THE FDI ATTRACTING POLICY OF MALAYSIA TOWARDS GREEN GROWTH AND SOME SUGGESTIONS FOR VIETNAM

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Abstract

The goal of the Malaysian Government to attract FDI is to achieve sustainable development. In order to achieve this goal, FDI must first be adjusted and planned into the green economy. The task of the Malaysian Government is to provide policies and ensure that policies are enforced to really encourage FDI to follow this roadmap. A number of measures have been introduced by the Government such as tax incentives, finance, investment in transport infrastructure, encouraging private investment in clean energy projects… These are the bases to attract the FDI to clean technology, green growth, and sustainable economic development. However, there are still many challenges that the Malaysian government will have to face in the near future. The paper focuses on green growth and Malaysian government's policy of attracting FDI towards green growth. Through Malaysia's experience, the author gives some suggestions for the Vietnamese government to attract foreign direct investment, creating opportunities for green growth

Keywords: Green growth, FDI, The FDI attracting policy, sustainable development

Date of receipt: ; **Date of revision:** ; **Date of approval:**

1. FDI and green growth

Green growth, or sustainable growth, is no longer an unfamiliar concept for most countries in the ASEAN region, including Malaysia. Economic development policies, including the policies to attract FDI, have also changed a lot towards the goal of green growth. The old approach to FDI attraction of Malaysia in the past, such as "growth first, environment later" (OECD, 2013) is outdated, countries are now aware that FDI is not a remedy. It can have adverse effects on the environment, further more affecting the sustainable development of present and future generations. As a result, the issue of sustainable growth, or green growth, is getting hotter when it comes to FDI attraction in many countries.

Green growth is defined by the OECD as "growth promoting and economic developing in the case that ensuring the natural resources continue to provide environmental resources and services for our lives. Thus, it is necessary to promote investment reform, and that will strengthen and sustain growth and create new economic opportunities "(OECD, 2011).

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Green growth is seen as a tool for achieving a sustainable economic growth target. According to the OECD (2011), indicators for green growth are divided into four groups, including: (i) environmental and production and consumption indicators; (ii) Natural resource base index; (iii) Environmental index and quality of life; (iv) Indicators of policy and economic opportunity.

To ensure these indicators, countries should pay attention to many different issues. In addition, the elements of the socio-economic context and growth characteristics will also impact on green growth in the countries.

Table 1. The matters relating to green growth and its index

Index	**The matters**
(i) Indicators of the environment and production resources and consumption.	Emissions and energy Production resources: raw materials, nutrients, water Other resources
(ii) Natural resource base index	Renewable resources: water, forestry, fisheries Resources not renewable: mineral resources Biodiversity and ecosystems
(iii) Environmental index and quality of life	Health and environmental hazards Services and environmental resources
(iv) Indicators of policy and economic opportunity	Technology and innovation Environmental products and services International Finance Price and transfer Skills and training Management approach and regulations
(v) Socio-economic context and growth characteristics	Growth and economic restructure Production and trade Labor market, education and income Demographic models - sociology

Source: OECD, 2011

To achieve the above contents, the economy will reach the statement of sustainable development. However, to achieve this goal it is not easy, countries need to have effective, reasonable and appropriate economic development plans, strategies and policies that are consistent with current conditions of the economies. In particular, policies to attract FDI should also be adjusted to the target of the economies.

Othman J et al (2014) have demonstrated that FDI attraction can be an appropriate strategy for generating future economic growth and enhancing the country's productive capacity for development. FDI has a positive impact on real savings, thereby increasing green GDP. However, this is only possible by maintaining a certain macroeconomic conditions. This means that continuous improvement of macroeconomic conditions, including socio-economic and social conditions, will be imperative for sustainable economic growth. The reform of policies related to FDI is also belonging to the reform of macroeconomic policy generally.

2. The policy for promoting the green growth of Malaysia

Green growth policy is being implemented to concretize the Malaysian government's sustainable development goals. Since the 1970s, in the New Economic Policy, the Malaysian government has embarked on a sustainable development path, first of all aiming at poverty reduction and restructuring of social imbalance.

