Malaysia-West Asia Relations and Foreign Direct Investment: Proposal for an Ummah Network based on Social Capital Concept

Har Wai Mun
Faculty of Accountancy and Management
Universiti Tunku Abdul Rahman
Bandar Sungai Long
43000 Selangor, MALAYSIA.
Email: harwm@mail.utar.edu.my

Lam Zheng Ling
Faculty of Accountancy and Management
Universiti Tunku Abdul Rahman
Bandar Sungai Long
43000 Selangor, MALAYSIA.

Liew Khai Yi
Faculty of Accountancy and Management
Universiti Tunku Abdul Rahman
Bandar Sungai Long
43000 Selangor, MALAYSIA.

Abstract
Research on foreign direct investment (FDI) often ignores the psychology aspect of relationship. The role of relationship is embedded in Bourdieu's social capital, believing that networking and friendship could be valuable factors for attracting business. In macroeconomic context, international relations could be an important determinant in attracting foreign investment. Manifestations of this conceptualization are *guanxi* and "Bamboo network" in Chinese business culture. Applying to Malaysia international relations with Islamic countries of West Asia, an "Ummah network" can be established to enable win-win situation in investment decision. This is in contrast with the rational behaviour of profit maximization motive of the classic school of thought. In reality, foreign investors with higher degree of negotiation power may seek maximum incentives at the expanse of the welfare of the host country, thus evaporating any possibility of win-win outcome. Given close relationship between Malaysia and Islamic countries of West Asia through Islam brotherhood and membership of Organization of the Islamic Conference (OIC), Malaysia is in the best position to utilize its social capital to attract mutually beneficial FDI rather than giving excessive incentive to profit maximization oriented investors. Furthermore, growing tension and suspicion between Western world and Islamic countries strengthen Malaysia's position to build up long term investment relationship with West Asian countries. Hence, this paper aims to explore potential mutually beneficial Malaysia-West Asia partnership through the perspective of social capital networking with the focus on foreign investment. The ultimate objective of this paper is to propose a framework for the establishment of a relationship-based "Ummah network" between Malaysia and West Asia

Keywords: Malaysia-West Asia international relations, FDI, social capital, *Ummah* network.

[Suggested citation: Har Wai Mun, Lam Zheng Ling & Liew Khai Yi. (2008). *Malaysia-West Asia relations and foreign direct investment: Proposal for an Ummah Network based on social capital concept.* Conference preceeding, UKM Institute of West Asian Studies national conference on "Malaysia-West Asia relations: Prospect and challenges"]

Introduction

In the wake of September 11 terrorism attack to the United State, perception between the West and the East (particularly the Islamic world) has changed drastically. Suspicion towards each other developed, adding fuel to the history of tensed relationships since the Iraq war and Asian crisis that see the East blaming the West on their aggression and greed of speculation. On one hand, Orientalism, a concept pioneered by Edward Said highlighted the negative misconception of the West towards the Eastern world. On the other hand, Buruma & Margalit's book entitled *Occidentalism: The West in the Eyes of Its Enemies* highlighted the negative misconception of the East towards the Western world. Besides, conflict between various ideology blocks was already warned by Samuel P. Huntington in his *The Clash of Civilizations*. Bearing so many conflicts, one may wonder how decision can be made independent from the influence of human psychology due to all those happening around the world. One of the important aspects of human psychology is relationship. Game theory and concepts such as "behavioural finance", "behavioural credit scoring model", and "personalized marketing" are good examples of the important of human psychology factor in decision making. Therefore, in the aspect of foreign direct investment, foreign investors' decision on their investment destination and amount might not only subject to incentives being offered, but as well as their relationship and other psychology perception towards various countries. Generally, better relationship might attract more foreign direct investment (FDI).

