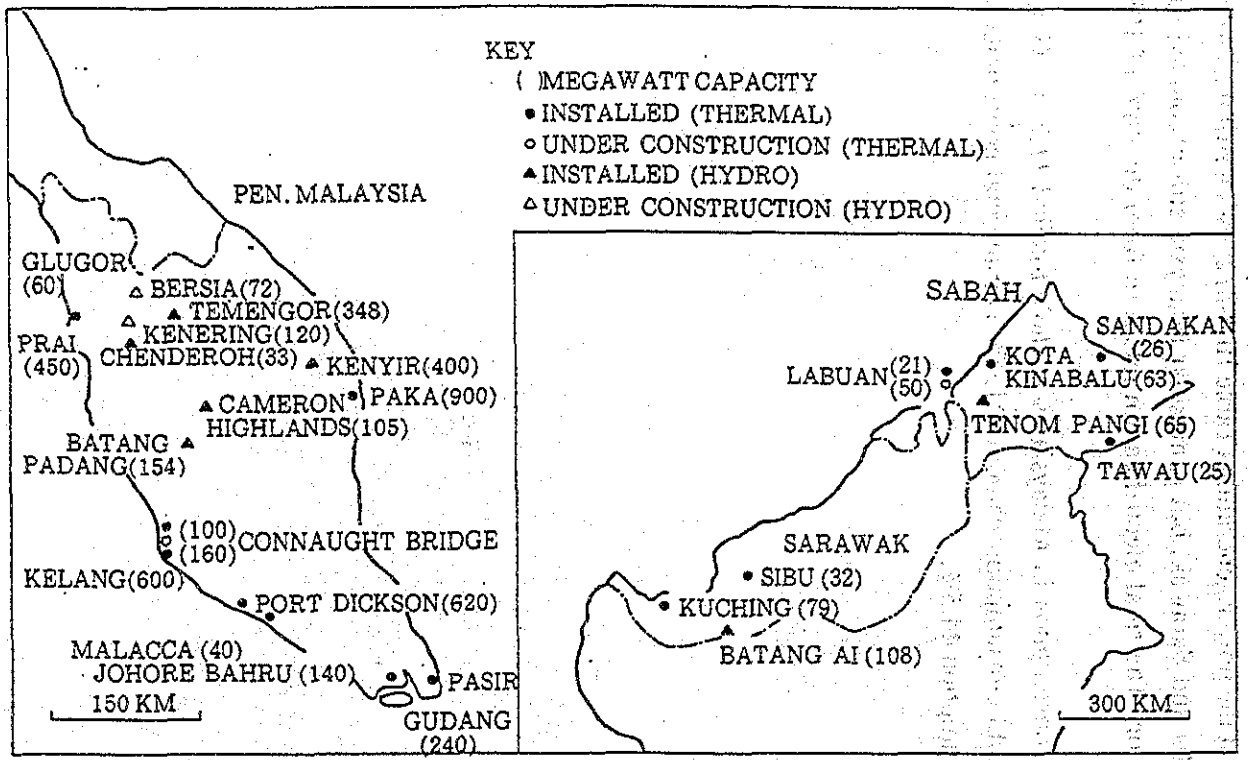
(6) Power

Fig. III.4-3 shows the disposition of Malaysia's main power stations. Almost all the large power stations are in peninsular Malaysia.

A look at the power generation (Table III.4-8) shows a striking growth in the past 5 years in Saba and Sarawak, but peninsular Malaysia still accounted for 90% of all power generation. The rural electrification rate rose from the 48% of 1980 to 68% in 1985.

Power consumption in Malaysia as a whole totalled 11,244.1 Gkh in 1984. By sector, household consumption came to 21.4%, commercial consumption 33.5%, and industrial consumption 44.5%.

Fig. III.4-3 Location of Power Generating Stations



Source: Malaysian International Chamber of Commerce and Industry, Malaysian Energy Outlook 1982~2000 October, 1982.

Table III.4-8 Power Facilities: Current State and Plans

Item	1980	1985 (est.)	1990 (plan)	Average annual growth rate (%) 1985/80	1990/85
Power generation (GWh)					
Total	9,690	14,061	22,000	7.7	9.3
Peninsula	8,921	12,648	19,300	7.2	8.9
Saba	414	709	1,200	11.4	11.1
Sarawak	355	704	1,600	14.7	17.8
Power source (%)					
Oil	87.2	65.8	14.2		
Hydroelectric	12.5	24.9	19.7		
Gas	3.0	9.3	50.5		
Coal			15.5		
Transmission lines (km)					
Total	3,854	8,173		16.2	
Peninsula	2,823	4,439		9.5	
Saba	214	1,624		50.0	
Sarawak	817	2,110		20.9	
Rural electrification rate (%)	48	68	77		

Source: Fifth Malaysia Plan

(7) Communications

In 1985, Malaysia's telephone exchanges had 1.8 million lines serving 1.28 million telephones, for 8.4 telephones per 100 persons. Malaysia had a further 11,000 telex subscribers. The introduction of computerized switching systems in 1984 enabled direct dialing to 65 countries.

Other services offered include ATUR (automatic telephones using radios), Video Telex (Japan's Captain System), Teletex (telexes with memory functions), Teletext (transmission of words and pictures spaces between television waves), Maypack (train and airline ticket reservation and banking system), and a microwave network.

A breakdown of the number of telephones is given in Table III.4-9, which shows that there has been striking growth in home telephones in the past 10 years (22.7% a year). The share of home telephones as of 1985 was 53%, higher than that of commercial-use phones. The number of telex subscribers has also grown at a high rate in the past 10 years.

Table III.4-9 No. of Telephone and Telex Subscribers and No. of Telephones

	1975	1982	1983	1984	1985	1990 (est.)	1975-85 average annual growth rate (%)
No. of telephone subscribers							
Residential	76,112	367,157	451,303	563,428	649,547	—	23.9
Business	93,427	218,230	248,794	285,701	309,051	—	12.7
Total	169,539	585,387	700,097	849,129	958,598	2,400,000	18.9
Per 100 persons	—	—	4.7	—	6.3	13.8	
No. of telephones							
Residential	87,077	387,190	471,619	586,566	675,299	—	22.7
Business	204,891	449,390	504,881	564,314	603,452	—	11.4
Total	291,958	836,680	976,500	1,150,880	1,278,751	—	15.9
Per 100 persons	—	—	6.4	—	8.4	13.8	—
No. of telex subscribers	1,062	5.866	7,980	9,774	10,881	—	26.2

Source: Department of Statistics, Yearbook of Statistics 1985, Fifth Malaysia Plan.

4-2-2. Comparison with Third Countries and Regions

Table III.4-10 gives a brief comparison of the investment environments of four Asian NIEs and four ASEAN nations other than Singapore and Brunei.

Overall, restrictions are being relaxed on foreign investment. This is particularly true for foreign equity holdings. Including conditional approvals, the only countries not allowing 100% equity are the Philippines and Indonesia.

Further, the ASEAN nations are actively promoting investment. The Asian NIEs fundamentally welcome investment, but are stressing mainly the high-technology fields for promotion and are thus more selective.

In recent years, Japanese investment in Thailand has been rapidly increasing, as shown in Table III.4-11. The rush of investment by Japanese affiliated firms has been so great as to cause an increasingly serious shortage in the capacities of the industrial estates and ports.

Table III.4-11 Trends in Investment in Thailand by Country and Region

(Unit: Million bahts)

	Value of BOI* applications		Value of BOI approvals				Start of operations of BOI projects			
	Cases	Value	Cases	Value	Cases	Value	Cases	Value	Cases	Value	Cases	Value
Japan	54	14,729	204	47,705	35	14,421	130	23,548	11	7,464	30	5,623
Taiwan	35	2,870	178	14,658	23	2,331	100	7,309	17	1,183	8	399
EC	42	16,292	110	33,131	35	6,901	51	6,901	17	1,616	15	1,113
U.S.	23	14,096	58	20,504	14	904	35	5,025	8	2,249	10	1,563
Hong Kong	17	2,006	47	7,044	19	1,966	31	3,335	5	188	11	2,467
Australia	7	587	24	7,388	6	411	11	793	3	682	4	158
Singapore	10	399	36	606	7	397	16	1,711	3	116	4	2,936
Malaysia	9	494	13	586	12	837	5	196	2	108	2	104
Total with others	204	41,700	638	151,200	148	25,211	367	54,400	68	15,970	86	12,160

Note: *BOI (Board of Investment)

Source: BOI, Investment News No. 4, March 1988

When considering investment in the ASEAN nations, Thailand and Malaysia are in many cases among the final candidates due to their stable political conditions, quality labor, and other basic conditions.

In this case, the reasons given by Japanese companies for selection of Thailand are (1) low wages and (2) hopes with regard to the potential market posed by the 50 million population and, simultaneously, the fact it is a Buddhist country - with a psychological

affinity thus at work. One fact which must not be forgotten in the evaluation of Thailand as an investment environment is the high marks given to the potential of the Thai economy itself. Thailand became a focus of attention due to the stability of its growth in the 1980s while the economies of the other developing countries were developing. Thailand's economic growth may be described as "slow but steady", but the surge in foreign investment in 1986 and 1987 is expected to speed up the growth in the future and make Thailand a candidate for the next NIE.

The characteristic features of Thailand's development show up clearly in its export structure. From Table III.4-12, it may be seen how fast Thailand has changed from an exporter of agricultural produce to an exporter of manufactured goods.

The apparel industry has been displaying striking growth as an export industry, so much so that many government officials are calling for promotion of a "second apparel industry". In the 1960s, the apparel industry began with the help of Japanese and Hong Kong capital. At present it is a fully entrenched indigenous industry.

Further, the promotion of the so-called agro-based industry has also been bearing fruit. The food industry, which processes the abundant agricultural produce of the country, is founded on numerous local small- and medium-sized companies. Like the textile industry, it has been changing over in recent years from import substitution to an export industry. Food products are appearing among the country's main export items.

This trend may be said to be a good example of the promotion of export industries in developing countries, in which foreign-affiliated companies tend to play the central role in export of manufactured goods. Thailand's exports have been supported by the sound growth of private companies, and this has been made possible by the restricted role of the government in the industrialization process and the restricted interference in the economic activities of private companies, which enabled the Thai economy to operate with a good efficiency based on the market principle. As a result, it is said, relatively small- and medium-sized companies could develop in Thailand, as opposed to the other ASEAN nations.

