Jurnal Pengurusan 11 (1992) 95-124

Evaluation of Malaysian Corporate Investment Incentives

Barjoyai Bardai

ABSTRACT

Most policy makers in Third World Countries have postulated the analogous predicament that tax incentives were imperative to investment decision over the last two decades. Such a postulation has spawned attempts by sceptical scholars to evaluate the effectiveness of investment incentives. In this paper several approaches had been used in the evaluation attempt. We started by comparing incentive programes between the ASEAN countries based on the indifference assumption of foreign investors in terms of location. It has then been extended by observing the cost of doing business as a whole. A more scientific approach has been adopted through the use of trend projections or shift share analysis. It is an attempt to project the excess of investment over normal investment growth in Malaysia. It is identified as the outcome of investment tax incentives programme. Finally an empirical study had also been conducted on 629 companies operating in Malaysia as multinational. Overall, findings from all the analysis above indicate that tax incentives were considered a big stimulant to foreign investment in Malaysia. The survey had also established the crucial role of foreign investment in the robust development of the Malaysian economy over the last decade.

ABSTRAK

Kebanyakan pembuat polisi di Negara Dunia Ketiga telah mempercayai kepentingan galakan cukai dalam keputusan pelaburan pelabur-pelabur asing di dalam dua dekad yang lepas di Malaysia. Kepercayaan ini telah memberangsangkan ahli-ahli akademik yang skeptikal untuk menilai keberkesanan program-program insentif pelaburan. Dalam makalah ini, beberapa kaedah penilaian telah digunakan untuk menilai program-program insentif pelaburan di Malaysia. Ia bermula dengan membandingkan program insentif antara negara-negara ASEAN. Ini dilanjutkan dengan memerhatikan kos menjalankan perniagaan secara keseluruhannya. Andaiannya di sini ialah pelabur tidak mengutamakan lokasi di dalam keputusan pelaburannya. Kaedah yang lebih saintifik telah digunakan kemudian dengan menggunakan perlunjuran arah atau 'Analisa pindahan bahagian'. Ia merupakan usaha untuk menganggarkan lebihan pelaburan berbanding dengan pelaburan normal di Malaysia. Ini dikenalkan sebagai hasil atau kesan dari program-program insentif pelaburan. Akhirnya, satu kajian empirikal kualitatif *dikendalikan ke atas 629 syarikat 'antarabangsa' yang beroperasi di Malaysia. Secara keseluruhannya, penemuan dari kajian-kajian di atas menunjukkan bahawa insentif cukai adalah dianggap sebagai penggalak utama kepada pelaburan asing di Malaysia. Kajilidik lapangan menunjukkan juga kepentingan peranan pelaburan asing di dalam pembangunan tegap ekonomi Malaysia dalam masa 10 tahun yang lepas.*

INTRODUCTION

Tax instruments to stimulate investment have been the greatest fad in the economic policies of third World Countries in the past two decades. Most policy makers in these countries accepted the justification that 'businessmen in pursuit of gains will find the cheapest form of investment with the highest profit potential.' Most forms of investment incentives, therefore, had been concerned with the cost of capital and profitability criteria. The basic premise has been that 'the more the value of concession provided to investors as compared to normal circumstances, the more attracted they will be to investors.'

As early as 1955, scholars who were concerned and sceptical about the idea had attempted the task of determining qualitatively the behaviour and attitude of investors in their decisions about investment especially in foreign countries. Barlow and Wender (1955), for example, concluded that tax incentives had not been the main criteria in decisions about foreign investment. This conclusion had been strengthened by the findings of the Musgrave's (1969) research who had, however, stated that in some circumstances, tax incentives would affect the timing of investment in the foreign operation.

A few studies have been carried out, either directly or indirectly, to gauge the effects and impacts of investment incentives in Malaysia. This included Ghandi's (1982) and Ariff's (1983) studies on export-oriented incentives, Lim and Fong's (1979) on small industry, Prakash's (1980) and Rhae's (1980) on manufacturing industry's incentives and the Malaysian Industrial Policy Studies (1984) on tariff and related incentives. Most of these studies have been superficial in their qualitative perspectives of gauging investors' perceptions towards tax incentives offered in Malaysia.

This paper will attempt to evaluate investment incentives in Malaysia from three different perspectives, namely, the qualitative perceptions of current investors in Malaysia, estimates of the impact of tax incentives on the generation of new investments, and the estimates of the cost of providing incentives to the government. Finally, some recommendations will be made on the appropriate package of incentives that ought to be offered to investors to engage a more effective investment incentive programme.

CURRENT THINKING ABOUT INVESTMENT INCENTIVES IN MALAYSIA

Basically, incentives have been designed to make the cost of doing business in Malaysia internationally competitive to attract the best investments, especially from foreign countries, with the aims of gaining access to new technology, creating job opportunities for target groups, earning export income, and developing an industrial base for the economy.

Investment tax incentives have always been provided in at least four basic forms:

1. Incentives that lowered the initial cost of investment in the form of duties exemption on the import of plant and machinery;
2. Incentives that lowered the operating cost of investment - in the form of duties exemption on the import of raw materials and subsidised rates on utilities;
3. Incentives that lowered the selling prices of goods and services produced - in the form of sales and other duties exemptions; and
4. Incentives that increased profit after tax - exemption through tax holiday, abatement and concessionary rules in determining income tax payable.

All the above incentives will enhance the competitiveness of a particular venture in terms of costs and pricing in the market with a minimum amount of investment, whilst increasing the rate of return after tax directly through income tax exemption. Theoretically, all these incentives integrated together will markedly benefit investors especially foreign ones.

However, as almost all of the countries in the region are targetting their incentives programmes toward the same pool of investors from industrialised countries like Japan, the USA and Europe, these countries are actually competing with each other in attracting foreign investment into their countries. The attractiveness of the incentives programme will then have to be evaluated by comparing incentive programmes between these countries, assuming that foreign investors are indifferent to the choice of investment ground or location within the region. (This had been proven true in the case of the ASEAN region). A comparison of tax incentive programmes between countries in the region reveals that Singapore offers the most attractive package followed by Malaysia, Thailand and then the Philippines, as shown in Table 1. As a result, it is well accepted that Singapore has been the most successful country in the region in luring foreign investment. The most distinguished features of singapore lie in its extensive coverage of its incentives, which includes service and financial industries, and its emphasis on the minimisation of investment risk, for example, through the availability of a reserve fund provision.

