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*Approval Page*

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# WHAT MULTINATIONAL CORPORATIONS SHOULD KNOW BEFORE ENTERING INTO MALAYSIAN MARKET (AN ANALYSIS OF THE OPPORTUNITIES IN THE WAKE OF MULTIMEDIA SUPER CORRIDOR)

The undersigned certifies that the above candidate has fulfilled the conditions of the project paper prepared in partial fulfillment of the requirement for the Master of Business Administration (MBA).

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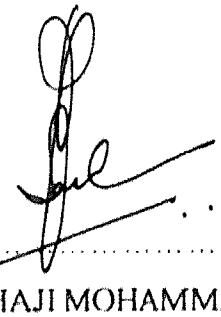

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MBA PROJECT PAPER

# What Multinational Corporations Should Know Before Entering Into Malaysian Market (An Analysis Of The Opportunities In The Wake Of Multimedia Super Corridor)

Submitted to the
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Dedicated to mom, with love

*you might not be around, but your inspirations kept me going*

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## Executive Summary

*This paper addresses the issues which multinational companies (MNCs) should know, in wake of the opportunities of the Multimedia Supercorridor (MSC) in Malaysia. Adopting a host county perspective, the objective is to illustrate the uniqueness of MSC and the Malaysian business environment confronting MNCs. It provides a comprehensive overview on the developments, trends and problems of MSC in Malaysia as an investment choice. This paper also reviews the MSC in terms of its strengths, weaknesses, opportunities and threats. Insights have been gained from examining the implications of the pertinent economic, socio-political, legal, cultural and competitive variables that affect MNC policy formulation. The interviews with several companies that are currently operating in different industries provided a brief understanding on the Malaysian working environment and the preparations of these companies in anticipation of the MSC. Helping MNC managers to understand the differences between their own environment and Malaysia can improve their investment decisions and functions in this region. Malaysian native companies can also benefit from such an analysis in preparing themselves for the MSC. Guidelines are provided at the final part to assist MNCs in planning for investing in MSC.*

# Chapter 1 Introduction

## *International Business and Malaysia*

With the emergence of an expanding interdependent global economy, strategists need to face the challenges of internationalization[1]. The growth of multinational business has been accompanied by significant increases in international operations. It is no longer unusual for corporations to support significantly high level of operations in foreign environments. With a built-in international dependency, developing nations' need for Multinational Corporations (MNCs) know-how and technology is unquestionable. MNCs, on the other hand, need to open new markets and production zones. For host countries, development objectives could often be attained through MNC's technical assistance. For MNCs, a better awareness of the host country's economic, sociopolitical, legal, technological, cultural and competitive dimensions is perhaps the most natural and effective way of gaining goodwill and maximizing profits. This paper takes a helicopter view on these environments in Malaysia, in wake of the opportunities of the Multimedia Super Corridor (MSC).

[1] Bartlett. C. And Ghoshal. S., '*Managing Across Borders: The Transnational Solution*', Harvard Business School Press, Boston, 1989

Malaysia is strategically located in the heart of the fastest growing economies of Asia and the world. Malaysia's total land area is 329,758 sq.km[2]. Under the leadership of the current prime minister, Datuk Seri Dr. Mahathir Mohamad, Malaysia had prospered and caught the attention of the world. Malaysia's gross domestic product is growing at 8.9% and inflation rate contained below four per cent. The average of eight per cent economic growth and below four per cent inflation rate has been maintained for the last three years. In, fact, Malaysia is considered to be the fifth Asian 'Tiger', with its rapid economic growth and opportunities offered to foreign investors.

Foreign Direct Investments (FDI) has increased steadily, as investors flocked to the region to capitalize on the high growth and business opportunities. In 1996 alone, there is a total of 445 thousands foreign companies' registrations in Malaysia as compared to 415 thousands local company registrations. Foreign companies had been successful in Malaysia. The number of dissolves in 1996 are 99 for local and none for foreign companies[3].

Malaysia has always been active in a number of international bodies and has also taken important regional initiatives. It was a founder-member of the South-east Asian Nations (ASEAN), which now comprises Indonesia, the Philippines,

[2] *Monthly Statistical Bulletin,* Department of Statistics Malaysia, September 1997, pg. iii
[3] *Monthly Statistical Bulletin,* Department of Statistics Malaysia, September 1997, pg. 100

Singapore, Thailand, Brunei, Vietnam, Malaysia, Myanmar and Cambodia. Malaysia had helped AEAN to transform it into an important medium for establishing regional positions on international questions, for settling disputes and for increasing intra-regional trade and development[4].

