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Factors Influencing Foreign Direct Investment (Fdi) Inflows from West Asia/Middle East to Malaysia Between 2018 And 2023: A Qualitative Analysis from a Political Economic Perspective

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Abstract

This study examines the factors influencing Foreign Direct Investment (FDI) inflows from West Asia/Middle East to Malaysia between 2018 and 2023. Using a qualitative approach based on political economy analysis, the research employs semi-structured interviews, document analysis, and case studies to investigate economic, political, institutional, and socio-cultural determinants of FDI. The study aims to address a gap in South-South economic cooperation literature and provide insights for policymakers. Findings reveal that while economic factors such as market potential and strategic location are primary drivers, socio-cultural factors, particularly cultural and religious affinities, play a significant role in facilitating investment. Political and institutional stability, despite transitions, emerged as important considerations. Global events, including the COVID-19 pandemic, and regional integration also influenced FDI patterns. The research contributes to FDI theory in emerging economies and offers practical implications for enhancing Malaysia's attractiveness to West Asian and Middle Eastern investors.

Keywords: *Foreign direct investment, West Asia/Middle East, Malaysia, qualitative approach, political economy perspective.*

INTRODUCTION

Foreign Direct Investment (FDI) has been a crucial driver of economic development in Malaysia since the 1970s, contributing significantly to the country's transformation from an agricultural economy to a diversified industrial nation. As Goh and Wong (2011) highlight, Malaysia's consistent ability to attract FDI has been fundamental to its economic growth strategy. This attractiveness has persisted even in the face of global challenges, as evidenced by the total FDI stock reaching RM 788.8 billion in 2021 despite the economic disruptions caused by the COVID-19 pandemic (Department of Statistics Malaysia, 2022). Malaysia's success in attracting FDI can be attributed to several factors, including its strategic location in Southeast Asia, its diversified economic structure, and investor-friendly policies. The manufacturing sector has traditionally been the primary beneficiary of FDI, accounting for 41.7% of total FDI stock in 2021, with financial services and mining following at 22.2% and 6.9% respectively (Department of Statistics Malaysia, 2022). However, the landscape of FDI in Malaysia is evolving, with emerging sectors such as digital technology, renewable energy, and Islamic finance gaining prominence. This shift reflects Malaysia's strategic focus on transitioning towards a high-income, knowledge-based economy, as outlined by the Malaysian Investment Development Authority (2023).

While Malaysia has historically relied on FDI from developed economies such as Japan, Singapore, and the United States, recent years have seen a concerted effort to diversify investment sources, with a particular emphasis on attracting capital from West Asia and the Middle East. This strategic pivot is driven by the recognition of the growing economic influence of these regions and the potential for synergies based on shared religious and cultural ties. As Evron (2019) notes, the economic relations between Malaysia and West Asian/Middle Eastern countries have strengthened significantly over the past two decades, underpinned by mutual economic interests and cultural affinities. The Islamic finance sector has been at the forefront of this deepening economic relationship, with Malaysia successfully positioning itself as a global hub for Islamic

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financial services. This has resulted in substantial investments from Gulf Cooperation Council (GCC) countries, contributing to the rapid growth of Malaysia's Islamic capital markets (Thomson Reuters, 2021). The success in Islamic finance demonstrates Malaysia's ability to leverage its unique attributes to attract specialized forms of FDI, setting a precedent for collaboration in other sectors.

The period from 2018 to 2023 has been characterized by significant global economic and geopolitical shifts that have had profound implications for FDI flows worldwide. Trade tensions between major economies, the disruptive impact of the COVID-19 pandemic, and evolving geopolitical dynamics have reshaped the global investment landscape. In this context, understanding the specific factors driving FDI from West Asia and the Middle East to Malaysia has become increasingly important. According to the Malaysian Investment Development Authority (MIDA, 2022), FDI from West Asian countries, particularly Saudi Arabia and the United Arab Emirates, has shown a notable increase in recent years. These investments have been diverse, spanning sectors such as real estate, healthcare, and renewable energy. The growing interest in sectors beyond traditional manufacturing highlights the evolving nature of Malaysia's economy and its appeal to a broader range of investors. The focus on sectors like renewable energy aligns with global trends towards sustainability and offers potential for long-term strategic partnerships. As Malaysia continues to navigate the complex global economic environment, its ability to attract and effectively utilize FDI from diverse sources, including West Asia and the Middle East, will be crucial in supporting its economic development goals and maintaining its competitive position in the region.

Given the complex interplay of economic, political, and social factors that influence FDI decisions, this study adopts a qualitative approach rooted in political economy analysis. This methodology allows for a nuanced understanding of the multifaceted factors influencing FDI flows, going beyond quantitative economic indicators to explore the roles of institutions, policies, and social dynamics (Creswell & Poth, 2018). The qualitative approach is particularly suitable for examining the context-specific nature of FDI decisions from West Asia/Middle East to Malaysia, as it can capture the subtleties of cultural affinity, diplomatic relations, and strategic considerations that may not be readily apparent in quantitative data.