At the present time, interest is rising in the supporting industries when considering selection of an investment site. Thailand is regarded fairly well in this regard.

The good point about Malaysia is that it has a very good infrastructure compared with the other ASEAN nations, such as industrial estates and roads. Further, it has succeeded in dispersing its industries to the regional areas and has industrial belts formed not only around Kuala Lumpur, but also Penang, Johore, and Malacca, so offers a wide selection of factory sites. For this reason, there are no problems with shortages of industrial sites, chronic crowding of the metropolitan region, and other problems such as those seen in Thailand around Bangkok.

Table III.4-10 Comparison of Investment Environments of Asian NIEs

1. Foreign Investment Policies
[1] Basic stance
[2] Recent trends
[3] Foreign investment regulations and guidance
  (1) Equity ratio
  (2) Employment
  (3) Controlled industries
[4] Investment incentives
  (1) Encouraged industries
  (2) Preferential measures

2. Foreign Exchange Controls
[1] Overseas remittances

3. Tax System
[1] Corporate taxes
[2] Personal income taxes
[3] Others

4. Labor Practices
[1] Working hours
  (1) Overtime labor
[2] Wages
[3] Overtime wages
  (1) Fringe benefits
[4] Minimum wages

5. Problems in Investment Environment
[1] System
[2] Management environment
[3] Others

6. Main Investment Merits

South Korea

1-[1] Places emphasis on promotion of foreign investment bringing in high technology. Still severe in application of Foreign Investment Law.
[2] Amended Foreign Investment Law in July 1984 and has since opened up new fields to foreign investment in stages
[3]-(1) Has no legal restrictions, but it is believed there is administrative guidance in approval of individual cases not subject to automatic approval.
  (2) • Strong desire on local side to secure management rights.
  • There are demands for ensuring certain number of jobs.
  (3) Investment hampered in mass communications, public works, and some other industries. Freight handling, agriculture, and some other industries restricted, but 726 of 999 industries are open.
[4]-(1) • High tech industries such as electronics, fine chemicals, biosciences, mechatronics, etc.
  • Industries with large import substitution effects.

(2) From July 1984, tax abatement measures on income tax, corporate tax, etc. abolished in principle. From April 1987, framework of exceptional preferences reduced.

2-[1] No restrictions on remittances for recovery of principle, profit, interest, and royalties.

3-[1] 20 percent and 30 percent (assessed income of 5000 won as standard)
[2] 6 to 35 percent (progressive assessment)
[3] • Defense tax (20 to 25 percent of corporate tax, 10 to 20 percent of income tax)
• Added value tax 10 percent

4-[1] Within 48 hours a week
(1) Within 60 hours a month
[2] University graduate section head approx. US$600
High school graduate production job about US$190 to 240
[3] 1.5 times
(1) Annual paid holidays 12 days (eight days addition for persons with perfect attendance)
[4] Started from 1988

5-[1] • Tax rates are high and there seem to be unclear portions in tax collection.
• Considerable administrative guidance on suppressing dividends and export obligations etc.
• Difficulty in raising funds
• Difficulty in procuring raw materials and parts due to strengthening of restrictions on imports from Japan
• Severity in application of Foreign Investment Law (establishment of representative offices etc.)
[2] • Difficulty in selecting partners and differences in management sense
• Strong demands for transfer of technology
• Difficulty in domestic procurement due to immaturity of supporting industries
• Labor union policies
• Rising wages
• Increase in payments under retirement fund provisions
[3] • Tension over North-South problem
• Rising exchange rate due to intensified trade friction with U.S.
• Intensified competition due to sharp rise in European and American investment
• Complexity of feelings toward Japan
• Mismatch of labor supply and demand and industrial structure

6 • Fast tempo of advance of industry
• Expansion and diversification of domestic demand and relaxation of domestic sales restrictions
• Improvement in technical level (assembly sector)
• Relaxation of foreign exchange controls (on overseas remittances etc.)

Taiwan

1-[1] Foreign investment is welcome, but projects which would lead to an increase in exports to the U.S. are checked.
[2] Banking, services, and other such fields being opened up to foreign investment in stages.
[3]-(1) Administrative guidance was enforced for 49 percent or less foreign equity outside of export processing zones, but this is being relaxed.

(2) There are demands for use of local personnel (in science and industry zones etc.), but the restrictions are loose.
(3) Almost none except for public works and some other industries. (No legal restrictions)

[4]-(1) In addition to production fields which are encouraged, there are restrictions on "strategic industries" (machine components, molds and dies, computer components, etc.) and on "important production fields" (ferrous metals, heavy machinery, semiconductors, etc.).

(2) • Reduction of abatement of income taxes on profit-making businesses (five years)
• Recognition of depreciation according to years of possible use.
• Preferential treatment by incentives such as exemption of tariffs on raw materials for export use
• Preferential financing of machinery industries.

2-[1] Remittance of profit guaranteed, but remittance of principle within one year only allowed starting 1987.

3-[1] 0 to 30 percent (progressive assessment)
[2] 6 to 60 percent (progressive assessment)
[3] • Business tax (0.6 to 40 percent,
• Commodity tax (added value tax) 10 percent

4-[1] Within 48 hours a week
(1) Within 46 hours a month for males and 24 to 32 hours a month for females
[2] Lower level management job about US$800 to 1000
[3] US$350 to 400 (manufacturing industry average)

(1) • Annual paid holidays 7 to 30 days
• Social insurance (labor 5.28 percent, management 1.32 percent)
• Retiree reserve (management 4 percent) etc.

[4] Above basic wage set by Central Work Organization (6,900 won in 1986)

5-[1] • Tax rates are high and there seem to be unclear portions in tax collection.
• Considerable administrative guidance, efficiency of administrative paperwork
• Insufficient incentive to private research and development etc.
• Restrictions on reinvestment
• Proceduers in acquiring factory sites

[2] • Overcompetition due to copying
• Insufficient labor due to surge in foreign investment
• Overseas Chinese not positive in reseach and development etc.
• Difference in management sense, such as sense of unclearness in financial matters.
• Labor union policies
• Rising wages
• Rising production costs, including costs for prevention of pollution and social welfare

[3] • Progressiveness of attitude toward China
• Rising exchange rate due to intensified trade friction with U.S.
• Delay in advance of industry and strain in balance between industries

6 • Good infrastructure
• Little administrative interference and ease of application of Foreign Investment Law
• Good basic technology (in particular in processing sector)
• Relaxation of foreign exchange controls (on overseas remittances etc.)

Hong Kong

1-[1] Almost nothing corresponding to foreign investment policy.
[3]-(1) No restrictions.
(2) No restrictions.
(3) No restrictions. (Advance approval required for dangerous industries and polluting industries).
[4]-(1) Nothing in particular. Promising industries mentioned by the government, however, are computers, peripherals, precision equipment, office equipment, construction, building materials, chemical processing, etc.
(2) • No distinction made between foreign investment and domestic investment. Depreciation allowance for buildings and materials and equipment.
• Deductions for assessed taxes determined individually.

2-[1] No restrictions.

3-[1] Business establishment tax 7 percent
[2] Wage income tax 5 to 25 percent (progressive assessment)

4-[1] Within 48 hours a week
(1) No upper limit for males
[2] • Management job about US$1000 to 1280
• Factory worker about US$300
[3]-(1) Annual paid holidays 14 to 21 days
[4] None

5-[1] Long land leases and complexity of building work
[2] • Poor labor stability
• Difficulty of labor management due to strong individualism
• Rising wages
[3] Unclearness of future after return to Mainland

6 • Freedom of procurement of raw materials
• Great freedom in economic activities and speed of establishment of companies
• Expectations on Chinese market (production centers and market)
• Stability of exchange rate

Singapore

1-[1] Emphasis placed on companies offering new technology or compatible with Singapore's industrial promotion scheme.
[2] From 1986, program to stimulate businesses aiming at reduced costs.
[3]-(1) 100 percent equity allowed for export companies. However, up to 49 percent foreign equity allowed in commercial sector.
(2) Trend toward exclusion of unskilled foreign labor and demand for use of local personnel.
(3) Restrictions on mass communications, transportation, and other public works. Advance permission required for banking, insurance, and manufacturing covered by legal restrictions (beer, air conditioners, etc.)
[4]-(1) Advanced services with OHQ, IPO (international procurement office), and other sensor functions requiring expert knowledge.
(2) Pioneer status companies can keep tax rate to 10 percent and enjoy numerous other preferential tax measures even after expiration of income abatement (maximum 10 year) system.

2-[1] No restrictions (however, desire for reinvestment)

3-[1] 33 percent
[2] 4 to 33 percent (progressive assessment)
[3] • Dividend tax 10 percent
• Interest tax 15 percent etc.

4-[1] Within 44 hours a week
(1) Within 72 hours
[2] • Production management job about US$900 to 1000
• Assembler about US$200 to 300
[3] • Annual paid holidays 7 to 14 days or more
• CPF (Central Pension Fund)? burden of 25 percent for labor and 10 percent for management.

5-[1] • High tax rates
• High additional labor costs such as CPF and SDF
[2] • Many changes in labor policies
• Rising wages and job hopping
• Difficulty in finding subcontractors
• Comparatively high factory site rents
[3] No domestic demand which would form foundation for good business, so susceptibility to changes in external economic environment

6 • Good infrastructure
• Almost no restrictions on foreign investment
• Full range of investment incentives
• Free port
• Stability of exchange rate
• Foreign investment welcomed and little local friction
• Expectations on ASEAN market

Thailand

1-[1] Foreign investment welcome and application of Foreign Investment Law comparatively loose
[2] BOI now in middle of three year plan for promoting foreign investment (1987 to 1989)
[3]-(1) • Foreign equity of up to 49 percent when aiming at domestic market
• Foreign equity of 40 percent in agriculture
• Foreign equity of 50 percent or more allowed when export ratio is over 50 percent
• 100 percent equity allowed when entire production is exported
(2) Administrative guidance used to replace managers and engineers with Thais and to ensure employment
(3) • Category A where no foreign investment at all is recognized
• Category B where foreign investment is allowed conditionally, such as in agriculture except for rice production)
• Category C where permission of Ministry of Commerce? is not obtained, other than encouraged industries
[4]-(1) 1) Agricultural products
2) Mining, metals, ceramics
3) Chemicals and pharmaceuticals
4) Machinery and electrical equipment
5) Services etc.