Malaysia is also a member of the broader but looser-knit Asia-Pacific Economic Cooperation (APEC) forum, which includes Australia, New Zealand and countries of the American Pacific littoral and of East Asia. At the 1994 ASEAN conference, Dr. Mahathir proposed setting up another regional body, the East Asian Economic Group (later renamed the east Asian Economic Caucus, EAEC) to strengthen the negotiating power of Asian economies vis-à-vis the European Union (EU) and such emerging blocs as the North American Free Trade Area (NAFTA). In 1993, ASEAN members decided that EAEC should comprise the ASEAN countries, China, South Korea, Taiwan, Hong Kong and Japan[5].

In the last 20 years, Malaysia has industrialized rapidly. She was transformed from a country which depended for its prosperity and economic resilience on producing a wide spread of mineral and agricultural export commodities - to an economy dominated by manufacturing industry. Whereas in 1986, agriculture and

[4] '*Malaysia, Brunei*', EIU Profile 1995-96, The Economist Intelligence Unit Limited, 1995, pp.13
[5] '*Malaysia, Brunei*', EIU Profile 1995-96, The Economist Intelligence Unit Limited, 1995, pp.13

manufacturing accounted for roughly equal proportions of GDP, by 1994 manufacturing had become more than twice as important as agriculture[6].

The overall objective of Malaysia's national policy this decade has been preparing the country for the next millennium. Malaysia has gone into details as to specify the industries it wants to excel and venture and the corresponding quality workforce for these industries. In 1991, Dr. Mahathir launched Vision 2020. It is a national policy to transform Malaysia into a developed nation by the year 2020.

The country's leadership realized that in order for Malaysia to become a developed country as outline in Vision 2020, she cannot continue with conventional manufacturing industries. Thus, in 1996, another national policy was introduced, giving it a head start in the industry of tomorrow: information or multimedia-based industry. The development of the IT sector would be given priority as it was a new national strategy to achieve the goal of becoming a developed nation by 2020. Towards this end, the Multimedia Super Corridor (MSC) was launched.

[6] '*Statistics on Manufacturing Sectors*', Malaysian Industrial Development Agency (MIDA), Kuala Lumpur, 1996

### *The MSC*

The MSC project was mooted in late 1994 with Dr Kenichi Ohmae (author of 'Borderless World') as the leading consultant in this project. The MSC is a concept, with the objective of bringing together an integrated environment with all the unique elements and attributes necessary to create the perfect global multimedia climate[7].

What is "Multimedia"? By definition, it is 'relating to or using two or more media, especially a combination apprehended by different senses, as sight and hearing.' A 'corridor' is a hallway or passage way usually having rooms opening on it or a strip of land belonging to one country crossing the territory of another. It can also mean a densely populated strip of territory including major cities[8].

MSC is physically a 15km by 50km long corridor that runs from the world's tallest building, the Kuala Lumpur City Centre (KLCC), down to what will be the region's largest international airport in Sepang when it opens in 1998. The piece of real estate is a greenfield site for the building of state-of-the-art cities and systems.

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[7] '*Unlocking the Full Potential of the Information Age*', Report by Multimedia Development Corporation, 1997

[8] '*Webster Illustrated Contemporary Dictionary*', Encyclopedic Edition, Jg. Ferguson Publishing Co., 1988, pp. 160, 476

Halfway between the KLCC and the Kuala Lumpur International Airport (KLIA) will be two cities: the new administrative capital of Malaysia, Putrajaya, and the other a cyber city, Cyberjaya. In Cyberjaya, there will be industries, research and development (R&D) facilities, the Multimedia University and institutions and operational quarters for multinational corporations to direct their worldwide manufacturing and trading activities using multimedia. Both Putrajaya and Cyberjaya will house the development of smart buildings with the latest information infrastructure that is being tailored to meet both the living and the business needs of the knowledge worker. They would have state-of-the-art communication facilities with fiber to all offices, business premises and houses. There will be also garden cities, with large water bodies to make life pleasant and to stimulate creativity among the knowledge workers who live there. A brand new rail line will link the cities to Kuala Lumpur and the KLIA. Dedicated highways and a system of light rail transport will move people within and between the two cities.