However, we have to be very cautious in attributing all the success in attracting investment to the investment incentive programme. Singapore, for instance, has other natural features that would have also attracted foreign investment. Table 2 shows us the structure of local and foreign investment in the ASEAN region. From the table, we notice that Singapore has been the

TABLE 1. Investment incentive programmes in the ASEAN region

Type	Singapore	Malaysia	Thailand	Phillippines	Brunei
Tax Holiday	up to 10 yrs	up to 10 yrs	up to 8 yrs	no full income tax	up to 5 yrs
Investment Allowances	-	up to100 % of cap. exp.	100% of cap. exp	up to 100% of cap. exp.	-
Export Incentives	Based on export value	Based on export value	Based on export value	Based on export value	-
Other Form Of Tax Incentives	*Tax Defferal on R&D * Fund management concessionary rate * Tax holiday on for SIMEX *Write off know how and patent right *Venture capital incentive *Group relief	*Income abatement on the purchase of building allowance	*Tax exemption on the purchase of machinery	*Tax exemption on import machinery *Reduced income tax on management *Tax credit on net value earned *Incentives on indirect export act *Incentive to export trader *Incentive to service exporters	*Tax Free interest on loans

Sources: Compiled from various sources including Rolt & Talib (1986) "Income Taxation in the ASEAN Countries: A Comprehensive Guide and Analysis" APTIRC, Singapore.

most dominant, not only in terms of quantity but also in terms of spread between the developed nations. Philippines has about 55% foreign investment out of the total direct investment in the economy, but most of these investments have a long history out of their associations with the USA over several decades.

TABLE 2. Structure of local and foreign investment in ASEAN in 1984

	Malaysia	Singapore	Thailand (%)	Indonesia	Phillippines	Brunei
Foreign investment as % of total investment	46.0	67.0	28.9	N.A.	55.3	51.0
Foreign investment structure by country of origin						
Japan	22.67	12.6	38.2	27.6	16.7	-
USA	15.39	46.3	15.6	22.7	37.34	10
UK	12.47	-	4.8	-	4.16	70
W.Germany	2.17	-	1.8	4.3	0.91	-
Europe (Others)	3.34	39.8	4.1	9.6	8.77	-
Switzerland	-	-	1.0	-	16.76	-
Taiwan	-	-	19.5	-		
Singapore	22.13	0.9	11.8	0.1	20	-
Asia (Others)	14.34	1.1	13.3	0.73	-	-
Other						

Sources: Compiled from various sources including Far Eastern Economic Year Book 1987.

One very interesting approach in the evaluation of an incentive programme is to view the programme in a broader perspective, i.e., by observing the cost of doing business as a whole. Here, we are not only concerned with the total tax system (direct and indirect) but also with other procedural criteria in a particular country. This is with the premise that:

- Fiscal incentives by themselves will not compensate for the other negative factors in the investment environment, such as the bureaucratic obstacles which contribute to hidden and irregular costs.
- Tax incentives become unimportant where tax liability can be reduced through transfer pricing and tax negotiation.

TABLE 3. Structure of local and foreign investment in ASEAN in 1984

	Singapore	Malaysia	Thailand	Indonesia	Phillippines	Brunei
Max Corp tax rates	33%	35%	35%	35%	35%	30%
Tax intergration	Partial	Partial	Classical	Classical	Classical	Partial
Max Personal tax rates	33%	35%	35%	35%	40%	Nil
Capital gains treatment	exempted	favoured	same as income	same as income	favoured	exempted
Withholding tax on:						
*dividend	25%	30%	20%	0%	20%	0%
*interest	25%	15%	20%	33%	10%	0%
*royalties	25%	15%	20%	33%	25%	0%
Investment incentives based on:						
*tax	X	X	-	X	X	X
*non-tax	-	-	X	-	-	-
Sales/VAT rates	10%	10%	0-30%	15%	15%	10%
Others taxes						
*property	X	X	X	X	X	-
*Estate and gifts	-	-	-	-	-	-
*Capital	-	-	-	-	-	-
*Documentary	X	-	X	-	-	X
*Other	X	-	-	-	-	-
Tax simplification	quite advanced	reasonable	simple tax	still complicated	still complicated	reasonable
Facilities and admin convenience	less bureaucracy	not very good	still lacking	still lacking	still lacking	not very good

Sources: Complied from various sources including Rolt & Talib.

- Uncertainties and unpredictable changes in rules, regulations and policies can adversely affect business prospects and investment flows (Asher 1986).

Table 3 provides some form of comparison of the taxation and investment-related procedures between countries in the ASEAN region. Again, it is shown that Singapore has the most attractive investment climate, with the lowest corporate and personal tax rates, coupled with a partial integration rule for the two taxes. Capital gains including those from investment are also exempted. Its rates are even lower than those of Indonesia who had recently reduced all its direct and indirect tax rates (at the same time abolishing all forms of direct incentives as a new strategy to attract foreign investment).

Even at this juncture, the argument that the tax system has been responsible in determining the flow of foreign investment is still not convincing enough. We are still not able to attribute the marginal flow of investment to the attrativeness of the investment incentive programme or to the favourable environments for investment impirically. But, at least, most policy makers now believe that investment tax incentives alone do not suffice in attracting foreign investors optimally.

ESTIMATING THE EFFECT OF INCENTIVE PROGRAMME USING REGRESSION ANALYSIS

A more scientific approach in determining the effect of an investment incentive programme on the flow of investment is to use 'trend projections' or 'shift-share analysis.' This had been used, for example, in Scotland by Moore and Rhodes (1973), Begg (1976) and Ashcroft (1979). They basically regressed the ratio between actual and standardised series of Scottish investment on a set of policy variables, to gauge the effect of the policy in inducing investment flow.

To illustrate, we can conduct a similar exercise based on an available econometric model on investment in Malaysia, using a partial equilibrium analysis. A small model was developed by cheong (1975) to forecast the short-term growth of the real sector of the Malaysian economy between 1967-1973, during which was a crucial period for the Malaysian Investment Tax Incentive Programme, as it was in 1967 that the incentive programme was formally introduced in a separate act of Parliament. The model was simply stated as follows:

$$I_t^P = \alpha_0 + \alpha_1 \beta_t + \alpha_2 I_{t-1} + U_t$$

where,

I_t^P = Private investment in period 't'

I^{P}_{t-1} = Private investment in period 't-1'

β_t = National income

$\alpha_o, \alpha_1, \alpha_2$ = Parameters

U_t = Residual and error terms

Where private investment is a function of national income and the natural growth of investment (based on previous years' levels).