Economic reforms aimed at sustainable development are often accompanied by a greening of the Malaysian economy. In the early 1970s, the process began with regulations to manage pollution from the palm oil industry. Since 1976, the importance of protecting the environment in Malaysia's sustainable economic development has been emphasized in five-year development plans in subsequent phases. From the second half of 2000, systematic efforts were made by the Malaysian government through the promulgation of economic reforms. (Economic Planning Unit, Malaysia Prime Minister's Department, 2013).

Economic reforms are usually the result of an advisory process of the National Economic Advisory Committee under the Prime Minister for a long time before incorporation into the National Plan or New Economic Model (NEM) of Malaysia, to create conditions for businesses time to adapt and adjust. The Malaysian government hopes to create a dynamic generation of businesses that are competitive in the global marketplace (OECD, 2013).

In 2009, the Malaysian government embarked on extensive reform of its economic policies to cope with the 2008 crisis, which reduced restrictions on FDI to liberalize capital inflows in order to attract foreign capital for economic development. Also in 2009, the Department of Energy, Green Technology and Water was formed to replace the Department of Energy, Water and Communications. This demonstrates the determination of the Government of Malaysia to implement economic reforms to achieve sustainable development in the future (Ministry of Energy, Green Technology and Water, 2011).

In the 2012, in the Environment Performance Index (EPI), Malaysia ranks 25th out of 135 countries, leading the region in ASEAN and third in the Asia- Pacific Ocean after New Zealand and Japan (NRE, 2012).

This result is due to a series of Malaysian government regulations aimed at green growth. These regulations include: the Five Energy Policy (2001), the National Environmental Policy (2002), the National Biofuels Policy (2006), the Solid Waste Management Act (2007), Energy Efficiency Management (2008), National Green Technology Policy (2009), National Policy on Climate Change (2009), Economic Transformation Program (2010), National Policy Renewable Energy and Action Plan (2010), Malaysia's Tenth Five-Year Plan (2011-2015) (OECD, 2013)

The National Green Technology Policy (2009) is a key to achieving green growth. The Malaysian government emphasizes that "green technology will be a key factor for accelerating economic growth and promoting sustainable development." Under this policy, the energy sector must "seek to achieve energy independence and promote efficient use of energy" (Ministry of Energy, Green Technology and Water, 2011).

In pursuit of this policy, the Malaysian Government emphasizes the importance of attracting foreign investment, domestic investment in technology, and promoting the involvement of local industries.

To promote green growth (or low carbon growth), in the National Green Technology Policy, the Government of Malaysia focuses on four priority objectives: Energy, Transport, Water and Waste Management, and Construction (Ministry of Energy, Green Technology and Water, 2011).