(2) • Differences made in degree of preferential treatment by region starting September 1987 (to correct differences with metropolitan region)
• Five year exemption on withheld tax for overseas remittances such as royalities
• Exemption on corporate tax (three to eight years)
• Exemption on import duties and business taxes on machinery
• Exemption on import duties and businesses taxes on raw materials which cannot be procured locally
• Exemption on up to 90 percent of business taxes on purchases of domestic raw materials

2-[1] • Few restrictions once application made to central bank
• No restrictions on remittances of principle and interest on loans or on royalties

3-[1] 30 percent (local) to 40 percent
[2] 7 to 55 percent (progressive assessment)
[3] • Business tax
• WIthheld taxes —> interest and royalities 25 percent, dividend payments 20 percent (lowered for Japan)

4-[1] 40 to 44 hours a week
(1) No upper ceiling
[2]-(1) • Japanese company average, business management job approx. US$535
• Japanese company average, factory job approx. US$125
[3]-(1) • Minimum 1.5 times
• Annual paid holidays 19 days or more
[4] Daily wage US$2.2 to 2.5

5-[1] • Visa and work permit restrictions
• Lack of incentives for promoting introduction of technology
• High tax rates (income taxes, business taxes, etc)
• Feeling of unfairness in tax collection
• Insufficient export incentives (increased financing to assist exports, speedup of rebate of taxes, etc.)
[2] • Fund raising ability of local partner
• Immaturity of supporting industries (insufficiency of parts manufacturers due to rush of investment by Japanese companies)
• Insufficient manpower in management job class
• Possibility in problem of overpresence due to rapid investment by Japanese companies
[4] • Lack of sites due to lack of infrastructure (with rush of investment by Japanese companies), crowding and land subsidence in metropolitan region
• Poor contact between BOI and other agencies

6 • Stable political and economic performance
• Relatively lax foreign investment controls and administrative guidance
• Inexpensive labor force

Malaysia

1-[1] Foreign investment welcome. In particular, generous preferential measures given for export companies. Foreign investment policy part of Bumiputra policy.
[2] 1986 Promotion of Investment Act further strengthened from January 1987 to improve investment environment (with preferential measures for export industries)
[3]-(1) • Foreign equity of up to 49 percent when aiming at domestic market

• Guidelines present based on Bumiputra policy (30 percent foreign investment, 30 percent Bumiputra, and 40 percent non-Bumiputra)
• 100 percent equity allowed for companies exporting over 50 percent of production or employing over 350 persons (for applications up to end of 1999).

(2) Demand for realization of employment ratio reflecting racial composition of population (40 to 50 percent Bumiputra, 30 to 40 percent Overseas Chinese, etc.)

(3) No legal restrictions. Investment in public works difficult, but up to 30 percent possible due to privatization policy.

[4]-(1) List of industries and products being promoted available (occasionally changed). Many cases of individual consideration given upon application.

[2] [Manufacturing Industries]
• Pioneer status (exemption on corporate taxes etc.) recognized for five years or deductions allowed on investment taxes (up to 100 deduction for five years and extension for another five years under certain conditions)
• Special income deductions/accelerated depreciation
• Reinvestment deduction
• Exemption of tariffs on imported raw materials, parts, and facilities (tariff rebate system available)

2-[1] • Over 10,000 ringgi, approval of foreign exchange bank required, but otherwise almost free
• No restrictions on remittances of royalities

3-[1] 40 percent

[2] 5 to 40 percent

[3] • Development tax -> across the board 5 ercent (companies with development income)
• Withheld tax —> interests 20 percent, royality payments 15 percent, divident payments 0 percent (reduced for Japan)

4-[1] 48 hours a week

(1) Within 64 hours a month

[2] About US$1018 (personnel manager, US$408 (foreman, etc.)
About US$160 (factory worker)

[3] Average 1.5 times

(1) Annual paid holidays 8 to 16 days, reserve fund (labor 9 percent, management 11 percent)

[4] None for manufacturing industries

5-[1] • Restrictions on equity ratio due to Bumiputra policy
• Difficulty of labor management and selection of partners due to Bumiputra policy
• Visa and work permit acquisition (currently being relaxed)
• Restrictions on fund procurement (Rule 6:4 etc.)
• Insufficient preferential treatment to SMIs

[2] • Lack of trained Bumiputra
• Immature supporting industries

[3] • Changes in government policies, demands for exports, etc.
• Relatively high wages, small market and labor force

6 • Good infrastructure
• Abundant English speakers
• High quality of labor
• Export incentives
• Abundant resources

Indonesia

1-[1] Foreign investment is welcome, but there is strong nationalism
[2] Restrictions on equity ratio, restrictions on employment of foreigners, and other restrictions being gradually relaxed. List of encouraged investments (DSP) issued each year
[3]-(1) • In principle, foreign equity limited to up to 80 percent (application relaxed in December 1987 to allow maximum 95 percent)
• There is guideline limiting foreign equity to 49 percent for 15 years (five year extension possible)
(2) • With exception of key posts, changeover to Indonesians required
• Foreign affiliates have employment, education, and training obligations
• Prohibited in defense industries. Restrictions on infrastructure, media, distribution, etc.
• Restrictions on industries not on list of those for which foreign investment is given priority (DSP list), but exception is made for export oriented industries
• Restrictions on domestic business activities of foreign affiliated manufacturers (with exceptions)
• Value of investment limited in principle to minimum US$1 million (with exceptions)
[4]-(1) 1) Agricultural sector (food crops, seed improvement, etc.)
2) Industrial sector (basic chemicals, compressors, valves, machine tools, etc.)
3) Mining
4) Tourism
(2) • With reform of tax system in 1984, corporate taxes were reduced, but investment deductions and other preferential measures were abolished
Current incentives include
• Capital revenue stamp tax and two others
• Abatement of tariffs on facilities and raw materials for export of nonoil products

2-[1] • Foreign exchange in principle not controlled and remittances of profits and royalities allowed
• Re-remittance of investment funds in principle not possible

3-[1] 15 to 35 percent progressive tax
[2] 15 to 35 percent progressive tax
[3] Withheld tax —> 20 percent for dividends, interests, and royalities (reduced for Japan)

4-[1] 44 hours a week
[2] About US$193 (university grade office worker)
About US$55 (factory)
[3] Initial 1R 1.5 times, 2nd R 3.2 times
(1) Annual paid holidays 14 days, social insurance cost 15 percent for labor and 1 percent for management)
[4] US$0.7

5-[1] • Insufficient tax incentives for export companies
• High interest rates and difficulty in fund procurement (financing by state trading companies prohibited)
• Strong demands for conversion to local workers (restrictions on visas and work permits for foreigners, increased costs due to guidance for conversion to use of local products)
• Increased costs due to concentrated purchasing system of state trading companies etc.
• Hampering of business by prohibition of domestic sales activities

[2] • Intensified competition due to copying, smuggling, and continued imports
• High degree of job hopping/insufficient skilled labor
• Overprotection of laborers (high overtime allowances, difficulty in adjusting employment due to difficulty in firing workers)
• Sluggish market conditions

[3] • Insufficient infrastructure (telephone lines etc.)
• Poor morale of government workers and poor contact among government agencies
• Complicated changes in system and lack of consistency

6 • Large economic potential
• Inexpensive and abundant labor force
• Stronger competitiveness due to devaluation of currency
• Large domestic market
• Abundant resources

Philippines

1-[1] More positive approach taken to promotion of foreign investment through reorganization of incentives and conversion of debt to shares

[2] Establishment of new investment law in July 1987

[3]-(1) • Foreign equity limited basically to 40 percent in priority investment fields and to 30 percent in other fields (with exceptions)
• Equity of 40 percent or more allowed with export ratios of 70 percent or more

(2) Local employment encouraged, but foreigners may be employed as engineers and managers for period not over five years

(3) Prohibitted in defense industries, regional banks, etc. Limits on equity in banking, airlines, natural resource development, etc.

[4]-(1) According to priority investment plan revised this year

(2) • Introduction of tax holidays for corporate income taxe under new 1987 law (six year exemption) (extension possible)
• Deduction from assessed income of 50 percent of labor costs for increased employment
• Exemption for imported capital goods and raw materials for export use
• No restriction on number of years of use of imported production facilities
• Incentives for foreign national companies

2-[1] With approval by central bank, remittance of principle and interest possible at exchange rate at time of remittance

3-[1] 25 percent (assessed income of 100,000 pesos or less) to 35 percent (portion over 100,000 pesos)

[2] Fixed amount and 1 to 35 percent progressive assessment

[3] Withheld tax —> 30 percent for dividends, interests, and royalities (reduced for Japan)

4-[1] 44 to 48 hours a week

[2] About US$150 (university graduate office worker)
About US$130 (factory worker)

[3] Minimum 1.25 times

(1) Annual paid holidays 25 to 30 days, social insurance (3.5 percent burden for labor, 2.5 percent for management)

[4] Metropolitan region US$2.9

5-[1] • Difficulties in procuring parts and materials due to restrictions on use of foreign currency
• Insufficient incentives for exports etc. (high frees for debt capitalization)
• Difficulties in raising funds

[2] • Labor disputes
• Competition due to smuggling etc.
• Insufficient manpower of middle management level
• High energy costs
• Sluggish market and unstable sales channels

[3] • Unstable local political situation
• Poor infrastructure
• Lack of consistency in policies and poor administrative efficiency of government

6 • Abundant English speaking population
• Inexpensive and abundant labor force
• Stronger competition due to falling exchange rate

Table III.4-11 Trends in Investment in Thailand by Country and Region

(Unit: Million bahts)