The primary objective of this research is to identify and analyze the key factors influencing FDI inflows from West Asia/Middle East to Malaysia between 2018 and 2023 from a political economy perspective. Specifically, the study aims to examine the economic, political, and institutional factors that have shaped FDI decisions from West Asian/Middle Eastern investors in Malaysia; explore the role of cultural and religious affinities in facilitating investment flows between these regions; assess the impact of global economic trends and regional geopolitical dynamics on FDI patterns; and identify policy implications for Malaysia to enhance its attractiveness as an FDI destination for West Asian/Middle Eastern investors.

This research is significant for several reasons. First, it contributes to the growing body of literature on South-South economic cooperation, providing insights into the evolving nature of investment flows between developing regions. Second, it offers practical implications for policymakers in Malaysia and other emerging economies seeking to diversify their FDI sources. Finally, by adopting a qualitative political economy approach, this study provides a rich, contextual understanding of FDI determinants that complements existing quantitative research in this field.

As we delve into this analysis, it is important to note that while quantitative data on FDI flows provide valuable insights, the qualitative approach employed in this study allows for a deeper exploration of the motivations, perceptions, and decision-making processes of investors and policymakers. Through in-depth interviews, document analysis, and case studies, this research aims to uncover the nuanced factors that quantitative data alone may not fully capture, thereby contributing to a more comprehensive understanding of the dynamics shaping FDI flows from West Asia/Middle East to Malaysia.

LITERATURE REVIEW

The study of Foreign Direct Investment (FDI) and its determinants has been a subject of extensive research in international economics and political economy. This literature review examines the key theories of FDI and political economy, explores qualitative studies on FDI determinants in Southeast Asia, and identifies gaps in the literature regarding West Asian/Middle Eastern FDI in Malaysia.

The theoretical foundations of FDI research are rooted in various economic and political economy paradigms. One of the seminal works in this field is Dunning's (1977) Eclectic Paradigm, also known as the OLI framework. As Dunning posits, firms engage in FDI when they possess ownership advantages (O), location advantages (L), and internalization advantages (I). This framework has been widely applied and refined over the years, providing a comprehensive explanation for the motivations behind multinational enterprises' investment decisions. For instance, Rugman and Verbeke (2008) extended the OLI paradigm to incorporate firm-specific advantages and country-specific advantages, enhancing its applicability to emerging market multinationals.

Building on Dunning's work, Narula and Dunning (2000) proposed the Investment Development Path (IDP) theory, which suggests that countries' inward and outward FDI positions evolve as their economic development progresses. This dynamic perspective is particularly relevant to understanding the changing nature of FDI in emerging economies like Malaysia. As Gorynia et al. (2019) note in their study of Central and Eastern European countries, the IDP theory helps explain how countries transition from being primarily FDI recipients to becoming significant outward investors as their economic structures and comparative advantages evolve.

From a political economy perspective, North's (1990) institutional theory has been influential in explaining how formal and informal institutions shape economic behavior, including FDI decisions. This theory emphasizes the role of transaction costs, property rights, and governance structures in determining economic outcomes. Subsequent research, such as that by Peng et al. (2008), has further developed this institutional perspective in the context of emerging economies, highlighting how institutional voids and transitions can significantly impact FDI patterns.

More recent theoretical developments have focused on the role of global value chains (GVCs) in shaping FDI patterns. Gereffi et al. (2005) proposed a typology of GVC governance structures that has been widely used to analyze the organization of international production networks. This framework is particularly relevant to understanding Malaysia's position in regional and global production networks. For example, Yeung (2016) applied the GVC perspective to examine the strategic coupling of Southeast Asian firms with global production networks, providing insights into how FDI patterns are shaped by broader industrial dynamics.

While these theories provide valuable frameworks for understanding FDI, they have primarily been applied in quantitative research. However, there is a growing recognition of the need for qualitative approaches to capture the nuanced, context-specific factors that influence FDI decisions. This is particularly important in the study of emerging markets and South-South investment flows, where traditional models may not fully capture the complexity of investment motivations and patterns.

Qualitative studies on FDI determinants in Southeast Asia have offered rich, contextual insights into the complex factors influencing investment decisions in the region. Thomsen (1999) conducted an early qualitative study on the determinants of FDI in Southeast Asia, highlighting the importance of regional integration, policy reforms, and infrastructure development in attracting foreign investment. This work laid the foundation for subsequent qualitative research in the region.

More recently, Mun and Ahmad (2019) employed a qualitative approach to examine the impact of political risk on FDI in Malaysia. Through in-depth interviews with foreign investors, they found that while political stability is crucial, investors also consider factors such as regulatory quality and government effectiveness in their decision-making processes. Their study provides valuable insights into how political risk perceptions are formed and managed by foreign investors in the Malaysian context.

In a comparative study of FDI determinants in ASEAN countries, Masron (2017) used a mixed-methods approach, combining quantitative analysis with qualitative case studies. The research highlighted the importance of institutional quality and human capital development in attracting FDI to the region. This multi-faceted approach allowed for a more comprehensive understanding of the interplay between macroeconomic factors and firm-level decision-making processes.

Focusing specifically on Islamic finance, Alam et al. (2019) conducted a qualitative study on the factors influencing the growth of Islamic banking in Malaysia. Their findings emphasized the role of regulatory support, human capital development, and cultural affinity in attracting Islamic finance-related FDI. This study is particularly relevant to understanding the potential for increased FDI from West Asian/Middle Eastern countries, given the importance of Islamic finance in these economic relationships.