Estimates of the model for the years 1967-1973 were given by:

$$I^{P}_{t} = -8.776 + 0.054\ \beta_t + 0.462\ I^{P}_{t-1}$$

A reestimate of the model using the 1970 to 1979 data produces the following regression:

$$I^{P}_{t} = -1251.5 + 0.2917\ \beta_t + 0.1125\ I^{P}_{t-1}$$

A micro approach could also be applied by devloping a model relating the level of private investment to the profit performances and the level of capital stocks of firms in the economy. Klein (1950), a pioneer in the field of econometrics at Wharton School, for example, has constructed a model of investment function in this manner which stated the following:

$$I_t = \alpha_o + \alpha_1\pi_t + \alpha_2\ \pi_{t-1} + \alpha_3\ \beta_{t-1} + U_t$$

where

I_t = Private investment in period 't'

π_t = Profit in period 't'

π_{t-1} = Profit in period 't-1'

β_{t-1} = Capital stock in period 't-1'

U_t = Residual and error term

α_o, α_1, α_2, α_3 =Parameters

On the contrary, this is a more difficult model to estimate as the profit levels of the industries in the economy cannot be accurately measured. By using some data from the Department of Statistics, Survey of Manufacturing

Industries (1979), the MIPS studies (1984) and the International Monetary Fund Annual Financial Statistics (1988), we obtain the following regression estimates:

$$I_t = -4118.1 + 50.1\pi_t + 43.6\,\pi_{t-1} - 6.1\beta_{t-1}$$

A projection is then made on the net private capital investment for the period between 1980 - 1987 based on both the macro and micro models as described above. The period was chosen to gauge the performances of Investment Incentives programmes during these crucial period of Industrial development in Malaysia. Data on the firms' average profits are estimated based on the annual tax return of companies to the Inland Revenue Department obtained from the statistical tables in the Annual Report of the Inland Revenue Department. Data on the average paid up capital of firms are obtained from the Department of Statistics' Survey of Manufacturing Industries and the MIPS' Studies of Corporate Balance Sheet at the Registrar of Companies. The actual investment figures are obtained from the International Monetary Fund, International Financial Statistics 1988.

Table 4 shows the comparative figures of the projected value of investment based on the micro model, macro model and the actual level of investment generated in the economy. The possible explanation for the differences in the projection between the macro and micro models is the data rounding and accuracy. The average profit figures reported must have been understated considering that it was based on the income tax return. The macro projection shows an average of $500 million more than the micro projection. The crucial analysis is however, the comparison between these projected figures with that of actual private capital investment generated in the economy during the same period. From the average of the two projected figures, we would find a difference of about $8.846 billion which could not be accounted for based on the normal growth of investment. This difference could be explained as the additional investment generated as a result of the investment incentive programme, subsequently reflecting the success of the programme.

It must be borne in mind that the $8.8 billions new investments could have also been caused by other factors such as non tax incentives, infrastructures and facilities offerred to foreign investors. Nonetheless we could conclude that at least investment tax incentives do contribute and partly responsible for the extraordinary investment made during the period.

As we are not able to identify the true success of investment tax incentive programme through a quantitative approach such as this, we need to resort to some sort of qualitative approach and focus on investors behaviours to make the study more complete.

Even though the model used is not as sophisticated as those used in the classic studies like Jorgenson (1963) or King (1972), it does, nonetheless, provide a good indication of the success rate of the Malaysian Investment Tax Incentives Programme.

TABLE 4. Comparison between projected growth of investment based on regression model and the actual growth reported (in millions of $)

Year	Expected investment based on Macro model	Expected investment based on Micro model	Actual investment
1980	5,249	16,052	13,423
1981	16,792	17,230	16,217
1982	18,428	18,494	20,157
1983	20,378	19,141	23,338
1984	23,213	20,432	25,109
1985	22,689	22,068	26,697
1986	20,560	21,790	21,347
1987	20,724	18,548	18,456
Total	158,042	153,755	164,744

Sources: Based on models' projection and also calculated from The International Financial Statistics 1988 data.

EMPIRICAL STUDIES TO GAUGE THE EFFECTIVENESS OF THE MALAYSIAN INVESTMENT INCENTIVE PROGRAMME

A few studies have been carried out to survey the perceptions of investors toward the Investment Tax Incentive Programmes in the ASEAN region. Yue (1979), for example, concluded that the role of the investment tax incentive programme was more a signal to foreign investors of the welcoming attitude of a particular host country. The argument was that since all of the neighbouring countries grant tax incentives, failure to offer comparable incentives would only be contrued as an indication of a lesser desire to attract foreign investment. Huges (1980), in her survey of Singapore's foreign investors, concluded that these investors would have come and invested in the region even without any incentives granted to them. The 127 firms surveyed stated that tax holidays and concessions did not play a significant role or played no role at all in bringing them to Singapore. A UNDP/IBRD survey (1971) on the Philippines's foreign investors also revealed that investment tax incentives were only listed as one of the last criteria considered in the investment decision out of the following basic criteria:

- Political and economic stability
- Stable and disciplined labour force
- Access to local finance

- Ready availability of foreign exchange
- Stable currency value
- Existence of a joint venture partner
- Government incentives especially tax concessions

Allen (1981), who surveyed the Japanese firms in ASEAN had concluded that Japanese investors were actually prepared to accept a lower return on their overseas investments as compared to that of their American and European counterparts. This implied that the investment incentives programme has a very minor role to play in attracting these investors to the region. Hoffman and Tan (1980) also concluded that the impirical evidence showed that tax incentives were largely redundant and benefitted primarily a few large companies with high rates of return in Malaysia.

An interesting conclusion was made by Vasey (1981), who stressed that foreign observers were quite impressed with the economic resilience of the ASEAN countries. These investors were believed to think that the ASEAN region was well-positioned and endowed with natural resources to take advantage of the eventual expansion of world economic activity. Another scholar, Asher (1986), also felt that the effects of incentives on both the narrower and wider goals or objectives were not significant, which prompted countries like Indonesia to resort to alternative measures to woo foreign investment.

FINDINGS OF THE MALAYSIAN SURVEY ON FOREIGN INVESTORS

BACKGROUND OF THE SURVEY

We will describe in the following section findings of our study on companies currently enjoying on type of incentive or the other in Malaysia about the role and importance of the incentives offered to them. The survey is based on 629 companies who are beneficiaries of the Malaysian incentives as a 31st. December 1986. These companies could be classified according to their nature and backgrounds as in Table 5.

A sample size of three hundred was selected proportionately from the above population taking into consideration the type and amount of incentives, country of origin, location of plant in Malaysia, and the nature of industries. Standard questionaire forms were mailed to these respondents with reply envelopes accordingly. Ninety completed questionaires (30%) were returned to us (Another 25 questionaires were returned to us with notes saying that the information asked were very confidential and they could not, therefore, participate in the survey). The backgrounds of the respondents are described in Table 6.

