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Lim, Guanle

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What do Malaysian Firms Seek in Vietnam?

Based on research and qualitative personal interviews with Malaysian firms that have invested in Vietnam, the paper investigates the motives guiding their foreign direct investment (FDI). It argues that a sizeable portion of Malaysian firms are market seekers exploiting Vietnam's large, young, and growing domestic market, and natural resource seekers targeting the country's natural resource i.e. land lease, labour, and raw materials. The paper also argues that some of the firms are strategic asset seekers as they collaborate with politically well-connected Vietnamese firms to further their long term commercial interests, underscoring their experience in operating in a challenging business environment. Only a small percentage of Malaysian firms identify themselves as efficiency seekers, which highlights the low organizational and technical abilities of Malaysia's manufacturing sector. Nevertheless, such investment is suitable for Vietnam as it expedites Vietnam's development more effectively than the traditional 'North-South FDI'.

Keywords: Economic Globalization; Foreign Direct Investment; Investment Motive; Southeast Asia; South-South Cooperation

Introduction

Malaysia is one of several Asian countries that have attained a relatively high degree of industrialization and economic growth in recent years. The reasons undergirding its success are numerous, yet one of the most important factors is the country's openness towards the inflow of foreign direct investment (FDI), especially those from the Western bloc and Japan. While Malaysia is well known as a host country to FDI, outward FDI from the country is relatively less heard of as its amount traditionally lags the inward FDI. The scholarly attention on this topic is also unsurprisingly lopsided, with most researchers analysing the influx of FDI into Malaysia on an exclusive basis (see Henderson & Phillips, 2007; Rasiah, 1995). However, this situation is no longer tenable as Malaysia has become a net FDI exporter

since 2007 (Menon, 2014). To this end, this paper attempts to bridge this research gap by taking a firm-centric perspective of the outward FDI to Vietnam, one of the most favoured places for Malaysian firms to expand their activities into. It explores the investment motives of 56 Malaysian firms that have established their corporate presence in Vietnam. More broadly, the paper contributes to existing research detailing 'South-South FDI', a research area that would likely gain prominence as the developing economies of the Global South – lead by the likes of Brazil, Russia, India, China, and South Africa (BRICS) – exert their considerable influence in the foreseeable future (see United Nations Conference on Trade and Development, 2015).

In the context of Malaysia and Vietnam, the influx of Malaysian FDI into the latter has taken place amidst an intensifying bilateral economic interaction since Vietnam liberalized its economy in its 1986 *doi moi* (renovation) reform. Accompanying such economic transformation is the growing number of cross-country marriages between Malaysian (ethnic Chinese) men and Vietnamese women (G. Lim, 2016a). In certain ways, the economic fortunes of both countries are intertwined through these business (and to a smaller extent, socioeconomic) networks.

With the above as a backdrop, the paper intends to analyse the investment motives undergirding the ventures of Malaysian firms in the developing economy of Vietnam. It does so by utilizing and testing the investment motive framework developed by Dunning (1998) and Dunning and Lundan (2008). As alluded to previously, Vietnam is chosen because it is one of the most favoured places for these firms to expand their activities into. Another reason is that relatively little studies have been conducted on Malaysian investments in Vietnam, despite the growing trade and investment linkages between these two Southeast Asian countries. Based on personal interviews with 56 Malaysian firms that have invested into Vietnam, this paper shows that a significant portion of Malaysian firms are market seekers exploiting Vietnam's large, young, and growing domestic market, and natural

resource seekers targeting the country's cheap natural resource. It also argues that some of the Malaysian firms are strategic asset seekers as they collaborate with politically well-connected Vietnamese firms to further their long term goals. This affects the Malaysian firms operating in the property and construction sector the most, implying the influence of political considerations in the investment motives of the firms surveyed. Meanwhile, a small percentage of Malaysian firms are efficiency seekers, highlighting the low organizational and technical abilities of Malaysia's manufacturing sector. In terms of 'South-South FDI', the paper underlines the relative ease in which Malaysian firms operate in an opaque setting as they have already developed the experience to navigate such uncertainties in their home economy. In addition, the low occurrence of efficiency seekers illustrates a relatively smaller technological gap (a key feature of 'South-South FDI') between Malaysia and Vietnam, which generates more effective spillovers for Vietnam.

This paper begins with a review of the literature on the investment motive of firms. This is accompanied by an identification of the gap in knowledge specifically targeting Malaysian firms investing into foreign markets. In the next section, the paper offers an empirical analysis of Malaysian investment in Vietnam (using data published by international, Malaysian, and Vietnamese agencies). It then describes the research methodology before the motives of the Malaysian firms investing into Vietnam are examined. This is followed by a discussion of these findings. The paper concludes with a summary of the main arguments, along with some policy advice.