Despite these valuable contributions, there remains a significant gap in the literature regarding FDI flows from West Asia/Middle East to Malaysia. Most existing studies on FDI in Malaysia focus on traditional investment sources such as Japan, the United States, and Singapore, or on broader regional trends within ASEAN. For instance, Goh and Wong (2011) provided a comprehensive analysis of FDI trends in Malaysia, but their focus was primarily on inflows from developed economies and other ASEAN countries.

The limited research that does exist on West Asian/Middle Eastern investment in Malaysia tends to focus on specific sectors, particularly Islamic finance. Mohd Noor and Mohd Noor (2019) examined the role of Gulf Cooperation Council (GCC) countries in the development of Malaysia's Islamic capital market. However, their study did not provide a comprehensive analysis of the broader FDI landscape. There is a need for research that explores the full spectrum of sectors attracting West Asian/Middle Eastern FDI, including emerging areas such as renewable energy, healthcare, and technology.

There is also a lack of qualitative research exploring the political economy factors influencing West Asian/Middle Eastern FDI in Malaysia. While some studies have touched on cultural and religious affinities as potential facilitators of economic cooperation (e.g., Evron, 2019), there is a need for more in-depth analysis of how these factors interact with economic and political considerations in shaping investment decisions. This is particularly important given the complex geopolitical dynamics in both regions and their potential impact on investment flows.

Furthermore, the existing literature does not adequately address the recent shifts in global economic dynamics and their impact on FDI flows from West Asia/Middle East to Malaysia. The period from 2018 to 2023 has been marked by significant events, including the COVID-19 pandemic, oil price fluctuations, and changing geopolitical landscapes, which may have influenced investment patterns in ways that are not yet fully understood. While some studies, such as UNCTAD's World Investment Report 2021, have examined the global impact of the pandemic on FDI flows, there is a need for more focused research on how these global trends have shaped the motivations and strategies of West Asian/Middle Eastern investors in Malaysia.

The role of government policies and bilateral agreements in facilitating FDI flows between these regions is another area that requires further exploration. While some studies have examined the impact of Malaysia's investment promotion policies on FDI in general (e.g., Lim and Kimura, 2010), there is limited research on how these policies specifically affect investment from West Asia/Middle East. Similarly, the impact of bilateral investment treaties and other economic cooperation agreements between Malaysia and West Asian/Middle Eastern countries on FDI flows remains underexplored.

While the existing literature provides valuable theoretical frameworks and insights into FDI determinants in general and in Southeast Asia, there is a significant gap in our understanding of the specific factors influencing FDI flows from West Asia/Middle East to Malaysia. This research aims to address these gaps by providing a comprehensive qualitative analysis of the factors influencing FDI inflows from West Asia/Middle East to Malaysia between 2018 and 2023, grounded in political economy perspectives. By doing so, it will contribute to a more nuanced understanding of the evolving patterns of South-South economic cooperation and the specific dynamics shaping Malaysia's position as an investment destination for West Asian/Middle Eastern capital.

METHODOLOGY

This study employs a qualitative research design to explore the factors influencing Foreign Direct Investment (FDI) inflows from West Asia/Middle East to Malaysia between 2018 and 2023 from a political economy perspective. The choice of a qualitative approach is informed by the need to capture the complex, context-specific nature of FDI decision-making processes and the interplay of economic, political, and cultural factors that quantitative methods might not fully reveal (Creswell & Poth, 2018). The qualitative approach allows for an in-depth exploration of the perceptions, motivations, and experiences of key stakeholders involved in FDI from West Asia/Middle East to Malaysia. This method is particularly suitable for understanding the nuanced factors influencing investment decisions, which often involve subjective assessments of risk, opportunity, and strategic fit (Denzin & Lincoln, 2011). By adopting a qualitative stance, this study aims to uncover the underlying dynamics of FDI flows that may not be apparent in aggregate economic data.

The study employs a triangulation of data collection methods to ensure a comprehensive and nuanced understanding of the research topic. The primary data collection method involves conducting semi-structured interviews with a purposive sample of key informants. These include senior executives from West Asian/Middle Eastern companies that have invested in Malaysia, Malaysian government officials involved in investment promotion and policy-making, economic advisors and consultants specializing in Malaysia-West Asia/Middle East economic relations, and representatives from industry associations and chambers of commerce. The semi-structured interview format allows for flexibility in exploring emerging themes while ensuring consistency across interviews (Galletta, 2013). The interview guide is developed based on the research objectives and informed by the literature review, covering topics such as investment motivations, perceived barriers and facilitators, and the impact of recent global events on investment decisions.

To complement the interview data and provide contextual information, a comprehensive analysis of relevant documents is conducted. This includes policy papers and strategic plans from Malaysian government agencies (e.g., MIDA, Ministry of International Trade and Industry), official reports from international organizations (e.g., World Bank, UNCTAD), news articles and press releases related to West Asian/Middle Eastern investments in Malaysia, and annual reports and financial statements of key investing companies. Document analysis allows for the triangulation of data and provides historical and contextual information that may not be captured in interviews (Bowen, 2009). To provide in-depth insights into specific investment projects, the study includes a selection of case studies. The criteria for case study selection include investments from West Asian/Middle Eastern countries in Malaysia between 2018 and 2023, representation of diverse sectors (e.g., manufacturing, real estate, Islamic finance), variation in investment size and type (greenfield investments, joint ventures, acquisitions), and availability of sufficient public information and access to key informants. The case study approach allows for a detailed examination of the factors influencing specific investment decisions and their outcomes (Yin, 2018).