TABLE 5. Backgrounds of companies currently enjoying incentives in Malaysia as at 31 December 1986

	Number	Percent
Companies according to the type of incentives		
Pioneer status	493	78.4
Industrial tax allowances	103	16.3
Labour utilisation relief	12	1.9
Others	21	3.3
Companies according to the size of capital investment		
Less than $250,000	40	6.4
$ 251,000 - $ 500,000	55	8.7
$ 501,000 - $1,000,000	75	11.9
$1,001,000 - $2,500,000	111	17.6
More than $2,500,000	348	55.3
Companies according to the country of origin		
Japan	122	19.4
Singapore	188	29.9
Hongkong	53	8.4
United Kingdom	46	7.3
United State of America	45	7.2
West Germany	37	5.8
Australia	29	4.6
India	22	4.5
Taiwan	16	2.5
Switzerland	11	1.7
Indonesia	6	0.9
Korea	5	0.8
Sweden	5	0.8
Holland	5	0.8
New Zealand	5	0.8
Norway	4	0.6
Brunei	4	0.6
France	3	0.5
Denmark	3	0.5
Arab countries	3	0.5
Canada	3	0.5
Panama	2	0.3
Thailand	2	0.3
Belgium	2	0.3
Italy	1	0.1
Pakistan	1	0.1
Others	6	1.0

Sources: Compiled from computer listing listing provided by The Malaysian Industrial Development Authority.

TABLE 6. Backgrounds of respondents in the 1988 survey

	Number	Percent
Types of incentives currently enjoyed by firms		
Pioneer status	48	53.3
Investment tax allowance	18	20.0
Labour utilisation relief	9	10.0
Others	15	16.7
Size of firm's paid up capital		
Less than $500,000	18	20.0
$1,000,001 - $ 2,000,000	9	10.0
$2,000,001 - $ 5,000,000	27	30.0
$3,000,001 - $10,000,000	91	0.0
More than $100,000,000	27	30.0
Investors country of origin		
Japan	18	20.0
United Kingdom	18	20.0
United State of America	9	10.0
Singapore	9	10.0
Saudi Arabia	9	10.0
Hongkong	9	10.0
Others	18	20.0
Tangible assets of firms		
$ 1,000,001 - $ 2,000,000	27	30.0
$ 2,000,001 - $ 5,000,000	18	20.0
$15,000,000 - $20,000,000	18	20.0
More than $300,000,000	27	30.0
Foreign loans utilised by firms		
No foreign loans involve	57	63.3
Less than $1,000,000	9	10.0
$5,000,001 - $10,000,000	15	16.7
More than $400,000,000	9	10.0
Local loans utilised by firms		
No local loans involved	63	70.0
Less than $5,000,000	12	13.3
More than $200,000,000	15	16.7
Number of employees in the firms		
Less than 50	9	10.0
51 - 1003	64	0.0

(continued)

TABLE 6 (*continued*)

151 - 200	18	20.0
301 - 400	9	10.0
More than 600	18	20.0
Firms' turnover		
Less than $1,000,000	9	10.0
$ 1,000,001 - $ 2,000,000	27	30.0
$ 3,000,001 - $ 4,000,000	9	10.0
$ 4,000,001 - $ 5,000,000	12	13.3
$10,000,001 - $15,000,000	9	10.0
$15,000,001 - $20,000,000	12	13.3
More than $100,000,000	12	13.4
Firm's accumulated profit or losses		
Accumulated losses less than $500,000	27	30.0
Accumulated profit less than $500,000	18	20.0
$ 500,001 - $1,000,000	12	13.3
$3,000,001 - $5,000,000	27	30.0
More than $10,000,000	6	6.7
Firm's annual export value		
Not exporting at all	27	30.0
Less than $1,000,0001	21	3.3
$1,000,001 - $2,000,000	30	33.3
$4,000,001 - $5,000,000	15	16.7
More than $100,000,000	6	6.7
Firm's annual import value		
Not importing at all	21	23.3
Less than $500,000	18	20.0
$500,001 - $1,000,000	15	16.7
$4,000,001 - $5,000,000	6	6.7
$5,000,001 - $10,000,000	21	23.3
More than $10,000,000	9	10.0
Percentage of local contents in raw materials of firms		
Less than 5%	21	23.3
21 - 50	27	30.0
51 - 80	24	26.7
81 - 90	9	10.0
100%	9	10.0

FINDINGS

The survey is more concerned with the corporate behaviour on investment decisions especially about the Malaysian investment tax incentive programme. Investors are asked if they would have started operations in Malaysia had there been no incentives approved to them. There are two classes of answers, depending on the backgrounds of these companies. Forty-three per cent of the respondents answered negatively, almost all of which are set up in this country to reap the benefits of low costs including tax concessions. They are largely dependant on foreign expertise and import most of their raw materials. Without tax incentives, their existence in this country would not have been justifiable. Incentives are, therefore, considered a big stimulant to investment decisions. The remaining 57% of the respondents answered affirmatively. Most of these companies are involved in activities that use local materials like limestones, rubber, petroleum, tin, timber etc.

When asked if they had compared Malaysian incentives with the other neighbouring countries prior to deciding on Malaysia, 50% of them responsed affirmatively. It should also be noted here that most respondents in this category are multinationals which normally employ standard procedures in making decisions about investment. They, therefore, compare incentive packages between countries as a formality in their decision process. Interestingly enough, nearly 20% of the respondents who answered negatively to this question commented that they did not have any intention to invest anywhere else other than in Malaysian in the first place. These are companies which originated mainly from the east (including Japan, Hongkong, Singapore and Taiwan). A similar set of questions are then presented relating to the tax implication of investment in Malaysia. Forty-six per cent of the respondents replied positively.

FACTORS TAKEN INTO ACCOUNT IN INVESTMENT DECISION

Respondents are asked what factors are taken into account in their decision about starting an operation in Malaysia and their responses are shown in Table 7. Consistent with other research findings, the investment incentive role has not been found significant as a criteria for decision-making about investment. When asked if higher profits (compaired to investment in the home country) are expected abroad, about 40% answered negatively which is also consistent with our earlier study findings on the Japanese investors. The other 60% who answered affirmatively expect a premium of about 5% - 20%.