Theoretical Framework

The literature on FDI identifies two main types of investment motive: factor (natural resource, efficiency, and strategic asset) seeking and market seeking (Deng, 2003, 2009; Dunning, 1998; Dunning & Lundan, 2008; Holtbrügge & Kreppel, 2012; Kudina & Jakubiak, 2008; N.-C. Lim, Edwards, & Tee, 2015; Meyer, 2015; Nguyen, 2014; Pananond, 2015; Ramasamy, Yeung, & Laforet, 2012). Amongst the factor seekers, natural resource seekers invest

abroad to acquire certain resources at a comparatively lower cost vis-à-vis their home country. They usually seek physical resources of one kind or another, supplies of cheap labour, and/or technological and managerial expertise. On occasions, the natural resource seekers might invest into a particular location in response to governmental (from both the host and home economies) restrictions or incentives. In their research on the FDI entering the Commonwealth of Independent States (CIS), Kudina and Jakubiak (2008) show that Kyrgyzstan's and Ukraine's substantial mineral deposit and cheap labour force are attractive to natural resource seekers. Meanwhile, efficiency seekers rationalize the structure of their investment so that they could gain from the common governance of geographically dispersed activities. They take advantage of different factor endowments, cultures, institutional arrangements, economic systems and policies, and market structures by concentrating production in a few specialized locales to supply multiple markets (Dunning & Lundan, 2008). Efficiency seekers are usually involved in the manufacturing industry. Moreover, the best efficiency seekers are the ones that make the best out of the inherently uneven distribution of location-specific factor endowments between specialized spatial clusters (such as science and industrial parks and export processing zones) rather than those between countries per se (Dunning, 1998; N.-C. Lim et al., 2015). Strategic asset seekers engage in FDI to promote their long term strategic objectives, usually to sustain or advance their international competitiveness. Their motivation is less to exploit specific cost or marketing advantages than to add to the investing firms' existing portfolio of assets with the long term goal of sustaining or strengthening their own competitiveness vis-à-vis that of their competitors. According to Meyer (2015), strategic asset seekers do so by acquiring assets from or by partnering a foreign firm. To further their long term interests, these firms are not averse to sustaining losses in the short to medium term (see also Deng, 2009). Lastly, market seeking firms are attracted by the host country's market size (in terms of population and purchasing power) and the potential of market growth. Market seekers invest in the host country normally because the potential benefits of doing so outweigh those of the

existing options i.e. exporting the products from either the home or a third country. Liu and Dicken (2006) show that the world's largest automobile firms have invested aggressively into China since its 1979 economic liberalization. These firms have subsequently deepened their investment in China despite some strict business stipulation (e.g. local content requirement) imposed by the Chinese state, underlining the allure of the vast Chinese automobile market. In a more recent study, Holtbrügge and Kreppel (2012) illustrate that firms from the BRICS economies prefer to invest in the Global North economies in spite of the fiercer competition and higher business costs involved. Such investments are attractive because of the Global North's considerable market size and high per capita income. The more sophisticated business environment also helps the BRICS firms acquire managerial and technological know-how. Indeed, Germany is one of the first and most critical markets for Russia's Gazprom and India's Wipro to expand into. In addition to the focus on the host country's domestic market, market seekers are tempted by the possibility of tapping into the adjacent markets (e.g. the North American Free Trade Agreement (NAFTA) and the Association of Southeast Asian Nations (ASEAN) regional trading blocs) (see Nguyen, 2014). However, it must be mentioned that some investors pursue multiple objectives simultaneously and their FDI often reflects the characteristics of each of the four categories (Kudina & Jakubiak, 2008). This is also partially attributable to the growing complexity in the global economy (Pananond, 2015).

Although the above position is well-accepted, there is still a dearth of literature analysing the investment motives of Malaysian firms entering foreign markets. As the previous section has suggested, Malaysia only became a net FDI exporter in recent years. Hence, it is unsurprising that researchers do not devote much attention in analysing outward FDI from Malaysia, what more those which focus on the investment motives of Malaysian firms investing abroad. This does not mean that there is not similar research regarding this topic. For instance, using a case study approach, Sim (2005) unpacks the rationale of 12 Malaysian firms which have invested abroad. However, his research suffers from a small

sample size of 12. It is also not country-specific, analysing Malaysian firms that have invested into multiple destinations (see also Sim & Pandian, 2007; Tham, 2007; Tham, Teo, & Kam, 2015). This paper adds empirical depth to Sim's work on both of these aspects, increasing the sample size of firms to 56 and focusing on the investment motives of Malaysian firms which have entered Vietnam, one of the most popular investment destinations of the former. Furthermore, the paper complements earlier research (e.g. Gomez, 2006; G. Lim, 2016a; Zwart, 2007) that has only examined the outward investment of firms owned/managed by the ethnic Chinese populace of Malaysia (despite their pre-eminent status in the Malaysian economy) by analysing Malaysian firms regardless of their ethnicity. The paper's ethnic-neutral outlook also shifts attention away from the culturalist school of thought that has long influenced, perhaps excessively, scholars covering Malaysian business (see G. Lim, 2016a). Such an approach is more inclusive as many of the firms analysed in this paper are government-linked companies (GLCs), key agents of the Malaysian economy. In other words, it adds a vital dimension to existing studies that focus only on ethnic Chinese firms, directing research attention towards the broader scholarship on FDI and firm internationalization.