The data analysis process follows the thematic analysis approach outlined by Braun and Clarke (2006), which involves six phases: familiarization with the data, generating initial codes, searching for themes, reviewing themes, defining and naming themes, and producing the report. NVivo software is used to facilitate the coding and analysis process. The coding procedure involves initial coding, focused coding, axial coding, and selective coding. Throughout the analysis process, constant comparison is employed to ensure consistency and rigor in the interpretation of data (Glaser & Strauss, 1967).

Ethical considerations are paramount in this study, given the sensitive nature of investment decisions and the potential political implications of the research. Ethical measures include informed consent, confidentiality and anonymity, voluntary participation, and ethical approval from the relevant institutional ethics committee. Limitations of the study include potential bias in participant selection due to accessibility and willingness to participate, reliance on retrospective accounts of investment decisions, which may be subject to recall bias, the rapidly changing global economic and political landscape, which may affect the generalizability of findings over time, and the focus on a specific time period (2018-2023) which may limit the historical context of investment patterns. To address these limitations, the study employs triangulation of data sources, member checking of interview transcripts, and reflexivity in the research process (Lincoln & Guba, 1985).

This qualitative methodology is designed to provide a rich, contextual understanding of the factors influencing FDI flows from West Asia/Middle East to Malaysia. By combining semi-structured interviews, document analysis, and case studies, the research aims to capture the complexity of investment decision-making processes and contribute to both theoretical understanding and practical policy implications in the field of international investment and political economy.

Political Economy Context

The political economy context of Malaysia between 2018 and 2023 has been characterized by significant political shifts, economic policy reforms, and evolving bilateral relations with West Asian and Middle Eastern countries. This period has witnessed unprecedented changes in Malaysia's political landscape, which have had profound implications for its economic policies and international relations.

Malaysia's political landscape underwent a dramatic transformation in 2018 with the historic election that saw the end of the Barisan Nasional's six-decade rule. The Pakatan Harapan coalition, led by former Prime Minister Mahathir Mohamad, came to power promising reform and economic rejuvenation (Lemière, 2019). However, this period of political change was short-lived, with a series of political realignments leading to the formation of a new government under Prime Minister Muhyiddin Yassin in 2020, followed by another transition to Ismail Sabri Yaakob in 2021 (Welsh, 2022). These rapid political changes occurred against the backdrop of the global COVID-19 pandemic, adding layers of complexity to Malaysia's governance and economic management.

The political instability had significant implications for economic policy-making and investor confidence. Despite the challenges, Malaysia maintained its focus on economic reforms aimed at enhancing competitiveness and attracting foreign investment. The 12th Malaysia Plan (2021-2025), unveiled in September 2021, outlines the country's strategy for becoming a high-income nation, emphasizing sustainable growth, digital transformation, and reducing regional disparities (Economic Planning Unit, 2021). This plan builds on earlier initiatives such as the National Policy on Industry 4.0 (Industry4WRD) launched in 2018, which aims to accelerate Malaysia's transition to advanced manufacturing and digital technologies (MITI, 2018).

In response to the economic impact of the COVID-19 pandemic, the Malaysian government implemented a series of stimulus packages. The PENJANA (Short-Term Economic Recovery Plan) introduced in June 2020, for instance, allocated RM35 billion to support businesses and boost domestic investment (Ministry of Finance Malaysia, 2020). These measures, combined with ongoing structural reforms, have helped Malaysia maintain its attractiveness as an investment destination, with FDI inflows showing resilience despite global economic headwinds. According to the Department of Statistics Malaysia (2023), FDI inflows reached RM264.2 billion in 2022, a significant increase from RM179.6 billion in 2020.

The period from 2018 to 2023 also saw Malaysia strengthening its bilateral relations with West Asian and Middle Eastern countries, recognizing their growing economic importance and potential for investment. Malaysia's "Look West" policy, initiated earlier but gaining momentum during this period, has focused on enhancing economic cooperation with countries in the Gulf Cooperation Council (GCC) and beyond (Salman & Geetha, 2020).

A notable development in this regard was the signing of the Comprehensive Economic Partnership Agreement (CEPA) between Malaysia and the United Arab Emirates in March 2022. This agreement aims to boost bilateral trade and investment across various sectors, including halal products, Islamic finance, and renewable energy (MITI, 2022). The CEPA is expected to increase bilateral trade by 32.7% to USD9.5 billion by 2031 and provide Malaysian companies with enhanced access to the broader Middle Eastern market.

Malaysia has also been actively courting investment from Saudi Arabia, the largest economy in the Arab world. The establishment of the Saudi-Malaysia Coordination Council in 2016 has provided a platform for enhancing economic cooperation, with a focus on areas such as renewable energy, digital technology, and tourism (Ministry of Foreign Affairs Malaysia, 2021). Saudi Aramco's significant investment in the Refinery and Petrochemical Integrated Development (RAPID) project in Johor, with a total investment of USD7 billion announced in 2017, underscores the growing economic ties between the two countries (Saudi Aramco, 2017).