	Value of BOI* applications				Value of BOI approvals				Start of operations of BOI projects			
	Cases	Value	Cases	Value	Cases	Value	Cases	Value	Cases	Value	Cases	Value
Japan	54	14,729	204	47,705	35	14,421	130	23,548	11	7,464	30	5,623
Taiwan	35	2,870	178	14,658	23	2,331	100	7,309	17	1,183	8	399
EC	42	16,292	110	33,131	35	6,901	51	6,901	17	1,616	15	1,113
U.S.	23	14,096	58	20,504	14	904	35	5,025	8	2,249	10	1,563
Hong Kong	17	2,006	47	7,044	19	1,966	31	3,335	5	188	11	2,467
Australia	7	587	24	7,388	6	411	11	793	3	682	4	158
Singapore	10	399	36	606	7	397	16	1,711	3	116	4	2,936
Malaysia	9	494	13	586	12	837	5	196	2	108	2	104
Total with others	204	41,700	638	151,200	148	25,211	367	54,400	68	15,970	86	12,160

Note: *BOI (Board of Investment)

Source: BOI, Investment News No. 4, March 1988

Table III.4-12 Top 10 Exports of Thailand

(Unit: Million bahts)

		1965		1970		1980		1985	
Total exports			12,941		14,772		133,197		193,365
Top 10 exports	1	Rice	33.5	Rice	17.0	Rice	14.6	Textiles	12.2
	2	Rubber	15.4	Rubber	15.1	Tapioca	11.2	Rice	11.6
	3	Tin	9.0	Maize	13.3	Rubber	9.3	Tapioca	7.7
	4	Jute	8.5	Tin	11.0	Tin	8.5	Rubber	7.0
	5	Maize	7.8	Tapioca	8.3	Textiles	7.2	ICs	4.3
	6	Tapioca	5.2	Jute	4.9	Maize	5.5	Maize	4.0
	7	Teak	1.6	Mang beans	1.7	ICs	4.6	Jewels	3.3
	8	Mang beans	0.9	Shrimp	1.5	Jewels	2.4	Sugar	3.2
	9	Kapok	0.9	Fluorite	1.5	Sugar	2.2	Tin	2.9
	10	Shrimp	0.8	Tabacco	1.3	Shrimp	1.5	Canned fish	2.7
Share of industrial goods/exports			5.0		15.5		32.3		49.4
Total imports			15,433		27,009		188,686		251,169

Source: Prepared from Trade Statistics of Thailand

Table III.4-13 Notifications of Direct Overseas Investment by Industry

(Unit: Cases, US$ million, %)

	FY1984			FY1985			FY1986			FY1987			Cumulative FY1951-87		
	Cases	Value	Share	Cases	Value	Share	Cases	Value	Share	Cases	Value	Share	Cases	Value	Share
Manufacturing industries															
Food	70	118	1.2	87	90	0.7	97	127	0.6	135	328	1.0	1,320	1,546	1.1
Textiles	47	85	0.8	40	28	0.2	45	63	0.3	94	206	0.6	1,314	2,353	1.7
Lumber and pulp	26	115	1.1	18	15	0.1	23	57	0.3	49	317	1.0	581	1,495	1.1
Chemicals	75	223	2.2	87	133	1.1	83	355	1.6	154	910	2.7	1,510	5,247	3.8
Ferrous and nonferrous metals	52	718	7.1	57	385	3.2	71	328	1.5	150	786	2.4	1,500	6,304	4.5
Machinery	80	185	1.8	107	352	2.9	144	626	2.8	190	687	2.1	1,690	3,284	2.4
Electrical machinery	146	409	4.0	133	513	4.2	212	987	4.4	322	2,421	7.3	2,306	7,155	5.1
Transport machinery	53	437	4.3	49	627	5.1	97	828	3.7	146	1,473	4.4	705	5,675	4.1
Others	128	215	2.1	140	208	1.7	209	435	1.9	288	703	2.1	2,449	2,980	2.1
Subtotal	677	2,505	24.7	718	2,352	19.3	981	3,806	17.1	1,528	7,832	23.5	13,375	36,038	25.9
Nonmanufacturing industries															
Agriculture and forestry	41	26	0.3	24	12	0.1	27	15	0.1	63	97	0.3	1,012	893	0.6
Fisheries and marine industry	30	24	0.2	42	42	0.3	46	52	0.2	35	44	0.1	652	538	0.4
Mining	20	484	4.8	32	598	4.9	36	669	3.0	58	511	1.5	1,023	12,936	9.3
Construction	70	112	1.1	59	94	0.8	45	250	1.1	53	87	0.3	867	1,134	0.8
Commerce	644	1,482	14.6	644	1,550	12.7	649	1,861	8.3	839	2,269	6.8	11,784	16,807	12.1
Banking and insurance	79	2,085	20.5	164	3,805	31.1	274	7,240	32.4	283	10,673	32.0	1,498	28,772	20.6
Services	216	681	6.7	225	665	5.4	290	1,560	7.0	432	2,780	8.3	2,913	9,026	6.5
Transportation	558	1,651	16.3	474	1,240	10.1	440	1,925	8.6	415	2,145	6.4	3,041	9,970	7.2
Real estate	85	430	4.2	149	1,207	9.9	332	3,997	17.9	798	5,428	16.3	1,646	11,958	8.6
Others	44	454	4.5	44	322	2.6	27	379	1.7	9	1,047	3.1	3,129	7,332	5.3
Subtotal	1,787	7,429	73.2	1,857	9,536	78.1	2,166	17,949	80.4	2,985	25,080	75.2	27,565	99,365	71.3
Branch installation and expansion	35	221	2.2	38	329	2.7	49	566	2.5	71	452	1.4	1,229	3,336	2.4
Real estate	—	—	—	—	—	—	—	—	—	—	—		2,538	595	0.4
Total	2,499	10,155	100.0	2,613	12,217	100.0	3,196	22,320	100.0	4,584	33,364	100.0	44,707	139,334	100.0

Source: Ministry of Finance

4-2-3. Problems in Investment Environment

In January 1988, a business dialogue was held among the Malaysian Ministry of Trade and Industry, MIDA, and the Japanese Chamber of Commerce and Industry (JACTIM) in Malaysia regarding problems in the Malaysian investment environment. At that time, the following problems were pointed out:

(1) Work Permits

There were two reforms made, in 1986 and 1987, on work permits for expatriate managers (see III.4-1-1). While there are conditions, when desired, up to 5 expatriates may be employed for key posts. However, the following are excluded:

- Companies with paid-up capital of foreigners of less than US$2 million
- Companies which were established before October 1986
- Companies in non-manufacturing industries

For these companies, it is still difficult to obtain work permits. Promotion of export industries requires building up supporting industries, however, and restrictions on these too should be relaxed so as to attract small- and medium-sized companies to serve as subcontractors and to facilitate activities in the software sector, such as transport, trade, and finance.

(2) Foreign Equity Holdings

Starting October 1986, Malaysia relaxed its restrictions on foreign equity holdings and allowed 100% investments. However, there is still a strong demand for localization of existing companies. To promote reinvestment and business expansion by existing companies, it would be desirable to have similar measures applied to additional investment just as with new investment.

(3) Royalties

According to the regulations of the Ministry of Trade and Industry, royalties are restricted to a usual 2% of net sales and 5% at the maximum. This is lower than in other countries.

By way of note, the royalties given in South Korea as as follows:

Royalties (%)	Cases applied to (%)
Less than 3	21.3
3 to 5	40.8
5 to 8	13.6
8 or more	24.3
	100

(4) Tax System

Malaysia's corporate taxes are, as shown in Table III.4-10, the highest among the Asian NIEs and the ASEAN nations. The excess profits tax was abolished from the fiscal 1988 tax year, but the corporate income tax and development tax together come to 45%. At the present time, it is reported that consideration is being made in the government of reduction of the tax rates, so there is a possibility of a tax reduction in the future.

There are full incentives for investment and export and these incentives are expected to be continued in the future.

(5) Financing

The Bank Negara made a partial revision of the Foreign Exchange Control Act in January 1987 with the aim of relaxing restrictions on loans to foreign-capital firms, but some private companies have expressed the opinion that this has resulted in a substantial toughening of restrictions, in particular with relation to fund procurement.

For example, approval of the Bank Negara is considered necessary for domestic loans by non-resident controlled companies. This was relaxed so as to exclude companies with capitals of less than M$10 million, as compared with the old M$500,000, but now all sorts of loans are covered, including trade financing and the NIF, so the limit can be easily exceeded and cases where application to the Bank Negara for approval is necessary are increasing.

Further, the amount of foreign loans for which approval of the Bank Negara is necessary was raised from M$100,000 to M$1 million, but letters of guarantee are now also included and thus the scope of the restrictions has been enlarged.

In addition, elimination of procedural difficulties in power, water, and telephone facilities and speeding-up of administrative processing are desired.

4-3. Recent Investment Behavior by Japanese Companies

(1) Rapid Rise in Overseas Production by Japanese Companies

According to statistics on the notifications of direct foreign investment to the Ministry of Finance for fiscal 1987 (April to March), announced May 31, direct investments overseas by Japanese companies rose 49.5% compared with the previous fiscal year to US$33,364 million. These statistics include investments in foreign subsidiaries where the Japanese companies hold 10% or more of the shares (securities acquisitions), financing (monetary loans), expenses for establishing branches, and other remittances.

Table III.4-13 shows the notifications for the past four years by industry. In fiscal 1987, investment in manufacturing industries rose 2.1 times over the previous year - a growth not seen in recent years, reflecting the full-scale shift to overseas production to cope with the appreciation in the value of the yen.

There were striking increases seen in investment in all manufacturing industries except for machinery, with investment in electrical equipment, accounting for the largest share, rising 2.5 times over the previous year. This was followed by 77.9% growth by transport machinery, the next largest sector. This speaks of the intense reorganization of production bases in these two industries. Combined, these two industries accounted for about half of investment value in the manufacturing industries.

Table III.4-14 shows the investments notified by region. While investment in Latin America stagnated, investment in Asia displayed high growth of 2.1 times the previous year. In particular, investment in China surged 5.4 times over the previous year to US$1,226 million - one quarter of the investment in Asia. In addition, strong growth was shown in investment in Hong Kong, rising 2.1 times over the previous year to US$1,072 million, in Indonesia, rising 2.1 times to US$545 million, and in Thailand, rising 2.0 times to US$250 million. There were a large number of investment projects in Thailand and Taiwan as compared with the values, showing the large number of small- and medium-sized investments.