More generally, this paper also contributes to the body of literature detailing multinational companies (MNCs) activities and their cross-border investment into Vietnam. A number of studies on FDI in Vietnam point to the importance of market seeking motivation for the investors. One of the more recent studies by Schaumburg-Müller (2010) shows that many of these investments are almost entirely oriented towards Vietnam's populous domestic market, especially in the former import substitution industries such as the automotive, machinery, and electronic and electrical household goods sectors (Bui, Nguyen, Nguyen, Ta, & Hansen, 2010; Ishida, 2013). A good illustration of this phenomenon is provided by Fujita's (2013) research on Vietnam's motorcycle manufacturing industry. She argues that the Japanese and Chinese lead firms have devised different corporate strategies in their efforts to gain a presence in Vietnam in the wake of the 1986 *doi moi* reform. Despite

the Japanese and Chinese firms' divergent strategies of targeting the higher end and lower end of the market respectively, Fujita shows that they are fundamentally motivated by Vietnam's large population, poor public transportation system, and low (but rising) income level. Notwithstanding the appeal of its domestic market (third largest in ASEAN), Vietnam's corporate sector is challenging for MNCs as it lacks transparency and is rife with allegations of power abuse by the state sector (see also Yeoh, Sim, & How, 2007). In particular, its cohort of state-owned enterprises (SOEs) enjoys a cosy relationship with the state and has privileged access to factors of production (e.g. land and concession) and market opportunities. Despite some reforms, the SOEs remain key players in the economy and various MNCs have found it convenient to collaborate with the former when they expand their businesses to Vietnam (see Thomsen, 2009). This is underlined most starkly in strategic sectors such as telecommunication and finance (Beeson & Pham, 2012; G. Lim, 2016b).

While the above body of research is insightful in its own right, the firms analysed tend to be relatively experienced MNCs, predominantly those originating from the US, Europe, and Japan. Much less information is available on the behaviours of MNCs from developing countries such as Malaysia. Furthermore, this lack of insight does not commensurate with the growing economic weight of the Global South (United Nations Conference on Trade and Development, 2015). According to Horner (2016), the analytical focus must move beyond the traditional 'North-South' orientation to explore the heterogeneity within the Global South, especially those involving 'South-South FDI' (see also Ainina & Mohan, 2010; Aykut & Goldstein, 2007; G. Lim, 2015). Relative to the traditional 'North-South FDI', the 'South-South FDI' is advantageous to a host economy as the latter tends to be more labour-intensive than the former (Lipsey & Sjöholm, 2011). The labour intensity of the 'South-South FDI' suits a developing country as it usually has a surplus of labour (relative to capital and technology) (Chen & Chien, 2017). In addition, the labour intensity of the 'South-South FDI' also implies a smaller technological gap between the FDI exporter state and the FDI

recipient state. This in turn provides more effective technological spillovers for the FDI recipient state, stimulating its economic catch-up process (Amighini & Sanfilippo, 2014). Another observation is that emerging market firms are more adept than their Global North counterparts when they invest into and operate in a fellow Global South host economy. The ability to manage in a challenging environment, which the emerging market firms have developed at home, help them become leading firms in other Global South host economies when they internationalize (Cuervo-Cazurra, 2012; Cuervo-Cazurra & Genc, 2008). Put another way, 'South-South FDI' contributes to capital accumulation in the institutionally weaker Global South host economies, particularly those shunned by firms from the Global North (see Amighini & Sanfilippo, 2014; G. Lim, 2015). Nevertheless, the competence of the emerging market firms in navigating low quality institutions often worsens the already complicated political economy of the host economy. To this end, G. Lim (2015) illustrates that the Chinese firms investing into Malaysia (a fellow developing country) are adept at forging business ties with some of Malaysia's most well-connected GLCs, proxies deployed to further the welfare of the majority *Bumiputera* (essentially Malay) ethnic group. The Chinese firms' strong preference of the GLCs has the side effect of entrenching Malaysia's decades-old ethnocentric economic redistribution model, which favours the Southeast Asian country's *Bumiputera* ethnic group at the expense of the ethnic minorities (Gomez, 2012; Hill, Tham, & Ragayah, 2012; G. Lim, 2016c). Similarly, in South America, the investment initiatives of Brazilian firms are often viewed suspiciously by the smaller countries in that region. According to Copara (2014), the Bolivian and Ecuadorian governments have nationalized and renegotiated major projects by key Brazilian firms following years of public outcry over unfair competition and the marginalization of local stakeholders (see Burges, 2015; Haarstad, 2009). In view of this development, a more grounded insight examining the 'South-South FDI' is timely. This paper furthers this agenda by analysing the investment motive of Malaysian firms when they invest into another developing country (in this case, it is Vietnam). Such a perspective is needed even more urgently as – should past data on the

direction and intensity of Malaysia's outward flow of FDI provide a good indication of future performances – an increasingly larger number of these firms extend their operations beyond their national borders in the search for new markets and higher profits.