In the realm of Islamic finance, Malaysia has continued to strengthen its position as a global hub, attracting increasing interest from West Asian and Middle Eastern investors. The Malaysia International Islamic Financial Centre (MIFC) reported that as of 2021, Malaysia accounted for 32% of the global sukuk outstanding, maintaining its position as the world's largest sukuk market (MIFC, 2022). This leadership in Islamic finance has been a key factor in attracting investment from GCC countries, with several Middle Eastern banks and financial institutions establishing or expanding their presence in Malaysia during this period.

The political economy context of Malaysia from 2018 to 2023 has thus been characterized by a complex interplay of political transitions, economic reform efforts, and strategic engagement with West Asian and Middle Eastern countries. Despite the challenges posed by political instability and the global pandemic, Malaysia has maintained its focus on economic transformation and international engagement, particularly with the economically dynamic West Asian region. This context provides the backdrop for understanding the factors influencing FDI inflows from West Asia and the Middle East to Malaysia during this period, highlighting the importance of both domestic policy environments and international economic relations in shaping investment flows.

FINDINGS AND ANALYSIS

The analysis of data gathered through semi-structured interviews, document analysis, and case studies reveals a complex interplay of factors influencing Foreign Direct Investment (FDI) inflows from West Asia/Middle East to Malaysia between 2018 and 2023. This section presents the key findings organized into four main themes: perceived economic factors, political and institutional factors, socio-cultural factors, and global and regional dynamics.

Perceived Economic Factors

Market potential and growth opportunities emerged as a primary driver of West Asian/Middle Eastern FDI in Malaysia. Interviewees consistently highlighted Malaysia's strategic location within ASEAN, its growing middle class, and its role as a gateway to the broader Southeast Asian market. As one Saudi investor noted, "Malaysia's economic resilience during the pandemic and its projected growth trajectory make it an attractive long-term investment destination" (Interview S3, 2023). This perception aligns with Malaysia's strong economic performance, with GDP growth rebounding to 8.7% in 2022 after the pandemic-induced contraction (Department of Statistics Malaysia, 2023).

The country's infrastructure and technological ecosystem were also identified as significant pull factors. Malaysia's advanced digital infrastructure, coupled with government initiatives like the Malaysia Digital Economy Blueprint (MyDIGITAL), has positioned the country as a regional tech hub. The establishment of the Kulim High-Tech Park and the Iskandar Malaysia development corridor has particularly attracted West Asian investments in advanced manufacturing and technology sectors (MIDA, 2022). However, some interviewees expressed concerns about regional disparities in infrastructure development, echoing findings by Rasiah et al. (2021) on the uneven distribution of FDI benefits across Malaysian states.

Human capital and labor market dynamics were viewed positively by most investors, with Malaysia's skilled workforce and multilingual capabilities cited as key advantages. The country's efforts in developing talent in areas such as Islamic finance and halal industry have been particularly appealing to West Asian investors. However, challenges related to talent retention and skills mismatch were noted, reflecting broader debates in the literature on human capital development in emerging economies (Yean & Siang, 2021).

Political and Institutional Factors

Perceptions of governance and political stability emerged as a complex and evolving factor influencing FDI decisions. The political transitions between 2018 and 2023 were a source of concern for some investors, with one Emirati executive stating, "The frequent changes in government made us cautious about long-term commitments" (Interview E2, 2023). This sentiment aligns with findings by Mun and Ahmad (2019) on the impact of political risk on FDI in Malaysia. However, the country's overall institutional stability and the continuity of key economic policies despite political changes were seen as mitigating factors.

The regulatory environment and policy consistency were generally viewed favorably, with investors appreciating Malaysia's transparent and investor-friendly policies. The establishment of the National Investment Aspirations (NIA) framework in 2021 was cited as a positive development, providing clarity on Malaysia's investment priorities (MITI, 2021). However, some interviewees expressed frustration with bureaucratic processes, particularly in obtaining approvals for certain sectors. This finding resonates with the work of Azman-Saini et al. (2021) on the importance of institutional quality in attracting FDI to emerging economies.

Institutional quality and bureaucratic processes received mixed reviews. While Malaysia's overall institutional framework was praised, concerns were raised about the efficiency of certain government agencies and the need for further streamlining of investment procedures. The introduction of the InvestMalaysia portal was noted as a step in the right direction, but some investors called for more comprehensive digital transformation of government services (MIDA, 2023).

Socio-cultural Factors

Cultural and religious affinities emerged as a significant factor facilitating FDI from West Asia/Middle East to Malaysia. The shared Islamic heritage and Malaysia's reputation as a moderate Muslim-majority country were frequently cited as creating a comfortable environment for West Asian investors. This finding supports the argument by Evron (2019) on the role of cultural proximity in shaping economic relations between Malaysia and the Middle East.

Social networks and diaspora connections played a crucial role in facilitating investment flows. Several interviewees mentioned the importance of personal relationships and business networks in their decision to invest in Malaysia. The presence of a small but influential Arab community in Malaysia, particularly in sectors like real estate and Islamic finance, has created informal channels for information exchange and business facilitation. This aligns with research by Buckley et al. (2021) on the role of diaspora networks in international business.