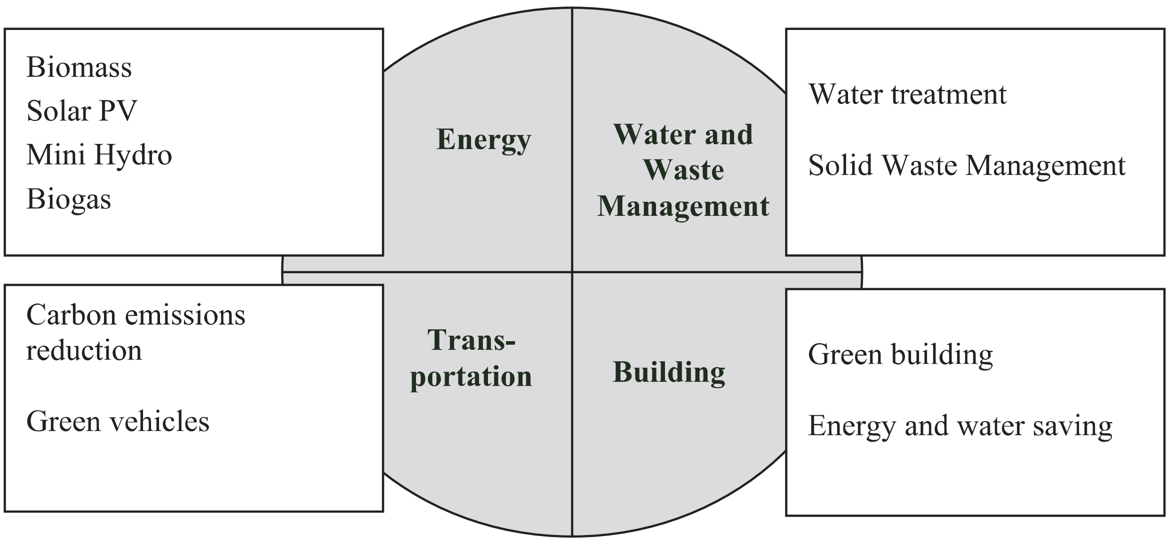

Figure 1. The 4 priority areas for low carbon growth

Source: Ministry of Energy, Green Technology and Water, 2011, Malaysia Government initatives toward achiving low carbon growth. website: http://www.mofa.go.jp/files/000059049.pdf

The above sectors are encouraged by the government to invest, so the investment in these areas is quite large.

The short-term goal of 10th Malaysia Plan 2011-15 is to increase FDI into green technology, to improve people's awareness of green growth. However, Malaysia's medium-term and long-term goals are more ambitious. It comes to expansion of local small and medium enterprises (SMEs) and small and medium institutions (SMIs) on green technology into the global markets by 2020 (the 11th Five-Year Plan for 2016-2020) and turning green technology into a Malaysian culture, which allows Malaysia to become the major producer of green technology in the global market (12th Malaysia Plan 2021-2025 and beyond) (The Malaysia EPI, Ministry of Natural Resources and Environment (NRE), 2012)

3. FDI attraction policy of Malaysia towards green growth

The policy of attracting foreign direct investment (FDI) has been an integral part of Malaysia's economic development strategy since the mid-1980s. The recession in 1985 exposed a more active promotion of FDI, and therefore the Promotion of Investments Act (PIA) was promulgated in 1986. However, the law still has many restrictions on foreign investors. Malaysia has no separate law governing foreign direct investment, but it has the general provisions on investment, including the general principle for the participation of foreigners in local business. FDI is governed by specialized regulations. So, by the year 2009, when the Malaysian government embarked on a new economic reform, regulations on foreign direct investment have changed towards sustainability and focus on green technology. The goal of economic reform is to promote economic growth, with emphasis on building a favorable environment for investment and support for green growth. Key elements of the green economy investment framework are Target and encourage more environmentally responsible behaviour by investors; Promote cleaner production; Increase investment in infrastructure; Support more production of goods and services that give priority to the environment; Encourages private sector participation in green infrastructure.

3.1. The policy on attracting FDI aimed at green growth

The Malaysian government has identified green industries as "economic sweet spots" that can help transform Malaysia into a high-income, competitive nation by 2020 (NEAC, 2010). The New Economic Model (NEM), which includes the Economic Transformation Programme and the 10th Malaysia Plan (2011-2015), identifies green technology and high-value green services as potential areas for investment (OECD, 2013)

Chan Sok Gee and Mohd Zaini AK (2011) have pointed out that FDI inflows from developed countries have had a positive impact on Malaysian development in the manufacturing sector, while confirming the spillover effects of FDI to Malaysia's sustainable growth which can be transferred through technology in the related fields, particularly in the field of specialized R & D in Malaysia. Malaysia's FDI attraction policy has the following characteristics:

❖ ***FDI attraction in hi-tech industries:***

The current policy direction of the Malaysian government is to develop high technology industries, create value or some new fields (biotechnology, optoelectronics, wireless technology and advanced materials). Malaysia's policy has shifted to attracting FDI with high quality instead of high quantity as before (Ministry of Planning and Investment,Viet Nam, 2014).

