

## Analysis Of The Motives Of China's FDI To Malaysia In Bilateral Cooperation In 2019 - 2024 Through The Oil Dunning Approach

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### ABSTRACT

Malaysia is one of the main destination countries for Chinese investment, where the flow of Foreign Direct Investment (FDI) showed a significant increase throughout 2019-2024. This study aims to analyze the main motives of Chinese companies in conducting FDI into Malaysia, especially in the infrastructure, manufacturing, and technology sectors, using the Eclectic Paradigm approach or the OLI (Ownership, Location, Internalization) theory from John H. Dunning. The method used is descriptive qualitative, with data sources in the form of official reports, academic publications, and interviews. The results show that investment motives are driven by Ownership factors in the form of capital strength, mastery of technology, and superior human resources; Location factors in the form of Malaysia's strategic position in the ASEAN region; and Internalization factors in the form of the need for Chinese companies to directly control operational processes to minimize risk. In addition, it was found that regulatory stability and long-term policy support from the Malaysian government were also the main attractions. Analysis through the OLI approach proved to be able to explain the rational economic logic behind the investment decisions of Chinese companies.

**Keywords:** FDI, Bilateral Relations, Economic, OLI Paradigm

### INTRODUCTION

Foreign Direct Investment (FDI) plays a vital role in global economic growth. It attracts the attention of international economic actors and governments in shaping policies that influence the pace of development. Many view FDI as an effective tool to stimulate economic progress by securing foreign capital, expanding markets, creating employment opportunities, upgrading technology, and improving the quality of human resources. However, there are also concerns about the risks of foreign dependency and the potential threats to economic welfare and natural resources.

During Mahathir's administration, Malaysia faced a dilemma in viewing China either as an opportunity for economic growth or as a threat that led to shifts in Mahathir's economic policy toward China's megaprojects. Under Najib Razak's leadership, Malaysia became the first ASEAN country to respond positively to the Belt and Road Initiative (BRI) (Saravanamuttu, 2021). Between 2019 and 2024, Chinese investment in Malaysia has shown a notable increase, particularly in the manufacturing, infrastructure, and technology sectors (Zainal & Kam, 2023).

The author argues that the primary motives behind China's Foreign Direct

Investment (FDI) in Malaysia during the 2019–2024 period are not solely driven by economic interests, but also by operational efficiency and geopolitical considerations. Through the OLI Dunning framework, it is explained that China possesses ownership advantages in the form of capital strength, technological capabilities, and high-quality human resources. Malaysia is selected as an investment destination due to its strategic location within ASEAN, advanced infrastructure, and supportive policies toward foreign investors. China tends to internalize its operations, particularly in large-scale projects, in order to maintain control over operational activities and minimize the risk of external interference. These factors indicate that China’s investment decisions in Malaysia are based on structured economic calculations and political strategy.

Existing studies on China’s FDI in Malaysia have largely employed macroeconomic analysis or case study approaches. Research that applies the OLI Dunning theory within the context of bilateral cooperation remains limited. Few studies have examined investment motives based on specific sectors such as technology, infrastructure, and manufacturing, or analyzed China’s internalization strategies aimed at reducing external interference and operational costs (Saravanamuttu & Han, 2021).

Nevertheless, a gap persists between the ideal condition (*das sollen*) of mutually beneficial cooperation and the empirical reality (*das sein*) marked by the dominance of investor interests. While Chinese FDI contributes to Malaysia’s economic growth and supports the achievement of Sustainable Development Goals (SDGs), unresolved issues remain regarding its social, environmental, and economic stability impacts. This study integrates the OLI Dunning framework to analyze China’s FDI motives in Malaysia from both sectoral and contextual perspectives. Unlike previous research, this study offers a theoretical analysis of ownership, location, and internalization factors in investment decisions. Its main contribution is to provide a more comprehensive understanding of China’s investment strategies in the Global South and to enrich the academic literature on bilateral economic relations and FDI dynamics in Southeast Asia (Tham, 2023). The method used is descriptive qualitative, with data sources in the form of official reports, academic publications, and interviews.