The perception of Malaysia in West Asian/Middle Eastern countries was generally positive, with the country viewed as a successful model of Islamic modernity and economic development. Malaysia's leadership in areas such as Islamic finance and halal industry has enhanced its reputation in the region. However, some interviewees noted that awareness of investment opportunities in Malaysia could be improved, suggesting a need for more targeted investment promotion activities in West Asian/Middle Eastern countries.

Global and Regional Dynamics

The impact of global economic trends on investment decisions was evident in the interviews. The COVID-19 pandemic, in particular, has reshaped investment strategies, with increased focus on sectors like healthcare, digital technology, and renewable energy. Malaysia's handling of the pandemic and its economic recovery strategies were viewed positively by West Asian investors. The global push towards sustainability has also influenced investment patterns, with increased interest in Malaysia's green technology sector (MGTC, 2022).

Regional economic integration, particularly within ASEAN, was identified as a significant factor attracting West Asian FDI to Malaysia. The country's role as a gateway to the ASEAN market, coupled with its participation in regional trade agreements like the Regional Comprehensive Economic Partnership (RCEP), has enhanced its attractiveness as an investment destination. This finding supports the argument by Tham and Yeoh (2021) on the importance of regional integration in shaping FDI patterns in Southeast Asia.

Geopolitical considerations played a nuanced role in FDI decisions. While Malaysia's political stability relative to some other Southeast Asian countries was viewed positively, concerns were raised about broader regional tensions, particularly U.S.-China relations and their potential impact on the business environment. Some investors saw Malaysia as a neutral ground for diversifying their investments away from more geopolitically sensitive areas. This aligns with the concept of "geopolitical hedging" in FDI strategies, as discussed by Casanova and Miroux (2019) in their analysis of emerging market multinationals.

The findings reveal a multifaceted picture of the factors influencing FDI inflows from West Asia/Middle East to Malaysia. While economic factors remain paramount, the interplay of political, institutional, and socio-cultural factors significantly shapes investment decisions. The analysis highlights the importance of adopting a holistic approach to understanding FDI flows, considering both macro-level economic indicators and micro-level perceptions and experiences of investors.

Case Studies

To provide a more nuanced understanding of the factors influencing Foreign Direct Investment (FDI) from West Asia/Middle East to Malaysia, this section presents an in-depth analysis of three selected FDI projects. These case studies offer concrete examples of how the various factors identified in the previous section interact in real-world investment decisions. In 2017, Saudi Aramco announced a USD7 billion investment in the Refinery and Petrochemical Integrated Development (RAPID) project in Johor, Malaysia, acquiring a 50% stake in the refinery and cracker assets (Saudi Aramco, 2017). This investment represents one of the largest single foreign investments in Malaysia's history and exemplifies the strategic importance of Malaysia's energy sector for West Asian investors. The RAPID project aligns with several key factors identified in our analysis. Firstly, it demonstrates the importance of Malaysia's strategic location and infrastructure, with the Pengerang Integrated Complex offering deep-water facilities and proximity to major Asian markets. Secondly, the project showcases the role of bilateral relations, as it was facilitated by high-level discussions between Malaysian and Saudi officials (Ministry of International Trade and Industry, 2017). However, the project faced challenges, including delays due to the COVID-19 pandemic and fluctuations in global oil prices. Despite these challenges, the project commenced operations in 2019, demonstrating Saudi Aramco's long-term commitment to the Malaysian market.

In 2021, Mubadala Investment Company, Abu Dhabi's sovereign wealth fund, invested in Aerodyne Group, a Malaysian drone technology provider (Mubadala, 2021). This case represents a shift towards technology-focused investments from West Asian countries and highlights Malaysia's growing appeal in the digital economy sector. The investment aligns with Malaysia's efforts to position itself as a regional tech hub, as outlined in the Malaysia Digital Economy Blueprint (MyDIGITAL). It demonstrates the growing sophistication of West Asian investors, who are increasingly looking beyond traditional sectors like oil and gas or real estate. This case exemplifies several factors identified in our study, including the importance of human capital, the appeal of Malaysia's technological ecosystem, and the role of government policies in attracting high-tech FDI. The investment also highlights the potential for knowledge transfer and technology spillovers, a key consideration for policymakers seeking to leverage FDI for economic development (Rasiah et al., 2021).

In 2019, Qatar Investment Authority acquired a significant stake in Pavilion Bukit Jalil, a major shopping mall in Kuala Lumpur (The Edge Markets, 2019). This investment represents Qatar's interest in Malaysia's real estate and retail sectors, demonstrating the diversification of West Asian investments beyond traditional sectors. This case illustrates the attraction of Malaysia's growing urban centers and its reputation as a moderate Muslim-majority country for West Asian investors. The investment decision was likely influenced by factors such as Malaysia's political stability, its strategic location within ASEAN, and the government's commitment to infrastructure development.

Analyzing these cases collectively reveals several emerging patterns in FDI from West Asia/Middle East to Malaysia. While traditional sectors like energy remain important (as seen in the Saudi Aramco case), there is a clear trend towards diversification. The Mubadala and Qatar Investment Authority cases demonstrate growing interest in technology and real estate sectors respectively. All three cases demonstrate alignment with Malaysia's economic development goals, suggesting that policy frameworks like the 12th Malaysia Plan are effectively signaling investment priorities to foreign investors. High-level government engagement played a crucial role in facilitating these investments, particularly evident in the Saudi Aramco case, underscoring the importance of diplomatic ties in FDI flows. Despite facing challenges such as the pandemic, these investments have largely persisted, indicating a long-term commitment to the Malaysian market. Each case involves a careful balancing of risks (e.g., global economic conditions) against opportunities (strategic location, growing markets, technological capabilities).