Malaysia's Investment in Vietnam

Table 1 depicts the *flow* of FDI into and out of Malaysia from the years 2000 to 2014. Malaysia has been unable to draw upon inward FDI as an engine of growth because large net flows of FDI have been leaving the country since 2007. Menon (2014) further concludes that a significant portion of the outflow has taken place in the services (dominated by oil and gas, mining, and banking activities), and the agriculture sectors. Unlike the relatively more industrialized tiger economies of East Asia such as Korea and Taiwan, Malaysia does not possess a manufacturing sector of similar stature to rival its East Asian peers. As Gomez (2012) argues, none of the country's biggest firms are involved in manufacturing on a significant basis. Even for the firms that do manufacture, they have generally employed relatively unsophisticated production technology and rather limited volume (Studwell, 2013). With a less than developed manufacturing sector, the outward FDI of Malaysia is naturally dominated by firms taking part in non-manufacturing activities i.e. the services and the agriculture sectors.

Table 1: Malaysia's Flow of Foreign Direct Investment at Current Prices and Current Exchange Rates, 2000-2014 (USD; Million)

Year	Inward Flow	Outward Flow	Net Flow
2000	3,788	(2,026)	1,762
2001	554	(267)	287

2002	3,203	(1,905)	1,299
2003	2,473	(1,369)	1,104
2004	4,624	(2,061)	2,563
2005	4,065	(3,076)	990
2006	6,060	(6,021)	39
2007	8,595	(11,314)	(2,719)
2008	7,172	(14,965)	(7,793)
2009	1,453	(7,784)	(6,331)
2010	9,060	(13,399)	(4,339)
2011	12,198	(15,249)	(3,051)
2012	10,074	(17,115)	(7,041)
2013	12,115	(14,107)	(1,992)
2014	10,799	(16,445)	(5,646)

Source: United Nations Conference on Trade and Development.

Table 2 shows the 2008 to 2014 *flow* of outward FDI originating from Malaysia and its top 10 recipients, with Vietnam occupying the tenth position. Within Southeast Asia, Vietnam is emerging as a preferred investment destination outside the long-established recipients – Singapore, Indonesia, and Thailand. On the other hand, Table 3's snapshot of the *stock* of FDI accumulated in Vietnam by country of origin tells a similar story. As of December 2014, eight out of the top 10 investors in Vietnam originate from Asian countries. More significantly, Malaysia is ranked as Vietnam's eighth largest investor.

Table 2: Top 10 Destinations of Malaysia's Outward Flow of Foreign Direct Investment, 2008-2014 (MYR; Million)

No.	Destination	2008	2009	2010	2011	2012	2013	2014	Total
1	Singapore	(5,318)	(3,569)	(12,800)	(9,603)	(8,340)	(3,856)	(895)	(44,381)
2	Australia	(7,509)	(946)	(6,040)	(7,492)	(4,294)	(6,474)	(4,405)	(37,160)
3	Indonesia	(12,931)	(2,391)	(2,763)	(4,023)	(2,789)	(3,835)	(5,480)	(34,212)

4	Mauritius	(4,236)	(3,649)	(1,659)	(6,526)	1,739	1,526	(1,724)	(14,529)
5	United Kingdom	(2,576)	(666)	(2,855)	(1,551)	(460)	(690)	(5,073)	(13,871)
6	British Virgin Islands	(69)	(3,371)	(1,953)	(3,679)	(1,705)	(908)	(532)	(12,217)
7	Hong Kong	(214)	(22)	(938)	(549)	(3,146)	(2,160)	(867)	(7,896)
8	Thailand	(619)	(2,748)	(1,001)	(178)	(1,042)	(1,736)	(174)	(7,498)
9	Cayman Islands	(976)	(833)	(1,137)	(1,719)	(1,170)	637	(1,523)	(6,721)
10	Vietnam	(1,749)	(837)	(427)	(2,886)	(88)	(341)	12	(6,316)

Source: Central Bank of Malaysia.

Table 3: Stock of Foreign Direct Investment in Vietnam by Country of Origin, as of December 2014 (USD; Million)

No.	Country of Origin	Number of Projects	Total Registered Capital
1	Korea	4,190	37,726
2	Japan	2,531	37,335
3	Singapore	1,367	32,937
4	Taiwan	2,387	28,469
5	British Virgin Islands	551	17,990
6	Hong Kong	883	15,603
7	USA	725	10,990
8	Malaysia	489	10,804
9	China	1,102	7,983
10	Thailand	379	6,749

Source: General Statistics Office of Vietnam.