The entire MSC area will be serviced by a 2.5-10 gigabites, 100 per cent digital fibre-optic network that will link the corridor directly with Asean, Japan, the United States and Europe.

Heavily promoted by Malaysia's government, the MSC is said to be a huge testbed for trying out not just the technology for the borderless world, but also the way of life in the age of instant and unlimited information.

Dr. Mahathir said, "*As we approach the 21st century, fantastic changes are taking place which make what was impossible in the old economy of the industrial age suddenly possible in the information age. Borders are disappearing due to ease of global communication, capital flows, the movements of goods and people and location of operational headquarters*"[9]. Where countries once competed with one nation's trade surplus resulting in another's trade deficit, Malaysia envisioned that in the future, both countries can benefit because networks of companies collaborate across the borders to deliver value to customers in the most economically sensible way. Dr. Mahathir stressed that the MSC is the first place in the world to bring together all the elements needed to create the kind of environment to engender this mutual enrichment.

In encouraging foreign interests, the MSC offers several incentives to the MNCs. 'Knowledge workers' had been given the assurance that they will be able to get in and out of the MSC without hassle and treated like special guests. Multiple-entry

[9] Extracted from the Prime Minister's speech made at the opening of Multimedia Asia on Multimedia Super Corridor (MSC) At Putra World Trade Centre, Kuala Lumpur, Thursday, August 1, 1996. For full speech, please refer to Appendix 4

visas will be given. Malaysia will also allow 100 per cent ownership of companies, and unlimited employment of knowledge workers from abroad.

Further to these, Malaysia has committed that it will not censor the Internet. Bureaucratic procedures will be reduced to the minimum and one-stop agencies would be established. Presently, the Multimedia Development Corporation (MDC) will act as a one-stop agency with authority to designate MSC qualified investments.

### *Why Malaysia?*

There are several reasons why is Malaysia is seen to the right place for this mega-project. First, Malaysia's physical location at the center of Asean and its multicultural links with the biggest Asian markets are unique. Malaysian has the language skills and cultural knowledge that can be very helpful. Secondly, Malaysia still has a cost advantage as compared to the newly industrialized economies in the region. Third, the newness of multimedia to Malaysia provides an important advantage, as it has no inherited systems or entrenched interests determined to defend their current position. Malaysia has the political will and power to rapidly change any existing laws or policies that impede the ability of companies to capitalize on the benefits afforded by the information age.

Malaysia is inexperienced in the field of multimedia, but Dr. Mahathir had stressed that Malaysia is prepared to listen to advice and act on them. The government believes that political stability is essential for a country's development[10].

Malaysia sees MSC to be very important. It is a part of the Vision 2020, which is a deadline for the country to achieve fully developed nation status. Analysis indicated that the current industrial approach would only bring Malaysia's per capita gross domestic product (GDP) to about US$4000 level. In order to achieve Vision 2020, Malaysia needs to raise its per capita GDP to over US$9000. With its focus on multimedia, MSC is Malaysia's best bet to structure itself economically and become more competitive in the global market[11].

[10] Abstracted from the Prime Minister's speech at the opening of Multimedia Asia on Multimedia Super Corridor (MSC) At Putra World Trade Centre, Kuala Lumpur, Thursday, August1, 1996. For the full contents of the speech, please refer to Appendix 4.

[11] Sharifah Kasim and Rozana Sani, '*Towards Fully-Developed Nation Status*', The New Straits Times, May 29, 1997

# Chapter 2 A Review of the MSC: Prospects and Challenges Ahead

This chapter looks at the components of the MSC in detail, what makes it work and the challenges that MSC might face in the near future.

### *The International Advisory Panel*

Ensuring that the project receives the best possible advice, an International Advisory Panel of the MSC was set-up. This panel has been chosen carefully by the Malaysian government to include among others, industry leaders such as Jim Barksdale (Netscape), Larry Ellison (Oracle), Bill Gates (Microsoft), Nobuyki Idei (Sony), Lou Gertsner (IBM), Boo Moo Koo (Lucky Goldstar), Jim Manzi (Nets Inc), Scott McNealy (Sun), Kenichi Ohmae, Eckhard Pfeiffer (Compaq), Lewis Platt (Hewlett-Packard), Hasso Plattner (SAP) and Masyoshi Son (Softbank)[12].