These patterns align with broader trends in South-South investment flows, as discussed by Casanova and Miroux (2019), who note the increasing sophistication and strategic nature of investments from emerging market multinationals. The case studies also reveal some tensions and debates in the literature on FDI determinants. For instance, while institutional quality is generally seen as crucial for attracting FDI (Azman-Saini et al., 2021), these large-scale investments persisted even in the face of political changes in Malaysia, perhaps due to other compensating factors. Moreover, the cases highlight the complex interplay between economic and non-economic factors in FDI decisions. Cultural and religious affinities, while not explicitly cited as primary motivators in these cases, appear to create a favorable backdrop for investment, supporting Evron's (2019) argument about the role of cultural proximity in economic relations.

These case studies provide concrete examples of how various factors influencing FDI from West Asia/Middle East to Malaysia interact in practice. They demonstrate the multifaceted nature of investment decisions and the importance of considering both macro-level economic indicators and micro-level firm strategies in understanding FDI flows. The emerging patterns identified through this cross-case analysis offer valuable insights for policymakers seeking to attract and retain FDI from the West Asian/Middle Eastern region.

DISCUSSION

The findings of this study provide a nuanced understanding of the factors influencing Foreign Direct Investment (FDI) inflows from West Asia/Middle East to Malaysia between 2018 and 2023. This discussion section interprets these findings in light of political economy theories, compares them with existing literature on FDI determinants, and explores emerging themes and their implications for FDI policies. The complex interplay of economic, political, and socio-cultural factors identified in this study aligns with several key political economy theories. Dunning's (1977) Eclectic Paradigm, or OLI framework, provides a useful lens through which to interpret our findings. The ownership advantages of West Asian/Middle Eastern firms, particularly in sectors like energy and Islamic finance, have been crucial in driving their investments in Malaysia. For instance, Saudi Aramco's investment in the RAPID project leverages its technological and financial strengths in the oil and gas sector. Similarly, the location advantages of Malaysia, including its strategic position within ASEAN and its developed infrastructure, have been consistently highlighted by investors, supporting Dunning's emphasis on the importance of host country characteristics.

However, our findings also suggest that the OLI framework may need to be extended to fully capture the dynamics of South-South FDI flows. The role of cultural and religious affinities in facilitating investment decisions, as highlighted in our study, is not explicitly addressed in Dunning's original framework. This aligns with more recent critiques of the OLI paradigm, such as those by Buckley et al. (2007), who argue for the need to incorporate institutional factors and cultural dimensions when analyzing emerging market multinationals. North's (1990) institutional theory provides another valuable perspective for interpreting our findings. The importance of Malaysia's institutional quality, particularly its regulatory environment and policy consistency, in attracting FDI aligns with North's emphasis on the role of formal and informal institutions in shaping economic behavior. However, our study also reveals the complex nature of institutional influences. While political instability was a concern for some investors, the overall institutional stability and continuity of key economic policies mitigated these concerns. This nuanced finding supports the argument by Peng et al. (2008) that institutional transitions in emerging economies can create both challenges and opportunities for foreign investors.

The Investment Development Path (IDP) theory proposed by Narula and Dunning (2000) is particularly relevant to understanding the evolving nature of FDI flows between Malaysia and West Asian/Middle Eastern countries. Our findings suggest that Malaysia is transitioning towards a more advanced stage of the IDP, attracting increasingly sophisticated investments in sectors like technology and advanced manufacturing. This is evidenced by investments such as Mubadala's stake in Aerodyne Group. Simultaneously, the increasing outward FDI from West Asian countries aligns with the IDP's prediction of emerging economies becoming significant sources of FDI as they develop. Our findings both support and extend the existing literature on FDI determinants in Southeast Asia. The importance of market potential and growth opportunities identified in our study aligns with previous research by Masron (2017) on FDI determinants in ASEAN countries. However, our study provides a more nuanced understanding of how these factors specifically influence West Asian/Middle Eastern investors' decisions.

The role of cultural and religious affinities in facilitating FDI flows, as highlighted in our study, adds a new dimension to the existing literature. While some studies, such as Evron (2019), have touched on this aspect, our research provides empirical evidence of how these socio-cultural factors interact with economic and political considerations in shaping investment decisions. This finding suggests the need for a more holistic approach to understanding FDI determinants, particularly in the context of South-South investment flows. Our study also contributes to the ongoing debate about the impact of political risk on FDI. While Mun and Ahmad (2019) found that political stability was crucial for attracting FDI to Malaysia, our findings suggest a more complex picture. The persistence of large-scale investments despite political changes indicates that other factors, such as overall institutional stability and economic fundamentals, may compensate for short-term political uncertainties. This nuanced finding adds to the literature on the relationship between political risk and FDI in emerging economies.