While some of the large and well-capitalized Malaysian firms have invested in high profile projects in Vietnam (e.g. the Lion Group in retailing and Tan Chong Motor Holdings in automobile assembly and distribution), their entry into Vietnam is also flanked by the comparatively smaller small and medium enterprises (SMEs). The SMEs are a force to be reckoned with as they collectively contribute close to 33% of the country's gross domestic product (GDP) (National SME Development Council, 2013). Focusing on the experience of

56 Malaysian firms that have invested in Vietnam, the paper unpacks the investment motives of both the well-capitalized firms and the SMEs, unearthing the economic rationale undergirding their investment decision.

Methodology

This paper used a qualitative personal interview method to collect and analyse data on the motives of Malaysian firms that have invested in Vietnam. In the preliminary selection, a list of 313 firms was compiled from the directory of the Malaysia Business Chamber Vietnam, various newspaper and magazine articles, the Internet, and through personal contacts. This preliminary selection took place from June to August 2012. From this list, only Malaysian firms that have made equity investment into Vietnam (i.e. establishing wholly or partially owned subsidiaries) were selected and approached for further analysis.

In this paper, the Malaysian firms were divided into two broad categories: SMEs; and large firms. The paper used the latest definition from the SME Corporation Malaysia, a government body that acts as a central point of reference for information and advisory services for all Malaysian SMEs. Under this definition, a SME in the manufacturing sector is a company with sales turnover ranging from Malaysian Ringgit (MYR) 300,000 to MYR 50 million, or with number of employee ranging from five to 200. For a SME in the non-manufacturing sectors, a sales turnover ranging from MYR 300,000 to MYR 20 million, or with number of employee ranging from five to 75, is expected. Throughout the research, it became apparent that many of the firms surveyed were SMEs. A substantial portion of these SMEs were involved in manufacturing and non-manufacturing (namely trade, services, agriculture, property and construction, and finance) activities. On the other hand, the research uncovered a moderate number of large Malaysian firms that have invested in Vietnam, with their sales turnover and employee strength greatly exceeding those of the SMEs. Almost all of these large firms were publicly listed on the Kuala Lumpur Stock Exchange (KLSE).

136 firms were eventually identified and approached from August to October 2012. After multiple follow-ups, only 46 of these firms agreed to be interviewed. In-depth interviews with top executives of the 46 firms were subsequently conducted from October 2012 to February 2013. During this period, an unexpected turn of events emerged as some of the executives of the firms interviewed were kind enough to introduce a few more of their fellow Malaysian nationals who owned and/or managed businesses in Vietnam. Relying on their recommendation, 10 more firms were identified and interviewed from January to March 2014. In total, the paper has managed to secure interview sessions with 56 Malaysian firms. Within this group of firms, 38 of these firms were classified as SMEs, and another 18 were large firms. The underrepresentation of large firms could be partly explained by their rigid protocols, especially when trade-specific information dissemination was involved. On the contrary, the SMEs were somewhat more open in granting interview sessions, especially when their owners and managers started to familiarize themselves with the researcher and the paper's research direction. The openness of the SMEs could also be partially explained by their shorter chain of command in their management structure vis-à-vis that of the (usually) larger and more organizationally complex non-SMEs.

These interview sessions were open-ended and semi-structured, with a focus on the motive undergirding their decision to invest into Vietnam. The goal of these interviews was to unravel the organization of Malaysian investments into Vietnam, particularly to determine the firm-specific and sector-specific circumstances driving the internationalization process of these firms. In other words, the interviews helped to ascertain whether a firm was a factor (natural resource, efficiency, and strategic asset) seeker or market seeker. The interview sessions were conducted in either the firms' headquarters in Malaysia, or their operations in Vietnam, or through the telephone. During the interviews, a voice recorder was employed whenever possible, and only with the permission of the interviewees.

To improve the reliability of the primary data provided by these firms, the data were cross-validated with published sources such as annual reports and company websites (if available), and non-published sources such as interviews with parties that were familiar with the operations of the firms involved e.g. trade officers. The use of these sources of information allowed for data verification and triangulation, which helped to improve data accuracy. Since several of the themes discussed (such as business-state interactions) are considered sensitive in both Vietnam and Malaysia, the interviewees were promised confidentiality. Therefore, this paper does not refer to any entities by their original names. The firms were categorized and numbered according to the economic sectors that they participated in, with clear labels signifying whether they were SMEs or otherwise (large Malaysian firms). The names of the owners and managers of the firms surveyed were also altered to protect their identity.

Findings

Two main investment motives are highlighted: factor seekers and market seekers. Among the factor seekers, three types of motive can be identified: (i) natural resource seekers; (ii) efficiency seekers; and (iii) strategic asset seekers. Table 4 shows the distribution of these motives. As illustrated previously, investment motives are not mutually exclusive. In other words, some factor seekers are also market seekers, and vice versa.