No statistics have been released on the investments notified by country and by industry, but by way of reference, a look at the investments by region and industry (Table III.4-15) shows Asia becoming the next largest investment area after North America in terms of cumulative investment up to fiscal 1987. However, there has been a much larger number of investment projects in Asia than in other regions, with Japanese companies accounting for over half. The tendency for investments to be smaller in scale compared with those in North America is particularly noticable in the electrical equipment and

Table III.4-14 Notifications of Direct Overseas Investment by Main Countries and Regions

(Unit: Cases, US$ million, %)

Country or region	FY1986 Cases	FY1986 Value	FY1986 Share	FY1987 Cases	FY1987 Value	FY1987 Share	Cumulative FY1951-87 Cases	Cumulative FY1951-87 Value	Cumulative FY1951-87 Share
U.S.	1,232	10,165	45.5	1,816	14,704	44.1	15,573	50,159	36.0
Canada	52	276	1.2	69	653	2.0	835	2,604	1.9
North America total	1,284	10,441	46.8	1,885	15,357	46.0	16,408	52,763	37.9
Panama	373	2,401	10.8	312	2,305	6.9	3,059	11,146	8.0
Brazil	30	270	1.2	33	229	0.7	1,359	5,086	3.7
Cayman	32	930	4.2	41	1,197	3.6	133	2,476	1.8
Bahamas	18	792	3.5	9	734	2.2	80	1,981	1.4
Mexico	5	226	1.0	7	28	0.1	250	1,584	1.1
Peru	—	—	—	—	1	0.0	96	696	0.5
Bermuda	1	16	0.1	15	36	0.1	99	653	0.5
Antilles	2	66	0.3	3	199	0.6	39	575	0.4
Argentina	7	17	0.1	3	15	0.0	121	191	0.1
Chile	2	2	0.0	5	7	0.0	65	189	0.1
Puerto Rico	1	0	0.0	—	0	0.0	39	141	0.1
Venezuela	6	4	0.0	7	3	0.0	95	138	0.1
Others	13	13	0.1	15	62	0.2	495	333	0.2
Latin America total	490	4,737	21.2	450	4,816	14.4	5,930	25,189	18.1
Indonesia	46	250	1.1	67	545	1.6	1,494	9,218	6.6
Hong Kong	163	502	2.2	261	1,072	3.2	2,829	4,505	3.2
Singapore	85	302	1.4	182	494	1.5	2,042	3,065	2.2
South Korea	111	436	2.0	166	647	1.9	1,559	2,765	2.0
China	85	226	1.0	101	1,226	3.7	397	1,740	1.2
Malaysia	70	158	0.7	64	163	0.5	1,073	1,446	1.0
Taiwan	178	291	1.3	268	367	1.1	1,899	1,419	1.0
Thailand	58	124	0.6	192	250	0.7	1,303	1,134	0.8
Philippines	9	21	0.1	18	72	0.2	651	985	0.7
India	8	11	0.0	13	21	0.1	145	124	0.1
Brunei	1	1	0.0	1	0	0.0	31	108	0.1
Others	5	5	0.0	9	11	0.0	268	149	0.1
Asia total	819	2,327	10.4	1,342	4,868	14.6	13,691	26,658	19.1
Saudi Arabia and Kuwait	—	41	0.2	—	54	0.2	4	1,363	1.0
Iran	—	—	—	—	—	—	108	1,003	0.7
Saudi Arabia	1	0	0.0	1	0	0.0	99	361	0.3
United Arab Emirates	1	1	0.0	1	8	0.0	43	241	0.2
Others	2	2	0.0	1	0	0.0	70	111	0.1
Middle and Near East total	4	44	0.2	3	62	0.2	324	3,079	2.2
U.K.	142	984	4.4	178	2,473	7.4	1,368	6,598	4.7
Luxembourg	16	1,092	4.9	18	1,764	5.3	117	4,072	2.9
Netherlands	60	651	2.9	71	829	2.5	425	3,166	2.3
West Germany	59	210	0.9	50	403	1.2	867	1,955	1.4
France	52	152	0.7	99	330	1.0	841	1,300	0.9
Switzerland	7	91	0.4	22	224	0.7	242	977	0.7
Spain	15	86	0.4	24	283	0.8	187	883	0.6
Belgium	7	50	0.2	12	70	0.2	261	863	0.6
Ireland	4	72	0.3	5	58	0.2	67	390	0.3

Italy	18	23	0.1	26	59	0.2	182	262	0.2
Soviet Union	1	1	0.0	1	1	0.0	8	195	0.1
Others	23	57	0.3	31	82	0.2	296	386	0.3
Europe total	404	3,469	15.5	537	6,576	19.7	4,861	21,047	15.1
Libya	42	289	1.3	61	267	0.8	740	3,010	2.2
Zaire	—	—	—	—	—	—	56	282	0.2
Nigeria	1	0	0.0	—	—	—	89	157	0.1
Zambia	—	—	—	—	—	—	17	142	0.1
Others	7	20	0.1	5	5	0.0	324	360	0.3
Africa total	50	309	1.4	66	272	0.8	1,226	3,951	2.8
Australia	104	881	3.9	235	1,222	3.7	1,548	5,724	4.1
New Zealand	15	93	0.4	18	121	0.4	246	476	0.3
Papua New Guinea	4	1	0.0	6	6	0.0	196	206	0.1
North Mariannas	16	13	0.1	40	33	0.1	127	110	0.1
Others	6	4	0.0	2	31	0.1	150	131	0.1
Oceania total	145	992	4.4	301	1,413	4.2	2,267	6,647	4.8
Total	3,196	22,320	100.0	4,584	33,364	100.0	44,707	139,334	100.0

Note: Countries listed are those with cumulative investments of over US$100 million from 1951 to 1987.
Source: Ministry of Finance

Table III.4-15 Notifications of Direct Overseas Investment by Industry and Region (Cumulative at End of FY1987)

Industry	North America		Latin America		Asia		Middle and Near East		Europe		Africa		Oceania		Total	
	Cases	Value	Cases	Value	Cases	Value	Cases	Value	Cases	Value	Cases	Value	Cases	Value	Cases	Value
Manufacturing industries																
Food	500	724	124	207	555	425	1	0	52	112	29	8	58	68	1,320	1,546
Textiles	157	397	160	428	768	1,231	3	4	163	245	51	39	12	9	1,314	2,353
Lumber and pulp	112	952	42	200	326	212	—	—	4	2	1	0	96	128	581	1,495
Chemicals	304	1,499	125	562	903	1,585	21	1,124	127	347	10	19	20	111	1,510	5,247
Ferrous and nonferrous metals	235	1,650	92	1,764	709	2,064	10	59	319	276	27	127	108	364	1,500	6,304
Machinery	545	1,716	127	361	781	778	7	11	198	365	2	1	30	53	1,690	3,284
Electrical machinery	641	4,451	127	366	1,319	1,562	6	13	191	704	8	7	14	53	2,306	7,155
Transport machinery	199	2,221	65	995	357	1,028	6	4	50	797	6	17	22	613	705	5,675
Others	623	1,142	109	112	1,456	1,115	20	45	189	462	8	7	44	98	2,449	2,980
Subtotal	3,316	14,753	971	4,994	7,174	10,000	74	1,260	1,293	3,310	142	225	404	1,496	13,375	36,038
Nonmanufacturing industries																
Agriculture and forestry	177	260	233	186	369	262	4	2	8	5	13	7	208	171	1,012	893
Fisheries and marine industry	92	139	114	104	230	129	5	1	6	3	89	92	116	69	652	538
Mining	277	1,440	148	1,549	217	6,677	13	199	15	890	128	579	225	1,601	1,023	12,936
Construction	234	510	70	203	439	254	55	40	23	57	21	21	25	49	867	1,134
Commerce	6,061	9,727	578	1,397	2,452	1,482	60	19	2,071	3,374	26	7	537	801	11,784	16,807
Banking and insurance	312	9,149	272	6,913	312	1,447	20	93	497	10,508	23	22	62	640	1,498	28,772
Services	1,222	3,164	228	826	924	3,173	17	4	244	540	72	664	206	655	2,913	9,026
Transportation	190	188	2,264	7,690	171	393	6	2	56	93	326	1,532	28	73	3,041	9,970
Real estate	1,226	10,130	29	55	148	846	—	—	38	268	—	—	205	658	1,646	11,958
Others	952	2,151	870	1,203	522	1,622	32	87	234	1,056	353	798	166	415	3,129	7,332
Subtotal	10,743	36,858	4,806	20,126	5,784	16,286	212	448	3,192	16,794	1,051	3,722	1,778	5,131	27,565	99,365
Branch installation and expansion	344	667	54	45	571	336	37	1,369	196	905	12	1	15	12	1,229	3,336
Real estate	2,005	485	99	23	162	37	1	2	130	38	21	2	70	7	2,538	595
Total	16,408	52,763	5,930	25,189	13,691	26,658	324	3,079	4,861	21,047	1,226	3,951	2,267	6,647	44,707	139,334

Soruce: Ministry of Finance

transport machinery industries. A simple comparison by dividing the value by the number of investments shows the average investment in the electrical equipment industry being US$6.9 million in North America and US$1.2 million in Asia and in the transport machinery industry being US$11.2 million in North America and US$2.8 million in Asia.

(2) Reevaluation Being Given to Investment in Asia

Japanese companies began investing very strongly overseas starting in fiscal 1986 due, of course, primarily to the skyrocketing value of the yen since the G5 Conference of September 1985 and the accompanying changes in the economic environment.

In a questionnaire survey run by the Economic Planning Agency on the overseas production by Japanese companies ("Kokusaiteki senryaku o susumeru kigyokodo" Increased International Strategies in Corporate Behavior, 1987), a comparison was made of the factors inducing direct overseas investment by Japanese companies in the past 3 years (1984 to 1986) and the coming 3 years (1987 to 1989) (Table III.4-16). Among the factors given behind direct overseas investment in the manufacturing industries, "reduction of export competitiveness due to the yen appreciation" was notable for having risen from the 20.3% of the past three years to 48.9%. In addition, factors which increased in importance were "entry by customers", up 10 points, "exports to Japan", up 8.6 points, and "low labor costs", up 8 points.

Among the factors given for investment in the advanced nations, "expansion of demand", "intensity of information and technology", and "import restrictions" grew in importance, while in investment in the developing nations, "low labor costs" was important, reflecting the recent corporate behavior pattern of investing in the advanced nations to secure markets and in the developing countries with the aim of export production

In the 1980s, Japanese companies invested increasingly in the advanced countries as a means of coping with protectionism there, but tended to slow down in investment in the developing countries. The rapid appreciation of the yen, however, has brought about a new boom in investment in Asia.