Finally, in view of investment in Malaysia, respondents are asked about their company's attitude toward future investment in Malaysia. Again, about 40% said they will only maintain their present levels of investment while the remaining 60% are looking toward further expansion (none of these investors have thought of reducing their present levels of investment as yet). For those

TABLE 7. Criteria taken into account by investors in making decision about investment

Criteria	Percent
Labour rateas	100
Profitability	74
Industrial sites	73
Investment climate	72
Familiarity with country	71
Malaysian investment policy	66
Malaysian business procedures	60
Investment incentives	60
Social and political stability	53
Company's expansion programme	51
Tariffs and trade protection	49
Raw materials availability	40
Market growth	37
Export quotas	33
Double tax agreement	30
Liberal policy on repatriation	27
Tax sparing clauses	20
Efficient civil servant	16
Local competition	13
Responding to home government policy to encourage investment	12

who look forward to expanding, most of them are contemplating on remaining in the same line of business but expanding their markets overseas by becoming minority shareholders in a new country which could provide sufficient market for them.

To complete the picture about investors' perceptions toward Malaysia and the ASEAN region, respondents are asked how they rate Malaysia relative to the other countries in the region (Table 8). On average, the investors are quite impressed with Malaysia although not many thought Malaysia is the best investment ground in ASEAN. When asked which other country they would consider the next best alternative for setting up their operations, most investors named Singapore as the next best location, followed by Thailand which, again, are consistent with our earlier analysis on the attractiveness of investment incentives and climates in the ASEAN region. Most of those respondents who would still prefer Malaysia are bound either by the raw materials or market availability. A general question is then asked as to which country (in the world) they thought currently offers most favourable opportunities in their line of businesses. Most respondents are hesitant to answer but the others listed the following coutries according to their priority: Singapore, Hongkong, Taiwan, Thailand and Indonesia.

TABLE 8. Respondents' perceptions about Malaysia as compared to other countries in the region

Rating	Percent
The best	20
Better	7
Good	35
Average	35
Poor	3

TABLE 9. Respondents' choice of the next investment location in the region

Choice of location	Percent
Continue in Malaysia	27
Indonesia	3
Thailand	17
Singapore	50
Philippines	3

CRUCIAL FACTORS THAT DETERMINE MALAYSIA'S ATTRACTIVENESS

In response to what the single most crucial factor was that geared them to Malaysia, most thought that the availability of suitable partners has been the most crucial factor, thus, reflecting the importance of localisation strategy among investors in an attempt to stabilise their position locally. Other factors include the availability of raw materials and the availability of local market (Table 10).

TABLE 10. Respondents' perceptions as to the crucial factors that determine the choice of Malaysia as the investment ground

Factors that determined choice	Percent
Availability of raw materials	29
Availability of local market	21
Availability of local partners	45
Others	5

Further, the investors are asked about the major strengths of Malaysia in attracting foreign investment. Majority of them cited cheap and the availability of raw materials as the two most favourable factors. Table 11 lists the other factors favourable to investors.

We then asked what is the most crucial limitation and weakness of Malaysia as an investment centre? Although most respondents declined to answer (Table 12), it is clear from those who did answer, that government policies and restrictions have been the major setback in deterring investors from coming here. Government interference and inconsistency in the enforcement and application of rules and regulations have also been highlighted as a major concern of these investors.

TABLE 11. Respondents' perceptions as to the most favourable factors available in Malaysia that are crucial to investors

Favourable factors of Malaysia	Percent
Rich natural resources	24
Cheap and productive labour	46
General economic outlook	6
Investment incentives	12
Efficient publis sector	6
Others	6

TABLE 12. Respondents' perceptions as to the weaknesses and limitations of Malaysia as an investment centre

Weaknesses and limitation of Malaysia	Percent
Lack of basic facilities	12
Restrictive policies	24
Discrimination in favour of government owned companies	9
Inefficient local government	6
No comment	46
Others	3

EVALUATION OF THE MALAYSIAN INVESTMENT TAX PACKAGES

Are respondents happy with the present incentives granted to them? Forty-six per cent gave negative replies with no comments, 24% declined to comment, and only 26% answered affirmatively, but lamented on the short expiration periods granted to them.

When asked if the incentives provided to them resulted in ultimate tax exemptions, only 12 responded affirmatively. Another 24% said that the incentives amounted only to tax defferrals in Malaysia or in their parent country. The rest of the respondents declined to answer.

TABLE 13. Respondents' preferences of incentives other than those currently being enjoyed

Preferences of incentives	Percent
Lower corporate tax rate	46
Non-tax incentives	18
Accelerated depreciation allowance	12
Research and development incentives	6
Employees Training incentives	6
Others	12

They are further asked to name the kind of incentives they would prefer other than those they are currently enjoying. As suggested by Table 13, most of them would prefer a reduction in the corporate tax rate and an increase in other non-tax incentives (such as basic facilities, relaxing of rules and regulations etc). This is further reflected in the response to the next question on the procedures of applying for incentives. Table 14 shows that most respondents are dissatisfied with the procedures they have to undergo and the times pan taken by the agencies concerned. Suggestions were made to facilitate automatic approval if companies meet all criteria stipulated.

TABLE 14. Respondents' perceptions about procedural practices in granting incentives in Malaysia

Procedural practices	Yes (%)	No
Is the selection process satisfactory	42	58
Is the processing method satisfactory	36	64
Is the length of time taken reasonable	36	64

As regards the non-tax incentives that they would prefer in their operation in Malaysia, most of them suggested that shorter lead time to obtain approvals for licences, permits from government agencies, establishment of a one-stop opproval agency, easy access to statistical data, direct access to government contracts, efficient government machinery, good security force and basic transport facilities like air services between the smaller towns to Subang International Airport would help them tremendously.

In respect to the kind of changes in incentives that would have to occur as a minimum requirement before they would become interested in increasing new investment in Malaysia, most respondents indicated that an incentive to improve the quality of labour force especially the management and technical personnel, a reduction in the corporate tax rate to levels competitive with neighbouring countries and a free market environment (without government interference) respectively would be most welcomed. Finally, of course, investors hope to get an extension for their incentives or to obtain new incentives as a marginal criteria for decision.

Probing further on issues related to personnel, respondents are asked on the requirement of foreign personnel. Most respondents would prefer to have majority of their foreign personnel especially in the technical and management levels initially. Gradually they would not mind replacing them keeping foreign management as a minority.

ANALYSIS OF INVESTORS' CONTRIBUTION

As a quantitative measure of the impact of investment, an attempt is made to gauge the investment role in the economy, both directly and indirectly. These measures includes the value of plant and machinery purchased and used, value added created, export value and foreign exchange and investment growth in the economy. These measures is taken an indicators of contribution made into the economy that directly determine the rate of growth in the economy. The measures used are shown on Table 15. On average, firms spend about \$45.5 million on plant and machinery, that is, from the 629 firms currently benefitting from the incentive programme in Malaysia, a total of \$28.62 billion in new investment has been created which is equivalent to about 89% of the Malaysia's Gross National Income in 1987. Taking into account the fact that 91% of these expenditures are spent outside Malaysia, the local value added of expenditure on plant and machinery is only about \$2.6 billion (3.9% of GDP in 1987).