Table 4: Motives of Malaysian Firms Investing into Vietnam

No.	Company	Sector	Factor Seekers			Market Seekers
			Natural Resource Seekers	Efficiency Seekers	Strategic Asset Seekers	
1	T1	Trade				X
2	T2	Trade				X
3	T3	Trade		X		
4	T4	Trade				X
5	T5	Trade	X			X

6	T6	Trade				X
7	T7	Trade			X	X
8	T8 α	Trade				X
9	T9 α	Trade		X	X	X
10	T10 α	Trade			X	X
11	T11 α	Trade				X
12	S1	Services	X			X
13	S2	Services	X			
14	S3	Services			X	
15	S4	Services				X
16	S5	Services		X		
17	S6	Services				X
18	S7	Services			X	X
19	S8	Services	X			
20	S9	Services			X	X
21	S10	Services				X
22	S11	Services			X	X
23	S12	Services	X			X
24	S13 α	Services	X			
25	S14 α	Services	X			X
26	S15 α	Services	X			X
27	M1	Manufacturing	X			X
28	M2	Manufacturing	X			X
29	M3	Manufacturing	X			X
30	M4	Manufacturing	X		X	X
31	M5	Manufacturing	X	X		
32	M6	Manufacturing	X			X
33	M7	Manufacturing	X			X
34	M8	Manufacturing	X		X	X
35	M9	Manufacturing	X			X
36	M10 α	Manufacturing	X			X
37	M11 α	Manufacturing	X			X
38	M12 α	Manufacturing	X	X		X
39	M13 α	Manufacturing	X			X
40	A1	Agriculture	X			
41	A2	Agriculture	X		X	
42	A3	Agriculture	X			
43	A4	Agriculture	X			X
44	A5	Agriculture	X		X	
45	A6	Agriculture	X			X
46	PC1	Property and Construction			X	
47	PC2	Property and Construction	X		X	
48	PC3	Property and Construction			X	
49	PC4	Property and Construction	X		X	
50	PC5 α	Property and Construction	X		X	
51	F1 α	Finance			X	X
52	F2 α	Finance				X
53	F3 α	Finance				X
54	F4 α	Finance			X	
55	F5 α	Finance			X	X
56	F6 α	Finance			X	X

Note: α indicates large Malaysian firms.

Table 4 highlights a few salient points. Firstly, the majority of the Malaysian firms (70%) belong to the market seeking group. Aware of Vietnam's populous and young domestic market, these firms actively target the 90 million-strong country and a fledgling and increasingly urbanized population embracing a more consumption-lead lifestyle. Many of them acknowledge that while Vietnam is still a relatively poor country, the possibilities and extent of growth are both significant. Their efforts in capturing the Vietnamese market are exemplified by firms S6 and S7, who both had to modify their existing product offerings (based on their operation in their Malaysian headquarters) to cater to the local preferences of the Vietnamese (personal communication, December 22, 2012). Both firms were initially reluctant to 'do things differently' as they felt that 'this was how things are done back home', but the lack of Vietnamese demand forced them to localize their products. Sales picked up soon after their localization efforts and S6 and S7 are now planning to hire more workers to cater to the increased demand. For S6, it even went to the extent of staffing its head of operations with a local Vietnamese. The position was initially held by a Malaysian expatriate, but he was subsequently dismissed for underperformance. One of the main reasons leading to his underperformance was his insistence of following the head office's business protocol, which did not yield results in Vietnam as it alienated the local employees and customers (personal communication, December 21, 2012). His replacement turned things around as she understood the Vietnamese market sentiment a lot better than him. This finding reinforces Fujita's (2013) research on the motivations driving MNCs to establish motorcycle assembly plants in Vietnam in response to its 1986 *doi moi* reform. Much like the Malaysian firms surveyed in this paper, many of the firms in Fujita's research are eager to take part in a populous and youthful domestic market with potential upside. Rising in tandem with the broader economy, Vietnam's motorcycle market has since grown to be the fourth largest in the world, justifying the investment decisions of these firms.

Secondly, 54% of the Malaysian firms see themselves as natural resource seekers, citing Vietnam's cheap and abundant resources i.e. labour, raw material, and long term land

leases as their main investment motive. This is particularly evident in labour-intensive sectors – manufacturing, agriculture, and property and construction. Furthermore, the same group of firms also base their investment motives around Vietnam's cheap raw material costs and land leases. While some firms have expressed frustration at Vietnam's land laws, they also reveal that the availability of cheap land leases were 'too good to turn down', and have centred their investment motives mainly on it and other cheap resources. This finding strengthens Sim's (2005) in-depth research on three (out of 12) firms that have invested into Vietnam. He argues that the competitive advantages of these firms are based on price, low cost management, and the capability to manage firms in other developing countries. Hence, the availability of cheap input cost (e.g. large pool of low cost labour) in Vietnam is crucial to maintain the price competitiveness of their products. As Chang (the director of firm M9) explains:

Our operations here in Vietnam do not differ very much from our headquarters in Malaysia. The line equipment is more or less the same, but the scale here is much larger... The lease is pretty cheap too, but I can't tell you the exact amount. With a big piece of cheap land, we decided to bring in more Vietnamese workers. The cost plays a big role here as you'll imagine. As Vietnamese workers cost about half of what we pay an average worker back in Malaysia, we are able to hire more of them. Of course they aren't as skilled as Malaysian workers, but they can still be trained and managed (personal communication, January 12, 2014)

A moderate number (36%) of firms identify themselves as strategic asset seekers. Many of these firms have established equity joint ventures with and/or acquired part of the equity of their Vietnamese partners, sacrificing managerial autonomy for local insights as they are not entirely familiar with the rules and regulations of Vietnam and the respective sectors that they are involved in. In some cases, the Malaysian firms reveal that they are

prepared to forego short term profit in their Vietnamese ventures to first breach and ultimately capture more of the Vietnamese market. For instance, many of the firms surveyed are particularly confused by the Vietnamese land use system. This unfamiliarity with the local land ownership system is also exacerbated by their incompetence in the Vietnamese language. Such a situation seems to affect the Malaysian firms operating in the property and construction sector the most. More specifically, all of the property and construction firms rationalize their Vietnamese investments as 'strategic assets'. They argue that joining forces with politically well-connected Vietnamese firms, especially the SOEs, placed them in a strong position otherwise not available if they had carried out the project by themselves. Aware of the legal red tape surrounding land access in Vietnam, these firms have devised ways around it, relying on their respective SOE partners in the process.

A similar story is also observed amongst the Malaysian firms participating in the finance sector as four out of six of the finance firms in Table 4 are strategic asset seekers. Their stance is best summed up by F1α's investment (personal communication, January 10, 2013). F1α was actively searching for a joint venture partner during its foray into the Vietnamese market in the 1990s. A few private Vietnamese finance firms have already been contacted before F1α's hired consultants suggested tacitly that it was in the firm's interest to cooperate with a particular SOE. More specifically, F1α was made to understand that the consultants had direct contact with 'some influential people', implying some covert 'encouragement' had been applied in influencing F1α's choice of a joint venture partner. F1α was initially put off by this information and its senior management back in Malaysia very nearly aborted its investment plan. Toby, an F1α manager familiar with this episode, revealed that some members of F1α's senior management did not believe that this particular SOE could match its working style and corporate culture. Ultimately, the senior management decided that gaining an early presence in the then still-isolated Vietnamese market would greatly advance F1α's long term interest and it was also imperative for the firm to secure a Vietnamese partner (SOE or otherwise) before its rivals do so. Notwithstanding the

reluctance to cooperate with the Vietnamese SOE, F1α eventually settled on a 50:50 joint venture with the former. F1α's experience supports the works of G. Lim (2016b) and Beeson and Pham (2012), underlining the Vietnamese state's clout in a sector as crucial as finance. More broadly, the combined observation on the property and construction, and the finance sectors resonates with Thomsen's (2009) thesis, which asserts that the allocation of factors of production (such as land in the form of land lease) to private firms is still predominantly state-driven and personalized in Vietnam. The opaque manner in which the Vietnamese state distributes the land leases has allowed the firms – the SOEs and parties friendly to them – possessing close and personalized relationship with the state apparatus to exploit the status quo. Under such conditions, it is only natural for the Malaysian firms to collaborate with these 'more connected' Vietnamese entities.

The relatively low organizational and technical abilities of Malaysian firms can be observed in the low percentage (9%) of firms identifying themselves as efficiency seekers. More specifically, the low number of efficiency seekers is conspicuous in the manufacturing sector, a sector commonly regarded as the most capable at rationalizing its investment to gain from the common governance of geographically dispersed activities. The low occurrence supports the assessment by Gomez (2012) and Studwell (2013), who both point out the generally low technology content, small volume, and simplified operations of Malaysian firms, especially those involved in manufacturing. In addition, efficiency seekers are typically experienced, large and diversified MNCs producing fairly standardized products and engaging in internationally accepted production processes (Dunning & Lundan, 2008; N.-C. Lim et al., 2015). In other words, the potential benefits of efficiency seeking FDI is not attainable for firms – particularly the technologically immature manufacturing firms of Malaysia – operating without economies of scale and scope. Such an outlook is also correlated to the components of Malaysia's outward FDI, which have traditionally been dictated by the wider services (dominated by oil and gas, mining, and banking activities), and the agriculture sectors. To this end, firms engaged in these economic activities do not

usually generate and benefit from cross-border (sub)product or process specialization and the accompanying learning experiences that result from the arbitraging of place-specific cost, price, and technical differentials (Dunning & Lundan, 2008).