Table III.4-17 shows the main investment regions of Japanese companies in the past 3 years and the coming 3 years. Investment in the manufacturing industries in the coming 3 years will be high in North America and Europe, the main markets, just as in the past, but there will also be striking growth in investment in the Asian region, rising 8.3 points in the Asian NIEs, 5 points in China, and 2.6 points in other Asian economies. This trend will become particularly apparent in processing industries such as transport equipment, electrical equipment, and electronic equipment.

Table III.4-16 Inducement for Direct Overseas Investment

(Unit: Companies, %)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Past three years												
All industries	432	66.9	17.8	14.6	11.6	26.9	9.0	19.4	33.3	6.0	13.7	17.6
Manufacturing	295	68.8	22.0	16.9	13.6	32.9	10.2	21.0	33.6	7.5	11.2	20.3
Materials type	49	61.2	16.3	18.4	6.1	20.4	18.4	34.7	44.9	6.1	22.4	30.6
Processing type	168	76.8	29.2	19.6	17.3	39.3	8.9	16.1	29.8	8.9	6.0	17.3
Others	78	56.4	10.3	10.3	10.3	26.9	7.7	23.1	34.6	5.1	15.4	20.5
Nonmanufacturing	137	62.8	8.8	9.5	7.3	13.9	6.6	16.1	32.8	2.9	19.0	11.7
Future three years												
All industries	367	59.4	19.9	22.1	11.2	34.9	12.0	23.4	27.8	11.2	20.2	39.0
Manufacturing	246	60.6	23.9	26.9	13.3	40.9	13.6	25.4	26.5	13.6	20.8	48.9
Materials type	50	62.0	24.0	36.0	14.0	26.0	14.0	32.0	30.0	8.0	20.0	50.0
Processing type	143	61.5	32.9	30.1	13.3	45.5	14.7	18.9	23.8	18.2	18.2	53.8
Others	71	57.7	5.6	14.1	12.7	42.3	11.3	33.8	29.6	8.5	26.8	38.0
Nonmanufacturing	103	56.3	9.7	9.7	5.8	19.4	7.8	18.4	31.1	4.9	18.4	13.6

(1) No. of companies responding
(2) Expansion of demand in host country
(3) Import restrictions of host country
(4) Move by customer of Japanese products to host country
(5) Preferential measures in host country
(6) Low labor cost in host country
(7) Ease of securing labor in host country
(8) Low price and ease of procuring raw materials in host country
(9) Intensity of information and technology in host country
(10) Less restrictions on exports from host country
(11) Export from host country to Japan
(12) Fall in competitiveness of exports from Japan due to yen appreciation

Note: 1. Figures cover only copmanies making direct overseas investment in past three years or scheduling to do so in next three years.
2. Multiple responses included.

Source: "Kokusaiteki Senryaku o susumeru Kigyo Kodo"
Economic Planning Agency

At the start, when it first became clear that the appreciation in the value of the yen was here to stay, most of the activity in investment by Japanese companies was by companies already possessing bases in Asian NIEs with good basic conditions as investment environments. In particular, investment surged in South Korea and Taiwan, which had relatively broad industrial bases, a certain level of technical expertise, and potential growth in the domestic markets. Further, there was a rush of investments in Singapore too, where there was a stronger inclination toward service industries and slower investment in the manufacturing industries due to the high operating costs, by electrical and electronic equipment companies already present there which had a fixed foundation and hurried to cope with the new situation. In Taiwan and Singapore, where most of the investments were in the form of subsidiaries, there was an increased trend toward exports to third country markets such as the U.S. in place of exports directly by Japan.

In 1985 and 1986, the slowdown in economic growth in the U.S., upon which the ASEAN countries relied highly, and the fall in prices of crude oil and other primary products created recession conditions in the ASEAN countries. For this reason, these countries became even more serious about exports of manufactured goods than before and came to look more toward foreign investment as a means toward that end.

In 1986, they began relaxing their restrictions on foreign investment and increasing incentives, thus displaying a stronger stance toward promotion of foreign investment.

In the Asian NIEs, business heated up. Along with this, labor became short and wages soared. The surplus in trade with the U.S. also rose, thus necessitating a realignment of currencies. In this way, the overall environment deteriorated. Therefore, Japanese companies began turning to the ASEAN nations in the latter half of 1986 for their investments. As a result, investment by Japanese companies, on an approval basis as seen from the host side, in 1987 rose 2.1 fold over the previous year in Thailand, four fold in Malaysia, 50% in Indonesia, and 29.9% in the Philippines. This trend continued into 1988. Interest has further risen in China as companies search for even more competitive production bases.

Table III.4-17 Countries of Direct Overseas Investment (Past Three Years and Future Three Years)

(Unit: Companies, %)

	No. of companies responding	North America	Latin America	Western Europe	Soviet Union and Eastern Europe	China	Asian NICs	Other Asia	Middle East	Africa	Oceania
Past three years											
All industries	436	63.8	16.1	34.2	0.9	8.9	47.0	27.1	4.6	3.2	15.4
By industry											
Manufacturing	298	65.1	15.4	37.6	1.0	5.4	48.3	21.8	3.4	2.3	12.8
Materials type	50	68.0	14.0	26.0	2.0	14.0	44.0	26.0	8.0	4.0	14.0
Processing type	170	67.6	16.5	45.9	0.6	3.5	50.6	19.4	2.9	2.4	12.4
Others	78	57.7	14.1	26.9	1.3	3.8	46.2	24.4	1.3	1.3	12.8
Nonmanufacturing	138	60.9	17.4	26.8	0.7	16.7	44.2	38.4	7.2	5.1	21.0
Future three years											
All industries	293	66.6	13.3	39.2	2.4	15.0	55.3	29.7	2.4	3.1	12.3
By industry											
Manufacturing	202	68.3	12.4	41.1	0.5	10.4	59.9	26.2	0.5	1.5	5.0
Materials type	31	74.2	6.5	22.6	—	12.9	54.8	25.8	3.2	3.2	6.5
Processing type	119	68.1	15.1	50.4	—	10.1	67.2	25.2	—	1.7	5.9
Others	52	65.4	9.6	30.8	1.9	9.6	46.2	28.8	—	—	1.9
Nonmanufacturing	91	62.6	15.4	35.2	6.6	25.3	45.1	37.4	6.6	6.6	28.6

Note: 1. Figures cover only copmanies making direct overseas investment in past three years or scheduling to do so in next three years.
2. Multiple responses included.

(3) Trends in ASEAN

JETRO ran a questionnaire survey on the effects of the yen appreciation on Japanese affiliated manufacturing companies in ASEAN from August to October 1987. From this survey, several facts were found.

The number of questionnaires dispatched and recovered are shown below:

Country	No. sent out	No. recovered	Recovery rate (%)
Malaysia	266	91	34.2
Thailand	224	117	52.2
Singapore	280	153	54.6
Indonesia	159	110	69.2
Philipines	59	23	39.0

First, while there were differences with each country, development of a domestic market became less of a reason for investment when comparing the investments before and after September 1985 (see Table III.4-18). (In Indonesia and the Philippines, however, there was only 1 investment each after September 1985, extremely low figures, so the sampling cannot be said to have been suitable). In particular, companies investing in Thailand were more export-oriented. In Malaysia, there was a rise in companies considering exports to third country markets other than Japan, and in Singapore, a rise in companies considering export to Japan.

Along with the globalization of production, Japanese production of low price range products is being shifted overseas and production in Japan is being suspended, with Japanese firms thus increasingly switching to imports from their own overseas subsidiaries. Further, this trend has reached medium price range products as well. A clear division is occurring within corporate groups, with products being divided up according to the technical level and quality of labor of the overseas subsidiaries.

According to the results of a survey announced June 2 by the Japanese Ministry of International Trade and Industry, such "reverse exports" by Japanese companies are estimated to have increased 53.3% from the previous fiscal year and reach US$2,530 million. By industry, household appliances accounted for an overwhelmingly large 32% of the total, with almost all fans, refrigerators, and electrical kotatsu already being reverse imported.

Table III.4-18 Reason for Investment
(Timing of investment [1] before September 1985 and [2] after September 1985)

		Malaysia	Thailand	Singapore	Indonesia	Philippines
Export to third country markets other than Japan	[1]	29.3	14.3	42.8	0.9	20.8
	[2]	36.4	39.1	26.7	—	—
To secure share of local domestic market	[1]	38.7	62.7	40.7	88.5	50.0
	[2]	22.7	21.7	40.0	100.0	100.0
Export to Japan	[1]	17.3	19.0	9.7	10.6	29.2
	[2]	9.1	39.2	16.7	—	—
Others	[1]	14.7	4.0	6.8	—	—
	[2]	31.8	0	16.6	—	—

Note: Multiple responses included.

By region, the Asian NIEs accounted for US$1,340 million, the U.S. for US$260 million, and the ASEAN nations other than Singapore for US$230 million. In fiscal 1988, the growth of the ASEAN nations has been striking.

Next, a look at the effects of the yen appreciation on exports of local affiliates (Table III.4-19) shows an increase of about half in all countries with a large percentage of the companies also reporting large growth.

The main pattern of production in ASEAN is to import main parts and materials from Japan for processing, but the appreciation in the value of the yen has led to soaring prices of components and materals and companies are now searching for means to reduce costs. The main means is now to shift the procurement from Japan so as to retrieve price competitiveness.

Table III.4-19 Effects of Yen Appreciation on Exports (After G5)

(Unit: %)

	Malaysia	Thailand	Singapore	Indonesia	Philippines
Large increase	41.9	29.3	32.8	54.3	23.1
Some increase	9.3	28.0	19.4	17.1	15.4
No change	2.3	38.7	31.3	25.7	53.8
Decrease	2.3	4.0	2.2	2.9	—
No response	44.2	—	14.3	—	7.7
	100.0	100.0	100.0	100.0	100.0

Table III.4-20 shows how the procurement has changed since G5. Close to 70% of the companies are switching procurement to countries other than Japan and converting to domestic procurement, including in-house manufacture.