Looking at the value-added created by these investments in the manufacturing sector, an average amount of \$49.8 million with a total of \$31.3242 billion are being generated annually. This is about 47% of the GNP of Malaysia in 1987. Even after taking into account the average imported value of raw materials, the net value-added created into the conomy is still significant (43% of GNP). With an average existence period of 4.2 years, this means that more than \$122 billion of value-added has been created, thus far, by these foreign investments which have partially been held responsible for the high growth rate in the economy in the last decade.

TABLE 15. Measures of investment contribution to the Malaysian economy based on survey's findings

Plant and machinery:	
Average value of plant and machineries	$45,500,000
% of value brought from parent countries or other foreign	90.95%
Value created in the economy	$41,177,500
Total value created in the economy	$2,602,943,500
Value-added created:	
Average value of input per annum	$49,800,000
% value of raw materials imported	6.7%
Value-added created in the economy	$46,510,000
Total value-added created	$29,254,790,000
Export value and foreign exchange:	
Average value of export per annum	$4,079,500
less: average value of import per annum	$3,290,750
Net export value created for the economy	$20,788,750
Total annual export value generated $13,075,123,700	
Investment growth in the economy:	
Average value of investment	$45,500,000
less: average value of local loans	$16,425,500
add: average value of accumulated profits	$1,963,000
Net capital formation in the economy	$31,037,500
Total capital formation in the economy	$19,522,587,000

These investments also contribute significantly toward generating export earnings for Malaysia. The total annual export value created is $13.075 billion (about 32.09% of the 1987 export value). Even after taking into account the import value of raw materials and services (worth $2.069 billion annually), the export contribution is still significant (27.0% of the 1987 export). The total value of net export generated based on the 4.2 years average existence period is $54.92 billion. Almost all of these export value and value added created above are by manufacturing products, we would easily explain the sudden rapid growth in the manufacturing sector of the economy based on these facts.

Finally, an attempt is made to determine the net investment growth in Malaysia that has been created by these investors. Although each investor spends an average of $45.5 million on plant and machinery, they also utilise some local loans (36.1%) of total investment). If we treat foreign loans as good as capital investment, we can see that a total of $18.29 billion of net investment has been created by these investors. Even though most companies do not plough back their profits (on average, only 8.2% of profit is reinvested), there is an addition of $1.235 billion investment created out of retained profits.

Another major contribution of these investors is in terms of employment opportunities generated by their existence. More than 200,000 job opportunities have been created by these investors at all levels of personnel in the organisation. To elaborate, we would compare the impact of the specific labour utilization relief incentives on employment generation in the industries. Companies enjoying these incentives, on average, employ more than double the number of employees as compared to those enjoying other incentives (465 as compare to 235).

We could conclude, at this state, that the role of foreign investment (particularly those firms currently benefitting from the incentive programme) is quite crucial in the rapid development of the Malaysian economy in the last decade.

EVALUATION OF THE INCENTIVES COSTS TO THE GOVERNMENT

This analysis is based on two comparative sources of data. One is from the survey described above (where 1986 figures were reported), while the other is extracted from the Department of Statistics, Survey of Manufacturing Industries (1979), and the Malaysian Industrial Policy Studies (1984), prepared by the UNDP/World Bank. The exercise is merely an attempt to estimate the direct cost of investment tax incentives in terms of tax forgiven on qualified income of investors. These estimates will form as a 'tax expenditure account' for the government. An average figure will be used to lend a good impression to its cost.

The average performances of companies enjoying incentives are provided in Table 16. Average figures from the three different surveys are used as the basis for calculating the costs of these incentive programmes.

COST OF PROVIDING PIONEER STATUS INCENTIVES

Since pioneer-status companies are being exempted from paying income taxes during the tax holiday period, the cost could simply be derived by determining the tax forgiven to these firms. Based on the average net profit before tax of $2.27 million per annum each profit forgiven from paying tax is $4.486 billion. At 45% tax rate (corporate rate 40% + development tax of 5%), the opportunity cost of corporate tax collection is $2.018 billion (or an average of $338.17 million perannum). If account is to be made on the other indirect tax exemptions (especially on the purchase of plant and machinery and input), another $4.5 billion could be further added here.

TABLE 16. Average performance of companies enjoying incentives under the Investment Promotions Act

Performance indicators	1978	1982	1986	average
Pioneer Status Companies:				
Number	314	333	493	380
Annual profit before tax (in millions)	1.6	3.1	2.1	2.27
Annual (in millions)	22.6	39.0	37.7	33.10
Annual export value (in millions)	7.4	11.9	10.9	30.20
Annual import value (in millions)	5.7	9.2	4.7	6.53
Annual value added (in millions)	16.9	29.8	33.0	26.57
Total capital investment	8.1	15.1	21.0	14.73
Total employees	370	415	421	402
Investment Tax Allowances companies:				
Number	100	103	103	102
Value of plant and machinery (in millions)	4.1	13.5	17.4	11.60
Total capital investment (in millions)	5.1	11.9	13.2	10.07
Annual turnover (in millions)	17.3	38.4	29.8	28.50
Annual profit before tax (in millions)	1.1	1.2	1.92	1.41
Annual export value (in millions)	13.7	29.9	21.9	21.83
Annual import value (in millions)	1.7	3.8	3.2	2.90
Annual value-added (in millions)	15.6	34.6	31.2	27.10
Total employees	157	249	254	220
Export incentives companies:				
Number	121	131	151	134
Annual export-value (in millions)	7.1	40.5	39.5	29.00
Annual value added (in millions)	7.1	40.5	32.7	26.77

COST OF PROVIDING INVESTMENT TAX ALLOWANCES INCENTIVES

These incentives are less costly theoretically as they are based on capital investment and provided only once. Based on the average investment of \$11.6 million in plant and machinery, the total expenditure qualified for ITA is \$1.183 billion. At 45% rate, the opportunity cost of corporate taxation on these ITA incentives is \$0.532 billion. As these plant and machinery are normally exempted from the incentive packages, another \$1.56 billion could be added as indirect tax costs.

COST OF PROVIDING EXPORT INCENTIVES

Export incentives are provided in the form of export allowances and double deduction of promotional costs overseas. Promotion costs are normally provided by each company as a fixed percentage of export earnings. Based on the average gross value of export generated by these 134 companies currently enjoying these incentives (of \$29.0 millions each), the total maximum eligible value is \$3.886 billion. The opportunity cost of corporate taxes on these allowances is about \$90 million. A further \$500 million could be added here to account for the other benefits of these incentives. A final Tax Expenditure Account could be presented as in Table 17.