In terms of 'South-South FDI', two observations can be made. The first observation relates to the ease with which Malaysian firms establish and manage their operations in Vietnam. In addition to overcoming the liability of foreignness, they have generally fared well in navigating Vietnam's low quality institutions (e.g. the lack of clarity on its land laws and excessive influence of its SOEs). To achieve their goals, the Malaysian firms in this paper have, on certain occasions, resorted to establishing equity joint ventures with and/or acquiring part of the equity of their Vietnamese partners. This is underlined especially by the actions of the strategic asset seeking firms in the property and construction, and finance sectors. Such an observation reinforces the study of Cuervo-Cazurra and Genc (2008) as well as Cuervo-Cazurra (2012), who argue that emerging market firms excel in other Global South countries (where rules are often arbitrary) when they invest abroad as they have already developed the experience to manage in a challenging business environment in their home economies. However, it must be mentioned that while seeking the relevant factors and/or market in another developing country is a valid activity, the ease with which the Malaysian firms have joined forces with the politically well-connected Vietnamese firms (including but not limited to the SOEs) has the side effect of worsening the host economy's already low corporate governance standards, a point raised by G. Lim (2015) and Copara (2014) in their research on China's and Brazil's 'South-South FDI' respectively.

The second observation pertains to the nature of Malaysia's outward FDI. The low occurrence of efficiency seekers (especially in the manufacturing sector) implies that this particular form of FDI is labour-intensive (relative to capital and technology). While a detailed analysis of the industrial composition of the Malaysian outward FDI is beyond the scope of this paper, preliminary evidence supports the works of Chen and Chien (2017) as well as

Amighini and Sanfilippo (2014), who postulate that 'South-South FDI' accelerates structural transformation in the host economy more effectively than the traditional 'North-South FDI'. Their argument is based on the assumption that there is a smaller technological gap (represented by capital and technological intensity) between the 'South-South FDI' home economy and the 'South-South FDI' host economy because of the labour intensity of this particular form of investment.

Conclusion and Policy Implications

This paper has analysed the investment motives of 56 Malaysian firms that have established their presence in Vietnam. It has argued that a large majority of these firms (70%) are attracted by Vietnam's large, young, and growing domestic market. In other words, these firms are the quintessential market seekers. More than half (54%) of the Malaysian firms are natural resource seekers, targeting the country's cheap natural resource i.e. land lease, labour, and raw materials.

The paper has also illustrated that 36% of the firms surveyed are strategic asset seekers. Many of these firms are aware of the legal red tape surrounding the distribution of state resources in Vietnam and have devised strategies around it, collaborating with politically well-connected Vietnamese firms in the process. Such a situation seems to affect the Malaysian firms operating in the property and construction sector the most, highlighting that Vietnam's political setting plays a significant role in the investment motives of the Malaysian firms surveyed in this paper. In addition, the investment motives reflect the technical abilities of Malaysian firms in general. More specifically, the relatively low organizational and technical abilities of Malaysian firms can be observed in the low presence (9%) of efficiency seeking firms. This finding underlines the weakness of Malaysia's manufacturing sector, simultaneously reflecting the dominance of the wider services and the agriculture sectors in the country's outward FDI.

What then are the policy implications of this paper? Firstly, FDI from developing countries such as Malaysia can be as important as, if not more than, that from the 'traditional' developed countries e.g. the Western bloc and Japan. Hence, policy makers should not solely target outward FDI from the 'traditional' developed countries as there are considerable socioeconomic benefits to be derived from engaging in the much touted 'South-South FDI'. Vietnam best exemplifies this situation as Malaysia, a fellow member of the Global South, is one of its largest investors (in terms of FDI stock). In addition, Vietnam's top four investors all originate from the Asian newly industrialized economies – barring Japan – that have transformed their previously backward economies into successful and prosperous ones post-World War Two. As Yeung (2007) makes clear, many of the firms from these Asian economies are playing an increasingly vital role in the global economy. Their ability to capitalize on the intimate knowledge of the local and regional market place is a particularly inimitable competitive advantage. Moreover, these Asian firms are more likely than Western firms to embed their operations in specific localities through their relationship with the local business community (Fong, 1990; Yeung, 1998). Their willingness to embed has important implications for the transfer of technology and management expertise to the host country (in this case, it is Vietnam) (see Liu & Dicken, 2006).

Related to the above point is the debate over whether a FDI host country – in climbing the proverbial technological ladder – should be more selective in encouraging certain types of investment. To this end, this paper has illustrated the less than dynamic Malaysian manufacturing firms which have invested into Vietnam. Vietnam would surely receive a boost from this particular type of FDI in the short run courtesy of its less developed status vis-à-vis Malaysia, and a smaller technological gap between the 'South-South FDI' home economy (Malaysia) and the 'South-South FDI' host economy (Vietnam) compared to the scenario under the traditional 'North-South FDI'. Nevertheless, there is a need to complement the present strategy with a longer term outlook e.g. carefully targeting other more sophisticated types of FDI. More crucially, if Vietnam opts to look to the future, what

sectors and/or what types of technology should it attract? Similarly, if the country is unwilling to do so, what is its alternative strategy? These are the burning questions for which policymakers have to find answers to.

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