In Singapore and Malaysia, where the ratio of production of electrical and electronic equipment is high, since the companies mostly assemble components, there are many areas where procurement can be shifted to the Asian NIEs etc., so there were many companies indicating "procurement other than from Japan". However, with the appreciation in the value of the yen, interest is rising in domestic procurement. Malaysia, Thailand, and Singapore are pushing forward with promotion of supporting industries based on small- and medium-sized companies, which ties in with corporate needs, and thus large growth in local procurement may be expected in the future.

Table III.4-20 Measures to Cope with Yen Appreciation (Production)

(Unit: %)

	Malaysia	Thailand	Singapore	Indonesia	Philippines
Shift of procurement of parts and materials from Japan to other countries	41.0	26.9	35.2	21.1	33.0
Promotion of in-house production of parts and materials	12.8	21.9	11.7	21.9	14.0
Promotion of domestic procurement of parts and materials	19.2	22.7	24.1	27.3	10.0
No change in parts procurement	14.2	25.2	21.0	25.8	29.0
Others	12.8	3.3	8.0	3.9	14.0
	100.0	100.0	100.0	100.0	100.0

Table III.4-21 shows the state of local procurement in each country as of August 1987. Only Thailand showed a local content rate of over 50%. In Thailand and the Philippines, however, much of this was due to the contribution of the food processing industries. In the Philippines, all of the companies responding they had 100% local content rates were food processors. The local procurement rate in Malaysia is lower than that of the other ASEAN nations. In particular, in Singapore, which is the same as Malaysia in having a high ratio of processing and assembly of electrical and electronic equipment in the manufacturing industries, the local procurement rate exceeded 50% in 47.1% of the companies, compared with which the figure in Malaysia was a low 28.6%.

Table III.4-21 Local Procurement Rate of Parts and Materials (August 1987)

(Unit: %)

	Malaysia	Thailand	Singapore	Indonesia	Philippines
100%	4.8	11.6	6.3	2.9	9.1
70% or more	13.1	20.5	20.4	25.3	13.6
50 to 69%	10.7	22.3	20.4	19.4	—
10 to 49%	34.5	27.7	29.6	32.0	40.9
Less than 10%	23.8	14.3	21.8	20.4	36.4
No response	13.1	3.6	1.5	—	—
	100.0	100.0	100.0	100.0	100.0

Table III.4-22 shows how the local procurement rates shown in Table III.4-21 have changed compared with 1985. With the exception of the Philippines, 40 to 60% of the companies responded that their local-content rates rose considerably or rose, thus showing the effort of the companies to raise local content.

Along with the start of production of manufacturers of household appliance sets etc. and their production expansion, demand in the ASEAN nations is rising. To deal with this, there is a continuing second wave of investment by subcontractors and parts makers for these set manufacturers. As of August 1987, many of these companies had not yet started actual production, so the local procurement rates should further rise in the future.

Table III.4-22 Changes in Local Procurement Rate (Compared with 1985)

(Unit: %)

	Malaysia	Thailand	Singapore	Indonesia	Philippines
Large increase	12.1	8.5	12.3	15.5	—
Increase	43.1	33.0	43.4	45.6	25.0
No change	41.4	56.6	42.7	37.0	75.0
Decrease	3.4	1.9	1.6	1.9	—
	100.0	100.0	100.0	100.0	100.0

5. State of Application of Industrial Promotion Policies in Selected Industries

5-1. Questionnaire Survey

To supplement the company interviews in the field survey, a questionnaire survey was run from February to March 1988 on local manufacturers in the 4 selected industries. The number of questionnaires dispatched and recovered, by industry, are shown below. (Note that a list of companies to which questionnaires were sent is provided in Annex 4)

Industry	No. sent out	No. recovered	Recovery rate (%)
Moulds and dies	44	9	20.5
Automotive Metal parts	25	10	40
Chinaware	7	1	14.3
Glassware	4	2	50

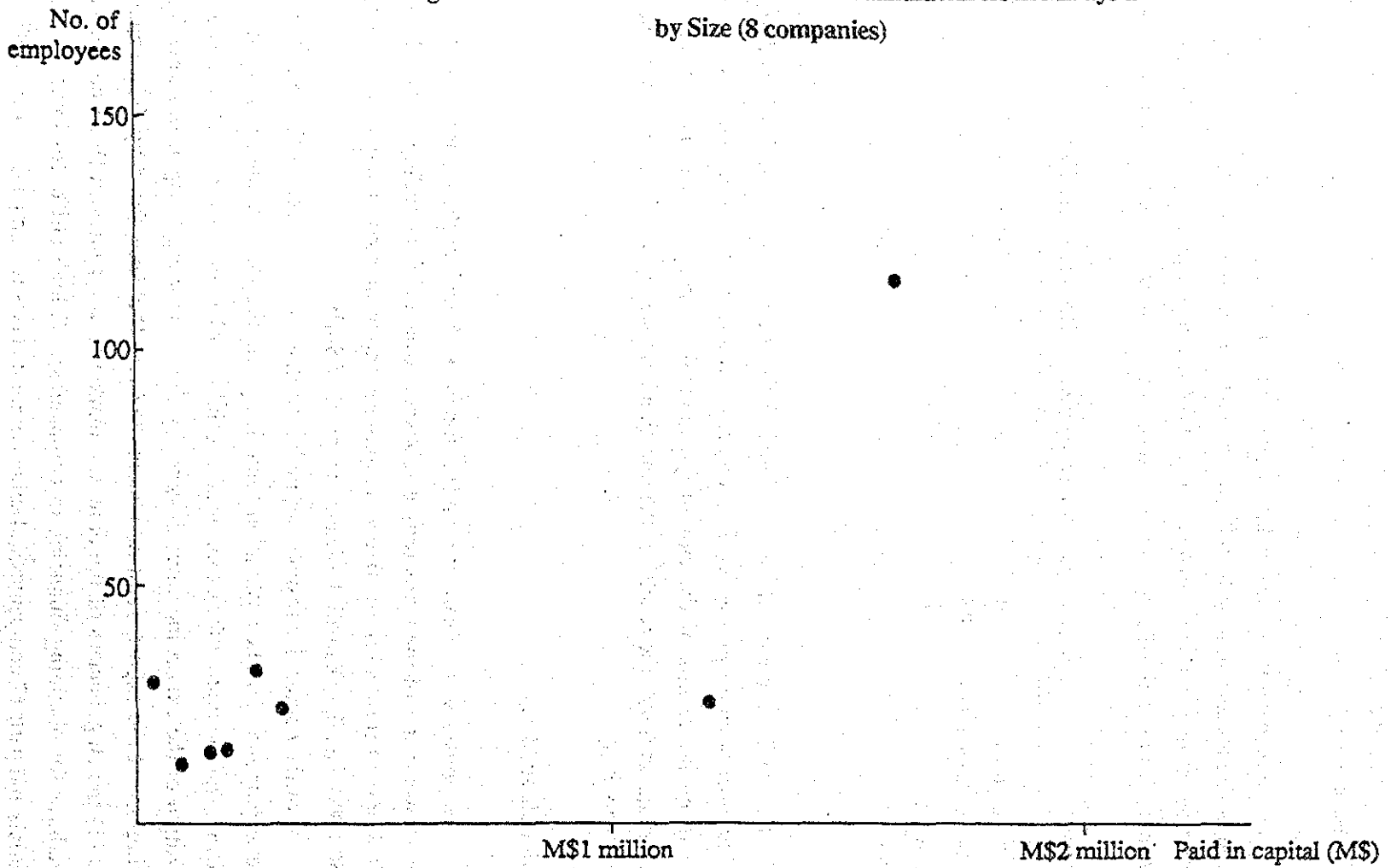
Due to the limited number of related manufacturers in each industry and to the small number of companies which gave responses, a certain amount of care must be taken when using the results of the current questionnaire survey as material for analysis. Bearing this in mind, the results of the questionnaire survey will be summarized below (see ANNEX-5).

(1) Moulds and Dies

Responses were obtained from 9 companies. A look at the responses of these 9 firms shows that 7 of the firms were established after 1971, including 4 from 1976 to 1980. 8 of the firms had from 10 to 49 employees and 6 had paid-up capitals of less than M$500,000, i.e., they had all the features typical of SMIs.

4 of the companies responding indicated that they were export their products in some way or another. The destination countries given included Singapore, Australia, and the U.S. The motivation for export was "receipt of orders from overseas." A look at the utilization of the export incentive systems by the 4 exporting companies shows just 1 making use of the export credit refinancing (ECR). Problems faced by the companies were (1) the sluggishness of the domestic market (6 companies), (2) the complicated procedures for obtaining financing (5 companies), (3) high tariffs for imports of raw materials and parts (7 companies), (4) high corporate taxes (6 companies), (5) insufficient

Fig. III 5-1 Distribution of Mould and Die Manufacturers in Malaysia by Size (8 companies)



Note: Distribution of eight manufacturers responding to questions on both number of employees and paid in capital.

skilled labor (8 companies), and (6) competition on the domestic market (5 companies). In particular, the fact that 7 companies mentioned problems with high customs duties on imports of materials and partssuggests that these indigenous manufacturers are using imported materials and parts in some form or another. Note that all of the 5 companies which responded that they were importing raw materials from abroad indicated that tariffs were high. This suggests the need to reconsider the import duties on raw materials for the production of molds and dies. Further, the mold and die manufacturers indicated they suffered from problems of insufficient skilled labor, suggesting a high need in the private sector for skilled artisans in molds and dies. An issue for the future will be how to supply sufficient skilled labor in the mold and die industry.

Many of the responding companies indicated a desire for joint ventures or technical tie-ups. 7 companies responded they were interested in ventures and 8 in technical tie-ups. The desired partner nation mentioned was Japan (6 companies) and the expectations vis-a-vis the partner were for access to overseas markets already held by the partner (5 companies) and technical transfers (4 companies).