Surprisingly, the direct costs of incentives are not that significant compared to the benefits accrued as highlighted above. It only costs the government on average \$18 million per company. A quick cost and benefit analysis will show that the economy has a lot to gain from the incentive programme compared to its costs especially in the long term.

TABLE 17. Tax expenditure account of the Malaysian Investment tax incentives programmes

Type in incentives	Corporate tax exempted	Other tax exemption (in millions \$)	Total tax exemption
Pioneer status	2,010	4,500	6,510
Investment tax allowances	500	1,560	2,060
Export incentives	90	500	690
Other type of incentives	130	2,200	2,330
Total costs	2,730	8,760	11,490

INVESTMENT INCENTIVES AND THE FOREIGN INVESTORS

Investment incentive programmes are meant to relief taxpayers from sufffering, in partial or in total, taxation on profits earned their investments. The result is, however, difficult to ascertain, particularly on foreign investors, as those who invest in this country are also subject to tax rules and regulations of their parent countries on investment in Malaysia. This applies even when Malaysia has entered into a double taxation agreement with those countries.

This international aspect of taxation which involves a standard unilateral arrangement or bilateral agreement would affect the final impact of tax relief for foreign investors. Under the standard world wide basis of taxation, a company established in Malaysia as a direct investment or subsidiary of another company owned by, say, an American group, will be liable for taxation on income generated from Malaysia even if profits from the operation are not remitted back to the USA. In the case where there exists a double taxation agreement between Malaysia and that particular country, the tax paid in Malaysia will normally be aloowed as a credit against tax imposed on the same income in the parent country. Where there is no agreement signed between that two countries, a unilateral credit applies and a certain credit is assumed for income that had suffered taxes in Malaysia.

A crucial point to ponder, however, is, what happens when income has been exempted from taxation in Malaysia due to, say, tax holiday incentives? The standard rule is that since those incomes have not suffered from any taxes, it would be fully taxable without any tax credit in the parent country. As a result, all incentives to the investors are lost as tax payment to the parent country (normally the more developed countries) who does not, in fact, need any subsidy. The exception is, of course, when there lies a 'tax sparing' clause in the double tax agreement between Malaysia and the particular country, such as Japan. In this case, the parent country will assume that the tax exemption in Malaysia does not exist. Taxes will be spared and credit provided when the same income is taxable again in its country. This explains the phenomenon that the Japanese have been the leading foreign investors in Malaysia and in other countries in the region.

The main problem with these tax sparing clauses is that most developed countries refuse to provide them in their agreement with Malaysia for fear of losing too much local investment. Malaysia, for example, had been negotiating for a double tax agreement with the USA for over 15 years without much avail due to the US's refusal to include the tax sparing clause in the agreement.

As tax sparing clauses have now become a thing of the past, it is baseless for Malaysia to pursue the strategy any further. After all, none of our competitors in the ASEAN region has been discriminated from this treatment by these industrialised nations. Instead, to save our subsidy value (from the granting of incentives) from getting wasted into the hands of industrialised nations, we should make an effort to recover back the subsidy from these investors without hurting them directly, simply by adding a withholding provision on dividends paid by foreign investors to their parent countries. Provided a similar treatment is available on interests, royalties, rent and other income from capital, we could practically recoup back the subsidy value provided through this investment tax incentive programme.

Foreign investors still have a lot to gain from the incentive programme, for at least, they could enjoy the 'deferral' benefits, ie., deferring from paying income tax on their profits from investment in Malaysia. Not only could they save some interst from this, the incentive programme could also relax their cash flow requirements during their operations here.

Another important aspect of the incentive programme relates to the interpretation given to it by industrialised countries. This is especially true for the export incentives. Most developed countries like the USA have a 'countervailing duty' provision which protect their local manufacturers there. They will not allow a manufacturer from another country to be subsidised by its government just to enable them to export their products to the USA. To do this, they will impose taxes back on all forms of subsidies that have been granted to these exportes by their parent country. Consequently, the incentive benefits are once again lost to the industrialised countries.

CONCLUSION AND RECOMMENDATION

The discussion above attempts to critically evaluate the performance of the Malaysian Investment Tax Incentive Programme in light of its effect and impact, benefits and costs, and its attractiveness in relation to its neighbouring countries. More specifically, the discussion has highlighted the findings of the behavioural survey on investors' perceptions about the Malaysian incentive programme. The findings from the above discussion could be used to debate and recommend a reform in the incentive programme of Malaysia.

Basically, the recommendation on the reform is based on three basic principles:

1. The tax incentive programme must be at least as attractive as those offered by the neighbouring countries to create an impact.
2. The incentive programme must be broad in scope to include investment climate as an equally important factor.
3. The incentive benefits must not be led to waste through unforseen factors.

THE RECOMMENDATIONS

In general, the Malaysia tax incentive package is relatively attractive to the other countries in the region. However, it has not generated the expected results due to largely the incentive package not being blended and integrated well with the other non-tax features which form part of a total incentive package. Only a few minor incentives need to be randomly included to compete with our neighbours so as not to lose out in the race.

INCREASING THE INCENTIVES COVERAGE

The tax incentive programme should be widened to include service industries such as fund management, monetary exchange management, brokerage services, trading activities and other pforessional services. This would reduce the obvious discrimination created between the manufacturing and other concerns. The incentives could be provided in similar forms like the incentives currently available to manufacturers.

The tax incentives must be targetted more toward high-risked investments, i.e., ventures which involve 'green areas' or require heavy capital expenditures and have long gestation periods. This will lead us to a more advanced stage of industrialization as envisaged by the political master. These incentives could be granted in the form of a group relief or privileges in treatment and special relief from taxation.

Another form of incentive related to the 'green area' could also be provided through a research and development relief or provision. This could cover areas such as computer software, information services, agrotechnology services, laboratory and testing services as well as medical research services. The incentive could be provided in the form of tax deferral through the creation of a research and development provision fund in companies. To make it more attractive for companies to develop or purchase the latest technology for their operations, companies should be allowed to amortise patent rights, trademarks and copyrights, just like any other tangible asset.

BROADENING THE DEFINITION OF INVESTMENT INCENTIVES

As it has been proven that tax incentives alone do not work effectively, our incentive programme must be well blended with other factors that form the investment climate. This means, we must improve the public administration, particularly those that deal directly with investors, such as The Malaysian Industrial Development Authority, the Income Tax Department, The Ministry of Trade and Industry office, The Licencing Board, local authorities, Customs Department, Immigration Department, etc. Government regulations, rules and laws must also be tuned to create a more conducive and suitable environment for investors including foreign investors. The main objective of these exercises is to tighten administration and reduce bureaucratic procedures especially those that involve investors' affairs.