Malaysia is a well - developed country with industries based on natural resource advantages. The government has issued a policy of attracting investment to create vertical and horizontal links, promoting the development of manufacturing and services, especially in the oil and gas industries, palm oil and rubber (Mohamed Rizwan Habeeb Rahuman et al., 2014). However, for some industries with no natural comparative advantage, such as electrical and electronic equipment, are also developed by the Malaysian government for export purposes, not just for the purpose of import substitution and for participation in the global value chain (Mohamed Rizwan Habeeb Rahuman et al., 2014). In fact, as of 2013, the market share of exports in the electrical and electronics industry accounts for about 30% of Malaysia's total exports (World Bank, 2013). The diversification of export industries has reduced the pressure on Malaysian natural resources and allowed Malaysia to increase its export value and increase its market share in the whole value chain. These factors will contribute to the "greening" of Malaysia's economy, helping it achieve sustainable growth in the future.

❖ ***Tax and tariffs reduction related to investment***

Exemption of import tax for solar power equipment; reducing taxes, providing preferential credit when investing in renewable energy. A 15-year profit tax exemption for solar power companies, which attracts the source technology companies, increases the attractiveness of the home solar market for other investments (OECD, 2013).

The Renewable Energy Law passed in 2011 provides a tariff schedule for this type of energy, which regulates electricity produced from indigenous renewable energy sources sold to utilities at a high price for a specific period. Renewable energy technologies are eligible for application including biogas (as well as landfill gas), biomass, mini hydropower, solar and photovoltaics providing up to 30 MW of electricity. Depending on the type of renewable material, there are discrepancies in capacity limits, or quotas and corresponding tariffs. While mini hydropower and solar PV can be favored up to 21 years, biomass and biogas energies are only applicable for 16 years. Foreign investors may also benefit from this preferential tariff provided that foreign ownership reaches only 49% of joint ventures (OECD, 2013).

❖ ***Private investment support (including domestic and foreign investment)***

The government has also created dedicated funds to catalyze private sector investment in renewable energy, green building and low carbon transport. Financial incentives are provided for investment projects in the green field. For example, the government provides low-interest loans to companies wishing to expand their operations related to production cleaning or other OECD-friendly production processes and outputs (OECD, 2013).

❖ ***Maintaining socio-economic advantages:***

Malaysia is a Muslim country, so many economic policies are in the direction of ensuring the identity of Islam. The Malaysian government allows foreign investors to engage in the banking-finance-insurance sector, especially the government that encourages investment in takaful - a form of insurance built on the basis of The laws and regulations of the Islamic world. Foreign investors can own up to 70-100% in the Islamic banking sector and takaful insurance on a case-by-case basis. This is quite exciting in Malaysia, on the one hand, allowing Malaysian access to diverse cultures around the world, on the other hand preserving and preserving the identity of the Muslim community (Satandertrade.com, 2014).

In addition, the long-term investment of a highly skilled workforce and the advantage of being an English speaking country (Satandertrade.com, 2014) are also favorable factors for Malaysia to attract direct foreign investment capital.

❖ ***Encourage private sector investment in clean energy projects***

Malaysia has received $ 9.5 billion of accumulated capital for clean energy projects from sources such as financial assets; Mergers and acquisitions; From private equity, venture capital; And issue shares on the market (OECD, 2013).

Acquisitions and mergers account for 78% of the financing available to clean energy investment projects (with a total investment of $ 7.5 billion). There have been 10 acquisitions and mergers, which have originated in countries such as Germany, Indonesia, Singapore, UAE, Korea and Australia. These countries have at least one or two companies contributing capital to a Malaysian company. (OECD, 2013)

The second source of investment is the financial assets of public and private companies. The capital was $ 1.13 billion, accounting for 12% of total investment in clean energy. There are 65 projects financed by this funding source. There are many projects financed by cooperation between Malaysian companies and foreign partners such as Japan and Indonesia. There are also cases where Malaysian companies invest abroad in this form (OECD, 2013).

The third source of investment is from issuing shares on the domestic and overseas stock exchanges. This channel earns about $ 800 million, making up for 8% of total investment in renewable energy (OECD, 2013).

The ultimate source of capital is private equity and venture capital, which accounts for only 2%, about $ 164 million in the total investment (OECD, 2013).