## **METHODS**

This paper employs a descriptive qualitative approach to analyze the main motives of Chinese companies in deploying Foreign Direct Investment (FDI) in Malaysia. The analysis focuses on how the received investments are allocated to support sectors such as infrastructure, manufacturing, and technology transfer, using John H. Dunning’s Eclectic Paradigm (OLI) framework. The qualitative method is used to provide an in-depth understanding of the complex motivations behind Chinese FDI, which is then utilized to interpret the strategic intentions of investors and the contextual factors in Malaysia.

This study examines secondary data sources, including official reports, academic publications on relevant topics, and scholarly journals aligned with the theme of this paper. Data collection was conducted through two main techniques: first, document analysis of official reports and academic publications to gather

macroeconomic perspectives and policy-related insights; and second, literature reviews to contextualize findings within existing research. The collected data were analyzed in accordance with the OLI framework. The analysis process involved coding the data to identify themes related to ownership advantages, location advantages, and internalization motives. The identified themes were categorized to align with the components of the OLI framework. Furthermore, data triangulation from reports and publications was conducted to ensure the validity and reliability of the data used.

## RESULT AND DISCUSSION

In the overall findings, the author emphasizes that during 2019-2024, there were many significant increases in FDI in both countries. The author will present the results of findings on the investment motives of Chinese companies in Malaysia, especially in sectors such as infrastructure, manufacturing, and technology in the 2019-2024 period. Using John H. Dunning's theory on the OLI paradigm, the findings will be explained using the OLI framework components from the author's findings. The data shows that these investment figures rose by 15% per year from 2019 to 2024 (Xiao,2025).

### Ownership Advantages

One of the strong motives behind China's overseas investment agenda, especially in Malaysia, is the power of ownership-specific advantages. Many Chinese companies significantly leverage their ownership rights in their investments in Malaysia. These advantages include high capital (as seen in the financing of large projects such as ECRL) and advanced technological capabilities that are not yet widely available to local companies, such as those possessed by companies like Huawei and Tencent, including 5G and artificial intelligence. Finally, there is the advantage of high-quality human resources. Furthermore, the availability of high-quality human resources ensures that projects run efficiently, according to standards and schedules, enabling Chinese investors to outperform local and other foreign investors and strengthen their position in Malaysia. Thus, the combination of these three main factors forms an intangible asset that is our main driver for FDI.

Table 1. Foreign Direct Investment China to Malaysia

Years	Number of FDI China to Malaysia USD Billion	Description
2019	1.65	Stable, focused on the manufacturing and energy sectors
2020	1.58	A slight decline due to the COVID-19 pandemic
2021	1.61	Investment recovery, driven by BRI projects and digitalization

2022	1.43	global Another decline, influenced by global uncertainty
2023	1.28	A 28.8% increase compared to the previous year, indicating a significant recovery
Jan–Jul 2024	US\$1.28 (non-finansial)	Surge in investment in the technology and tourism sectors

Sumber : MIDA Report 2020

The data above shows a surge in investment in 2023-2024, demonstrating the strength of Chinese capital expanding its investment in Malaysia. In addition, the focus of investment on high-tech digital sectors such as Huawei, Alibaba, and BYD supports China's rational motives for investing. A major Malaysian company, Edra Global Energy, was acquired by CGN (China General Nuclear Power Group) with a total investment of RM 9.83 billion, which is a clear example of China's capital advantage.

### Location Advantages

The next crucial factor is location. These factors include strategic reasons and macroeconomic potential. Malaysia is strategically located in the ASEAN region, as it is close to the Malacca Strait, making it a hub for Chinese companies seeking to expand their regional influence. With other factors such as political stability, developing infrastructure, and a market that is becoming increasingly open to ASEAN communities, Malaysia is considered an ideal destination for large-scale, long-term investment, especially since the Malaysian government offers tax incentives to investors as an additional attraction. For example, MIDA offers 5-10 years of income tax exemption in the technology and manufacturing sectors, which has increased the value of investments by BYD and Huawei. Malaysia also provides the convenience of the One-Step-Center (OSC) system, which speeds up the licensing and approval process for foreign investors, enabling projects such as the Malaysia-China Kuantan Industrial Park and the Melaka Gateway. In addition, Malaysia already has efficiently developed infrastructure and a competent workforce with English as the universal language.

Although there were differences in opinion during Mahathir's administration regarding Chinese investment, subsequent administrations have been very open to this opportunity for cooperation, giving the green light to all foreign investors. For example, the ECRL project, which is one of the flagship megaprojects between the two countries, shows that Malaysia's favorable position and internal conditions are attractive factors for China to invest in this country.