TO ENSURE APPROPRIATE UTILISATION OF INCENTIVES BENEFITS

Even though the incentive programme proposed earlier could be considered overgenerous, we could ensure that it does not go to waste by recouping it back when it is not needed. The over generous incentives could act as a good welcoming signal. As investors will not normally lose anything if we recoup back incentives in the form of withholding tax on dividends and other forms of capital income, we could avoid the subsidy benefit from falling into the hands of the parent government's tax pocket unnecessarily. The basic assumption here is that, when investors bring profit home to their parent country, they could still expect to be taxed there. Tax credit is also available for them in the home country. Withholding tax could be introdueced on dividends paid out of tax-exempted income which would reduce the incentive benefits to 'tax deferrals' instead of a 'complete exemption.'

The whole spirit of the reform is that it is better to provide everything to our guests while they are here and to get them back when they leave rather than giving them just a 'litte bit' but for good.

REFERENCES

Agarwal, J.P. 1986. The role of investment incentives in East West competition in ASEAN countries. *Indian Journal of Economics*, 101-30.

Allen, Thomas. 1981. Investment climate in South East Asia. In *ASEAN and a Positive Strategy for Foreign Investment*, Vasey, L.R. Singapore, 121-30.

Ariff, K.A.M. 1983. Export-Oriented Industrialisation in Malaysia: Policies and Responses. Kuala Lumpur: University of Malaya.

Ashcroft, B. & Taylor, J. 1979. The effect of regional policy on the movement of industry in Great Britain. In *Regional Policy, Past Experience and New Directions*, Maclennan, D. & J.B. Parr (Eds.). London: Martin Robertson, 43-64.

Asher, Mukul G. 1986. Fiscal incentives and promotion of investment in the ASEAN region: An economist viewpoint. In *Income Taxation in The Asean Countries: A Comprehensive Guide and Analysis*, Rolt & Talib (Eds.). Singapore: APTIRC.

Auerbach, A.J. & Hines J.R. 1988 (May). Investment tax incentives and frequent tax reforms. *American Economic Association, Papers and Proceedings*.

Barlow, E.R. & Wender, I.T. 1955. Foreign investment and taxation. *International Tax Program*. Harvard Law School.

Begg, H.M., Lythe, C.M. & MacDonald, D.R. 1976. The impact of regional policy on investment in manufacturing industry in Scotland 1960-1971. *Urban Studies*, 171-9.

Cheong, K.C. 1975. A short term forecasting model of the real sector of the Malaysian economy, 1967-1973. *Occasional Papers on Malaysian Socio-Economic Affairs*, No.4. Kuala Lumpur: University Malaya.

Chiu, Lin Fee. 1978. *The Effects of Tax Incentives on Foreign Investment in Singapore*. Singapore: University of Singapore.

Faini, Riccardo & Schiantarelli, Fabio. 1987. Incentives and Investment Decisions: The Effectiveness of Regional Policy. *Oxford Economic Papers*, 201-40.

Gandhi, ved. et al. 1982. Malaysia: Restructuring the tax system for growth and export. *International Monetary Fund.*

Gandhi, ved, et al. 1981. Unemployment in Developing countries: Can tax incentives help. *International Monetary Fund.* Fiscal Affairs Department, DM/81/9.

Hall, R.E. & Jorgenson, D.W. 1967. Tax policy and investment behavior. *American Economic Review*, 41-81.

Hoffmann, Lutz & Tan, Siew Ee. 1980. *Industrial Growth, Employment and Foreign Investment in Peninsular Malaysia.* Oxford University Press.

Huges, Helen. 1980. *Foreign Investment and Industrialisation in Singapore*. Australian National University Press.

Jorgenson, F.W. 1963 (May). Capital theory and investment behaviour. *American Economic Review Proceeding* 53: 247-59.

Jorgenson, D.W. & Kun-Young Yun. 1986. Tax policy and capital allocation.*Scand. Journal of Economics*, 55-82.

King, M.A. 1972. Taxation and investment incentives in a vintage investment model. *Journal of Public Economics* 1: 121-147.

Klein, L.R. 1950. *Fluctuations in the United States, 1921-1941*. New York: John Wiley & Sons, Inc.

Lent, G. 1967. Tax incentives for investment in developing countries. *Finance and Development*, 18-31.

Lim, David. 1983. Fiscal incentives and direct foreign investment in less-developed countries. *Journal of Development Studies* 19(2): 207-12.

Lim, Che Peng & Fong, Foong Wai. 1979. *An Analysis of Small Industry in Malaysia*. Kuala Lumpur: University of Malaya.

Malaysian Industrial Policy Studies. 1984. *Tariff and Tariff-Related Incentives in Malaysia*. M.I.D.F.

Malaysian Industrial Policy Studies. 1984. *Review and Recommendations on Tax and Credit Incentives for Investment and Export in Malaysian Manufacturing*. Project No. 4.

Moore, B. & Rhodes, J. 1973 (March). Evaluating the effects of British regional economic policy. *The Economic Journal*, 87-110.

Musgrave, P.B. 1969. United States taxation of foreign investment income. *International Tax Program*. Harvard Law School, 3-21.

Prakash, V. 1980. *A Study of Growth, Performance and Outlook of the Manufacturing Sector*. World Bank.

Rhae, Y. 1980. Incentives systems and policies for the manufacturing industries in Malaysia. *World Bank, Background Paper*.

Shah, S.M.S. & J.F.J. Toye. 1978. Fiscal incentives for firms in some developing countries: Survey and critique. In *Taxation and Economic Development*, J.F.J. Toye (Ed). Frank Cass and Co. Ltd., 269-96.

Summers, L.H. 1981. Taxation and investment: A q-theory approach. *Brookings Papers on Economic Activity*, 42-91.

UNDP/IBRD survey. 1971. *Asia Needs and New Approach to the Multinationals. ASEAN and a Positive Strategy for Foreign Investment*, 8-21.

Yue, Chia Siow. 1979. Singapore and ASEAN economic cooperation. Research project undertaken under the auspices of ADIPA, 3,11.

Vasey, L.R. 1981. *ASEAN and Positive Strategy for Foreign Investment*. Longmans: Singapore.

Jabatan Perakaunan
Fakulti Pergurusan Perniagaan
Universiti Kebangsaan Malaysia
43600 UKM Bangi
Selangor D.E.