❖ ***Other supporting measures***

In addition, the Malaysian Government has implemented comprehensive measures on infrastructure investment, intellectual property protection, administrative procedures reform and increased efficiency in technology transfer through FDI projects ... These measures are implemented as follows:

- In the investment for developing transport and information infrastructure: The Malaysian Government develops ports, railways, roads, and information infrastructure that are the keys to sustainable economic development. This not only helps economic development, it also brings social benefits when it comes to pulling rural, mountainous areas closer to cities (Malaysia Department State, 2014).

- Strengthening the protection of intellectual property on the basis of compliance with intellectual property treaties to which Malaysia has acceded. In particular, these measures are important in the diffusion of cross-border green technologies. Malaysian enterprises and foreign enterprises will be protected the intellectual property rights when researching and developing clean technologies (Malaysia Department State, 2014).

- Implementing a number of reforms in strengthening the financial system and economic liberalization. Subsidies for the research of basic products, educational systems and hospitals. Undertake restructuring in the direction of public-private partnerships (links between private and state-owned companies) in the fields of transportation, energy, telecommunications and financial services (Malaysia Department State , 2014)

- To facilitate the transfer of technology and to attract qualified foreign workers, Malaysia is seeking to liberalize the foreign worker regime in the manufacturing sector (Malaysia Department State, 2014).

- Combining the activities of the regulatory authorities to create the best management effectiveness. The National Green Technology and Climate Change Council, headed by the Prime Minister, with KeTTHA (the Ministry of Energy, Green Technology and Water) and MNRE (Ministry of Natural Resources and Environment) as co-secretariats, was established to implement green technology policies.

3.2. FDI attraction results of Malaysia

Currently, Malaysia is the fifth largest country in East and Southeast Asia to attract FDI, and it is considered to be the one of the top 15 recipient countries of investment by multinational companies in 2014 - 2016 (UNCTAD, 2014).

In terms of total investment, Malaysia has attracted about $ 10.8 billion in 2014, only 89.5% of that in 2013. However, the number of newly established investment projects has increased significantly, from 181 projects (2013) to 211 (2014). In 2015, the amount of investment increased, but the number of investment projects decreased.

Table 2. Foreign direct investment in Malaysia in the period 2012 - 2015

Criteria	2012	2013	2014	2015
FDI (millions of USD)	9239	12.115	10.877	11.122
Number of newly established investment projects (Greenfield)	191	181	211	171

Source: UNCTAD, 2016, World Investment Report 2016

Asia is the largest investor in Malaysia (with 64.7% of total foreign investment in Malaysia), followed by the Americas (16.4%) and Europe (14.1%). In Asia, Japan and Singapore are the two largest Malaysians. Japan leads the list of foreign investors in Malaysia, accounting for 18.3% of total FDI in Malaysia. This is also understandable because Japan's offshore investment strategies in recent years have focused on Southeast Asian countries (MIDA, 2016).

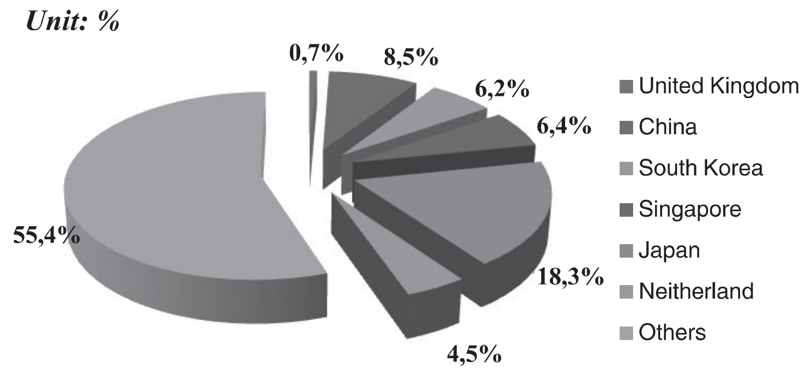

Figure 2. Key direct investment partners in Malaysia in 2015

Source: MIDA, 2016, Projects Approved by Major Country, Jan-June 2016 and 2015

Structure of FDI by investment sector: The manufacturing sector receives the most FDI in 2015 (accounting for 39.4%), followed by the mining industry (30.4%) and the service sector (Including finance, insurance, information technology) (27.7%). Agriculture, forestry and fishery sectors make up only 2.6% of total investment in Malaysia by 2013, and by 2015 the value of foreign investment in the sector fall sharply (about 200,000 ringgit). Approximately 0% (Malaysia Department State, 2014).