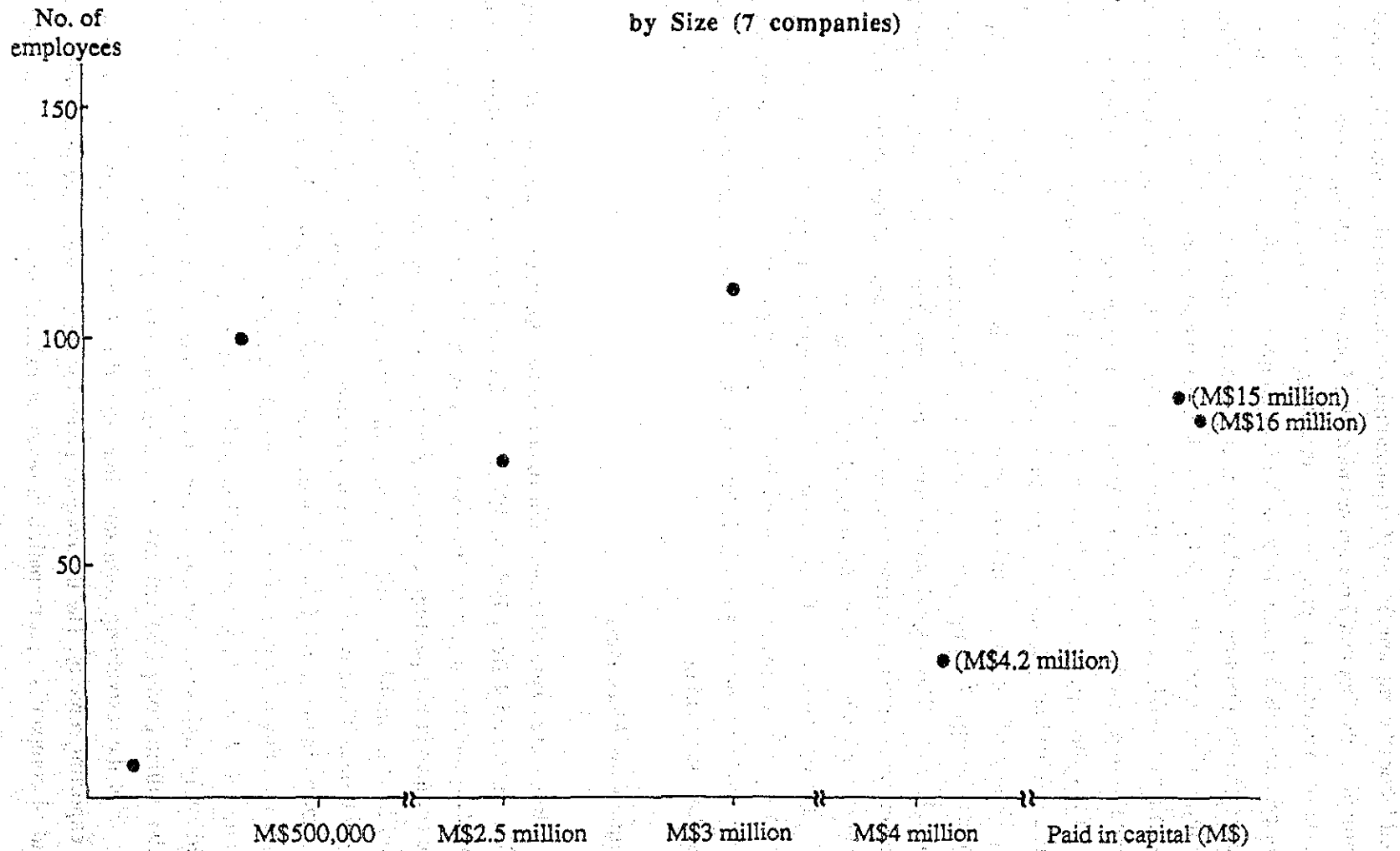
The operating rate of the 7 companies responding was 50 to 75% for 3 companies, over 75% for 3 companies, and under 50% for one firm. Most of the companies were thus seen to be maintaining relatively high operating rates considering the depressed state of the domestic market.

(2) Automotive Metal Parts

Responses were obtained from 10 companies. Of these, 5 were established from 1976 to 1980 and 4 from 1981 to 1985, i.e., the majority were set up after the mid-1970s. This matches the process of development of the Malaysian automobile industry. 6 of the companies had paid-up capitals of over M$250,000 and 6 had over 50 employees, so unlike the mold and die industry, the companies were mostly large-scale manufacturers. There were 2 small-scale manufacturers with less than 10 employees, so the variation in the sizes of the businesses was large. As to annual turnover, 3 of the 8 firms responding indicated turnovers of over M$10 million, 3 of M$1 million to M$10 million, and 2 less than M$1 million, indicating many of the companies enjoyed considerably high sales. By way of note, the average annual sales of the 8 firms was M$6.94 million (compared with M$1.11 million for molds and dies).

7 of the responding companies indicated that they were exporting. Of these, 6 were exporting directly. The motivations given for exports were receipt of orders from abroad (4 companies), participation in overseas exhibitions (2 companies), etc. As to

Fig.III.5-2 Distribution of Auto Part Manufacturers in Malaysia by Size (7 companies)



Note: Distribution of seven manufacturers responding to questions on both number of employees and paid in capital.

export promotion programs, positive use was being made of overseas market surveys (3 companies) and participation in exhibitions (2 companies) to open up overseas markets.

7 companies were obtaining materials from abroad. Of these, 4 considered the import duties on materials to be too high. The remaining 3 had already obtained pioneer status and thus were receiving tax exemptions on imports of raw materials.

Export incentives were being used by 3 companies. In other words, 3 of the 7 export companies were using the incentives. The incentives used were abatement of the adjusted income (2 companies), the industrial building allowance (IBA) (1 company), and the ECR (1 company).

Problems given in management were (1) the insufficiency of the domestic market (7 companies), (2) insufficient collateral for financing (3 companies), (3) high import duties on raw materials (5 companies), (4) insufficient experience with in-house training (4 companies), and (5) competition with other companies (5 companies).

This shows that the domestic market is stagnating and that competition is fierce. In the mold and die industry, most of the companies indicated problems with insufficient skilled labor, but only 3 companies in the auto parts industry pointed to a similar problem. Rather, there were more companies which indicated insufficient experience with in-house training in the auto parts industry.

There were only 3 companies interested in joint ventures and 4 in technical transfers. Expectations on the partners were acess to overseas markets (4 companies), technical transfers (4 companies), and OJT (3 companies).

The operating rates given were 50 to 75% for 4 companies, over 75% for 2 companies, and under 50% for 2 companies, mostly low rates reflecting the slump in domestic demand.

(4) Glassware

First of all, there are only a few local glassware manufacturers and of the 4 to which questionnaires were sent, responses were obtained from only 2. Both these companies had paid-up capitals of over M$5 million and over 250 employees, so were large-scale manufacturers. One was a Japanese affiliate.

Both the companies were engaged in direct exports and were making use of the export incentives.

(5) Chinaware

Questionnaires were sent to 7 local manufacturers, but only 1 responded. This firm was engaged in exports, but was not using the export incentives. It was an SMI with 40 employees and a paid-up capital of M$200,000 and was established in 1984, making it a relatively new firm. This company was interested in joint ventures or technical tie-ups.

5-2. Summary of Results of Telephone Interviews

Telephone interviews were made in Malaysia in the middle of March 1988 to check on the state of familiarity of local Malaysian companies with the various incentive systems and the state of use thereof. The study covered 9 auto parts manufacturers, 3 mold and die manufacturers, 3 glassware manufacturers, and 3 ceramic ware manufacturers, a total of 18 firms in all. (See ANNEX-6)

First, the export incentives mentioned as being known were (1) the export credit refinancing (ECR) (15 companies), (2) abatement of income (9 companies, (3) double deduction of export credit insurance premiums (9 companies), (4) double deduction of export promotion costs (12 companies), and (5) tariff drawbacks (8 companies). The most widely known were the export credit refinancing (ECR) system and the double deductions for export promotion costs.

Actual use was being made of (5) the tariff drawback system (6 companies), (3) the double deduction of export credit insurance premiums (4 companies), (1) the ECR (4 companies), (2) the income abatement (3 companies), and (4) the double deduction of export promotion costs (2 companies), with relatively frequent use being made of the tariff drawback system. In general, however, systems were known but were not being used.

A look at this from the standpoint of financing shows companies being familiar with (1) the Malaysian Industrial Development Finance (MIDF) (18 companies), (2) the New Investment Fund (NIF) (17 companies), (3) the Credit Guarantee Corporation (CGC) (11 companies), and (4) the Malaysian Export Credit Insurance Berhad (MECIB) (5 companies). That is, most of the companies knew of the MIDF and NIF, which provide capital loans to the manufacturing industries, while only five companies knew of the MECIB, which is export related.

As to actual use of the financial systems, 16 companies were using commercial banks, 6 the MIDF, and 3 the NIF. This indicates a low degree of use of institutional financing despite a high degree of familiarity with the same. No use was being made of MECIB.

As to tax incentives, there were 12 companies which knew about the accelerated depreciation system, 12 about tax holidays, and 15 about deduction of investment taxes,

indicating relatively wide familiarity. Actual use was being made by 4 to 6 companies for each.

As to government related institutions, 14 companies knew of the Malaysian Export Center (MEXPO), 15 of the National Productivity Center (NPC), 18 of SIRM, and 18 of the State Economic Development Corporation (SEDC), again indicating good familiarity. 6 companies were using MEXPO, 5 the NPC, 8 SIRIM, and 7 the SEDC. Again, only half or so of the companies familiar with the organizations were making use of them.

A question was raised on whether the companies were participating in any industrial associations or groups. In response, 14 companies indicated they were participating in the Federation of Malaysian Manufacturers (FMM) (8 auto parts companies, 3 glassware companies, 2 ceramicware companies, and 1 mold and die company). In addition, 1 company indicated it was a member of the Malaysian Automotive Component Parts Manufacturers Association (MACPMA) and 1 that it was a member of the Chinese Chamber of Commerce. This indicates that the FMM has become the most important organization for private Malaysian companies. Reasons given for becoming members included, on the corporate side, the ability to obtain information, the ability to participate in exhibitions, the ability to explain problems in government policies or business to the government through the FMM, the ability to introduce one's own products, etc. Of the 18 companies covered by the telephone interviews, 16 were members of the FMM or other industrial organizations. This indicates that these companies were large in scale to a certain degree and were very interested in government policies etc. Therefore, it may be concluded that there is a high proportion of companies knowing relatively much about the export incentives and industrial promotion organizations.

This suggests that, in the future, when the government publicizes its industrial promotion policies to individual private companies, it would be effective to a certain degree to make use of the FMM and related organizations.