Table 2. Major Chinese Investments in Malaysia

Project	Number of Invest (RM)	Impact of Location
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East Coast Rail Link (ECRL)	RM74.96 Billion	Connecting Malaysia's east and west coasts, accelerating regional logistics
Malaysia-China Kuantan Park	RM3.5 Billion	Located near the port, ideal for export to China and ASEAN
Melaka Gateway	RM43 Billion	Port projects in the Malacca Strait support global trade

Sumber : IQI Global

The three projects above, with their high budgets, illustrate Malaysia's strategic location, especially for vital projects that offer long-term benefits to China, particularly in terms of regional influence. The data above shows that location advantages—including strategic geographical position, transportation infrastructure, and regional connectivity—play a major role in attracting Chinese investment to Malaysia. Major projects such as ECRL and Melaka Gateway utilize Malaysia's location as an important hub in global and regional trade networks. A business-friendly country with good bureaucracy complements China's large capital ownership to invest in Malaysia compared to other countries.

### Internalization Advantages

The final motive, namely internalization advantages, answers the question of why China tends to make direct investments rather than purchasing licenses and other forms of cooperation. Many Chinese companies carry out internalization processes in order to maintain full control over their operations. This is also done to minimize the risk of technology transfer and the shift of intellectual property such as algorithms and patents.

With full ownership or joint ventures, subsidiaries and investment targets will effectively protect the company's property. The internalization process also encourages the company to maintain its condition in politically unstable situations, especially regarding regulatory changes and long-term profits. With this, it can be concluded that the internalization factor is carried out with consideration of production control, distribution, and risk management by the company. In large-scale projects such as ECRL, this motive becomes a feasible way to manage projects, control quality standards, and minimize risks.

An example of the application of internalization by China is the ECRL, which is being carried out by China Communication Construction Company through a process of engineering, procurement, and contracting with a project value of RM 74.96 billion. In other projects, such as the Malaysia-China Kuantan Industrial Park, it was developed jointly but with a large portion owned by China. This project is a sister park of the China-Malaysia Qinzhou Industrial Park in China. According to a report from the European Journal of Development Research, Chinese investment in Malaysia tends to focus on the service and logistics sectors, with an internal structure that allows direct exports to ASEAN and global markets. Many Chinese companies bring their own ERP,

quality management, and logistics systems, reducing their dependence on local providers.

Based on the explanation of the three main motives that drive China to invest in infrastructure, manufacturing, and technology, in accordance with Dunning's OLI paradigm, the research clearly confirms that the combination of the three main motives, namely Ownership in terms of capital, technology, and human resources, Location in terms of internal stability, regulations, and Internalization in terms of the advantages of direct operational control to protect internal interests. Thus, this framework becomes a strong economic logic for the phenomenon of investment waves into Malaysia. These multidimensional motives will continue to evolve in line with investment patterns in Malaysia's internal political and economic dynamics and other factors.

### **CONCLUSION**

This research analyzes the main motives behind China's Foreign Direct Investment (FDI) in Malaysia in the fields of infrastructure, manufacturing, and technology from 2019 to 2024, using John H. Dunning's Eclectic Paradigm (OLI framework). The findings reveal that the primary motivation of Chinese firms lies in the strategic interplay of ownership advantages, including robust capital, advanced technology, and skilled human resources. Malaysia's strategic location within ASEAN, accompanied by stable regulations and policies, further strengthens the locational advantages. Internalization advantages allow firms to maintain operational control and mitigate risks. These elements collectively underpin the rational economic logic behind China's investment decisions, aligning with Malaysia's economic growth objectives and regional influence aspirations.

The OLI framework proves effective in dissecting the multidimensional motives of Chinese FDI, offering a structured lens to understand complex investment decisions. However, its application can be enhanced by integrating social and political factors such as impacts on local communities and environmental resilience, which could improve the overall outcomes of FDI. Future studies may further explore these dimensions to gain a deeper understanding of the long-term implications of FDI. Additionally, a comparative analysis with other ASEAN countries could provide new insights into China's investment strategies, which could then be leveraged to better inform policymakers in order to maximize the benefits of FDI while minimizing potential challenges.

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