4. Evaluating the Malaysia's policy of attracting FDI towards green growth and suggest Vietnam

4.1. Evaluating the Malaysia's FDI attraction policy

In general, Malaysia's policy of attracting FDI is quite comprehensive, consistent with foreign investors and the development objective of the Malaysian economy. The Malaysian government is constantly improving its policy system to attract FDI, especially in the areas of high technology, clean technology and renewable energy. The Malaysian government does not only focus on issuing policies, but also on the implementation of these policies (Ministry of Planning and Investment (Viet Nam), 2014). The policy of attracting FDI has been adjusted to be more and more widening on foreign ownership towards stability, transparency and investment liberalization. A number of measures, such as tax incentives, technological development policies, infrastructure, and social measures, have made Malaysian an attractive destination for foreign investment. Through these policies, Malaysia can achieve "greening the economy" and sustain economic growth.

However, there are still many challenges to be solved before the Malaysian Government. Much dependence on the fossil fuels of the Malaysian economy and the imbalance between investments in the fields of solar power and other energy sources are also a matter for Malaysia. In addition, the shortage of high quality workforce that meets the requirements of "greening the economy" is also a problem. In addition, adjusting the flow of foreign investment to the right targets of the state is also a big challenge. In fact, although Malaysia has the potential to make renewable energy from biofuels, solar and hydropower, most investors are likely to prioritize solar power projects. Besides, much effort is needed to attract support from local financial institutions to fund green projects (OECD, 2013). Overall, progress with regards to improving environmental standards in companies has reportedly been low (OECD, 2013). These challenges require the Malaysian government to make greater efforts to make Malaysia a more attractive destination for green investment.

4.2. Some suggestions for Vietnam

In Vietnam, each investment project (including FDI projects) must implement the Environmental Impact Statement in the Economic Feasibility Study. However, the environmental assessment is ineffective practically that leads to many environmental violations which have occurred in FDI projects, resulting in serious consequences. Therefore, it is important to adjust FDI attraction policy toward green growth and sustainable development. Through the Malaysia's experience, we can see that Vietnam FDI policy can be adjusted in several directions as follows:

- Making specific and long-term strategies or plans to attract investment in clean technology. Encouraging the investment projects with effective solutions to the environment and clean technologies and technologies and renewable energy. Subsidizing credit, taxes, transportation infrastructure, and communications.

- Developing an environmental indicator set as a basis for evaluating activities, investment projects and developing plans, as well as long-term investment strategies for growing the economy towards green growth.

- Supervising the investment projects that violate environmental commitments. These sanctions should be strong enough to deter deterrence, to avoid recidivism. Combining sanctions with propaganda measures, calling for awareness and assistance from the community. It is the pressure from the community that has caused many environmental breaches in investment projects (including FDI projects) to be detected and processed. This also makes the investment environment more healthy.

- Investing in highly qualified human resources in the energy industry and environmental technologies. The acceptance and implementation of FDI projects require a qualified local staff, avoiding excessive dependence on foreign experts. The human resource of the host country is also a precious source for receiving technology transferred from FDI projects.

- Investing in research and development in the field of environmental technology, green technology. The effectiveness of research in these areas will also attract foreign investors to get economic benefits and also contribute to sustainable development as well.

- Calling for public investment, promoting private companies (including local firms and FDI enterprises), and society to participate in environmental investment projects. The capital source for environmental projects, renewable energy and green technologies is normally huge, while the state budget is limited. Therefore, the socialization of environmental investment projects will solve the problem of capital source and also can raise the awareness of the community in preserving the environment and contributing to the green growth of the country.

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