[12] As reported by Multimedia Development Corporation in *'Unlocking the Full Potential of the Information Age'*, pp. 42. The list is constantly updated from time to time. The Malaysian Prime Minister sits as Chairman

With these distinguished names in the panel, the Malaysian government hopes that the project would be on the right track technically. The people in the list are committed to contribute to the MSC by directly or indirectly invest in Malaysia.

For other MNCs, this panel serves as an assurance to the viability of the project, as these industry leaders are known to be visionaries and had been very successful in their own areas.

### *Phases of MSC*

The MSC is an ambitious and strategic plan, over a period of 24 years. The Malaysian government had categorized the developments into three phases, each with its own targets and objectives. By the end of the third phase, the country hoped to be in the forefront in multimedia applications and information technology.

- Phase 1 (1996-2000). In this period, MSC is created. The Multimedia Development Corporation, MDC is to be established. In this period, the MSC targets to gain involvement of 50 companies. The first phase involves the development and implementation of the seven flagship applications, the cyberlaws and Cyberjaya
- Phase 1 (2000-2010). In this period, the MSC would be linked to other intelligent cities (target 4-5) in Malaysia, as well as worldwide. MSC would

have a web of corridors and 250 world-class companies. The cyberlaws is hoped to be harmonized as a global framework.

- Phase 3 (2010-2020). In the last phase, Malaysia would like to have 500 world class companies operating in the country, bringing with them technological leadership and forte of R&D. During this time, the international Cybercourt of Justice, which is being proposed by Malaysia will be realized and entire country will be a multimedia super corridor. Malaysia's 12 intelligent cities will be linked to the global information highway.

### *KLCC*

At the MSC's northern border stands the KL Tower, which is the region's tallest telecommunications facility and the KLCC project, which includes the world tallest building. Both developments use dedicated fiber-optic cables to plug into the MSC's broadband multimedia network. The world tallest buildings, the Petronas twin towers are already completed and occupied. The entire KLCC will be completed in phases over 10 to 15 years.

### *Putrajaya*

Putrajaya was launched in August 1995, as the new government administrative capital. Putrajaya is ear-marked to be a megactiy comparable to Tokyo and Yokohama. To be developed on a 4,000 hectare site, 25km from Kuala Lumpur the

new intelligent city will cost an estimated RM20 billion and is scheduled for completion by the year 2005. The first building in Putrajaya is already going up and will be occupied in 1998. Many multimedia institutions are already operating in MSC. This new federal Government administrative capital will itself becomes a test-bed for an electronic government. Supply of Government requirements in this area will favor companies located in the MSC.

### *Cyberjaya*

The country's first intelligent city was officially launched on May 17, 1997. Located facing Putrajaya, the development of 7,000 hectares city will be undertaken by Cyberview Sdn Bhd which will initially work on the 2,800 hectares "Flagship Zone". The Flagship Zone will be carried out in two phases, the first which covers 750 hectares and is expected to be completed by the end of 1998.

Cyberjaya will also be the site of Multimedia University that will be geared towards producing highly skilled personnel in the area of multimedia and content development. In addition, Cyberjaya will also be served by soft infrastructure that included competitive financial incentives and cyberlaws that are conducive to a multimedia community. Many other buildings are at the construction stages. The government had given the assurance that when a company decides to locate its

headquarters or building in the MSC, the company can expect construction to be rapid, of a very high standard and at minimal cost[13].

A total of 41 local and international companies has also confirmed their commitment to spearhead the development of Cyberjaya[14]. Seven of these founding members have already identified the specific locations of their respective enterprises. Cyberjaya should be a full-fledged city by 1999. When fully developed, Cyberjaya will comprise three types of areas, enterprise, commercial and residential. This shows that the planning of the Cyberjaya had taken into consideration the integrative aspects of a modern township.

### *Information Network*

MSC is supported by a high-capacity, fully digital telecommunications infrastructure designed to the high international standards in capacity, reliability and pricing. Key telecommunications network features will link the MSC to regional and global centers. These include a fiber-optic backbone with an unprecedented 2.5-10 gigabits per second capacity. With this capacity, it will be more than enough network power

[13] Shukor Rahman, '*Gearing Towards The Great Challenge*', The New Straits Times, May 29, 1997
[14] As reported by *Sharifah Kasim and Rozana Sani, '41 Companies Confirm Involvement', The New Straits Times, May 29, 1997. The number companies will change from time to time.*