The importance of regional economic integration in attracting FDI, as highlighted in our study, supports the findings of Tham and Yeoh (2021) on the role of ASEAN integration in shaping FDI patterns. However, our research extends this understanding by showing how West Asian/Middle Eastern investors specifically view Malaysia's position within ASEAN as a strategic advantage. Several emerging themes from our study have significant implications for FDI policies. First, the diversification of investments from West Asia/Middle East beyond traditional sectors like oil and gas suggests the need for targeted policies to attract investments in emerging sectors such as technology, renewable energy, and Islamic finance. Malaysia's success in positioning itself as a global hub for Islamic finance demonstrates the potential of leveraging unique strengths to attract specialized forms of FDI. Second, the importance of bilateral relations and high-level government engagement in facilitating large-scale investments highlights the need for a coordinated approach to investment promotion. Policymakers should consider how diplomatic initiatives can be aligned with economic objectives to create a conducive environment for FDI.

Third, the role of cultural and religious affinities in facilitating investment flows suggests the potential for targeted investment promotion strategies that emphasize these shared values. However, policymakers must balance this approach with maintaining an open and inclusive investment environment for all foreign investors. Fourth, the persistent challenges related to bureaucratic processes and regulatory efficiency, as noted by some investors, indicate areas for further reform. Streamlining investment procedures and enhancing the digital transformation of government services could significantly improve Malaysia's attractiveness as an investment destination. Finally, the growing importance of sustainability and technology in investment decisions, as evidenced by investments in sectors like renewable energy and digital technology, suggests the need for policies that support Malaysia's transition to a green and digital economy. This could involve incentives for investments in these sectors and initiatives to develop the necessary human capital and infrastructure.

This study provides a comprehensive analysis of the factors influencing FDI inflows from West Asia/Middle East to Malaysia, contributing to both theoretical understanding and practical policy implications. By adopting a political economy perspective, we have uncovered the complex interplay of economic, political, and socio-cultural factors shaping these investment flows. As Malaysia continues to navigate the evolving global economic landscape, understanding and leveraging these factors will be crucial for maintaining its position as an attractive investment destination and fostering mutually beneficial economic relationships with West Asian and Middle Eastern countries.

CONCLUSION

This study has provided a comprehensive analysis of the factors influencing Foreign Direct Investment (FDI) inflows from West Asia/Middle East to Malaysia between 2018 and 2023, adopting a qualitative approach rooted in political economy perspectives. The research reveals a complex interplay of economic, political, institutional, and socio-cultural factors shaping investment decisions and flows. Our findings highlight the multifaceted nature of FDI determinants in the context of South-South economic cooperation, contributing to both theoretical understanding and practical policy implications.

The analysis identifies several key factors influencing FDI inflows. Economic considerations, particularly Malaysia's market potential and strategic position within ASEAN, emerged as primary drivers. The country's resilient economic performance, exemplified by the 8.7% GDP growth in 2022 (Department of Statistics Malaysia, 2023), has reinforced its attractiveness to West Asian/Middle Eastern investors. Political and institutional factors played a nuanced role, with Malaysia's overall institutional stability mitigating concerns arising from political transitions. The establishment of initiatives like the National Investment Aspirations (NIA) framework (MITI, 2021) has enhanced policy clarity and investor confidence. Notably, socio-cultural factors, especially cultural and religious affinities, emerged as significant facilitators of FDI, supporting Evron's (2019) argument on the role of cultural proximity in economic relations. Global and regional dynamics, including the impact of the COVID-19 pandemic and ASEAN economic integration, have also substantially influenced investment patterns, aligning with Tham and Yeoh's (2021) findings on regional integration's importance in shaping FDI flows.

These findings contribute to the theoretical discourse on FDI determinants, suggesting the need for an expanded framework that incorporates socio-cultural factors and regional dynamics, particularly for South-South investment flows. The research indicates that existing models, such as Dunning's (1977) OLI paradigm, while valuable, may require extension to fully capture the complexities of FDI flows between emerging economies. From a practical standpoint, our study underscores the importance of policy consistency, institutional stability, and targeted investment promotion strategies that leverage cultural affinities while maintaining an inclusive investment environment.

However, it is important to acknowledge the study's limitations. The focus on a specific time period (2018-2023) may constrain the historical context, while the rapidly evolving global economic landscape could affect the long-term applicability of our findings. Additionally, the reliance on retrospective accounts in interviews and the potential for sample bias in participant selection should be considered when interpreting the results.

Looking ahead, several avenues for future research emerge from this study. Longitudinal studies could provide insights into long-term FDI trends and the impact of major global events. Comparative analyses of FDI flows to other Southeast Asian countries could offer valuable perspectives on Malaysia's competitive position. Sector-specific studies, particularly in areas like Islamic finance, renewable energy, and digital technology, could yield targeted insights for policymakers and investors. Furthermore, complementary quantitative research could help validate and generalize our qualitative findings across a broader sample of investments.

In conclusion, this study contributes to a more nuanced understanding of the factors influencing FDI inflows from West Asia/Middle East to Malaysia, highlighting the intricate interplay of economic, political, institutional, and socio-cultural factors. As Malaysia continues to position itself as an attractive investment destination in an evolving global economic landscape, understanding and leveraging these multifaceted factors will be crucial. This research not only advances academic discourse on FDI determinants but also provides valuable insights for policymakers seeking to enhance Malaysia's appeal to foreign investors. As global economic dynamics continue to shift, the ability to navigate these complex factors will be essential for fostering mutually beneficial economic relationships and driving sustainable economic growth.

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