Ever since Malaysia embark on its industrialization vision, attention has been devoted to attract huge amount of FDI to Malaysia and hoping that the FDI inflow could bring positive effect to GDP growth. It is through FDI that helped Malaysia transform more rapidly from an agricultural to industrious country. Although FDI has been in Malaysia since earlier years, it is not until mid-1980s that FDI took greater steps towards liberalization. In the late 1990s, FDI shares in fixed asset ownership fell because of rising production costs, a slowdown in electronics and the subsequent Asian financial crisis of 1997-98. FDI has generally increase throughout the years in Malaysia, with some minor hiccups along the way, such as during the Asian Financial Crisis years (1997-98) and the "dotcom boom" (2000). In year 2004, FDI also faced significant decline due to competitions form lower cost manufacturing countries. Delay in application processing, slow decision making by local authorities and absentness of a one-stop centre for businessman sums up to the time-consuming bureaucracy in Malaysia. In year 2005, Malaysia's FDI has shrunk to a miserable state to US$3.97 billion (RM14.69 billion) from US$4.62 billion (RM17.09 billion) in 2004. National Economic Action Council （NEAC）group member Datuk Zainal Aznam Yusof attributed Malaysia's sinking FDI to erosion of competitiveness over the last eight to ten years due to raft of factors, including shortage of human capital, upward pressure on wages and increased competition from China and India (Tomlinson, Abdullah & Kolesnikov-Jessop, 2006)

All along, discussions on FDI seldom give emphasis on the role of international relations. International relation was encrypted as endogenous variable in determining effect on FDI, thus its important is not analyzed explicitly as an exogenous factor. However in this paper the international relation between Malaysia and Islamic countries of West Asia will be taken into consideration as possible factor to attract sustainable FDI inflow and to some extent, boost economic growth.

Problem Statement and Objective

There are many FDI determinants which include monetary based incentive policy but often ignore international relations. Two common assumptions are that "higher monetary incentives given, easier to attract FDI" and "higher FDI inflow could lead to higher economic growth". However, the former is too shallow as "incentive" not necessary monetary-based like tax exemption or availability of cheap labour but could be relationship-based that seek long term mutual benefit rather than instant one-sided gain. This can be seen in FDI trend in Malaysia. Despite offering numerous monetary-based incentives and the fact that total inflow of FDI into the region of East Asia, South Asia and South East Asia increased by 19% to US$165 billion in 2005, Malaysia is actually experiencing a decrease in foreign investments (Tomlinson, Abdullah & Kolesnikov-Jessop, 2006). In fact, Malaysia used to rank fourth in the world for FDI in 1990, but was ranked 62 in year 2005. Malaysia recorded negative net foreign direct investment for the year 2007. The disappointing pattern of FDI in Malaysia has drawn attentions of the government, researchers and policy makers to look into this problem and determines the key factors that can stimulate the FDI in Malaysia. While many papers were carried out to investigate the factors that can stimulate FDI, not many consider international relations as one of the factor that can promote FDI. Instead, papers on the effect of relationship were mostly focus on the microeconomic aspect of firm performance. Regrettably, existing research regarding the effect of international relations on FDI are still inadequate and not thoroughly, especially on conceptual studies from various possible perspectives.

Meanwhile, the later assumption ("higher FDI inflow could lead to higher economic growth") is contentious. It remains argumentative what is the relationship between FDI and GDP, since some of the previous research carried out argue that FDI can have both positive and negative effect on GDP. However, it is also argue that there is a bidirectional effect between FDI and GDP, in which FDI can affect GDP and GDP also can affect FDI. It is reasonable that a stable and continuous economic growth of Malaysia can help to boost up foreign investor's confidence to invest in Malaysia and increase the FDI. The increase in FDI will then lead to market expansion and economic growth. Not much attention being focus to argue that different types of FDI could give different impact to growth. For example, FDI inflow based on relationship (social capital) as incentive should be more beneficial to the host's economy than solely profit maximization type of FDI that seek maximum monetary incentives.

Hence, this paper aims to explore potential mutually beneficial Malaysia-West Asia partnership through the perspective of social capital networking with the focus on foreign investment. The ultimate objective of this paper is to propose a framework for the establishment of a relationship-based "Ummah network" between Malaysia and West Asia.

Literatures Review

Recently, despite the fact that a large portion of the FDI in the world is hosted by developed countries, foreign direct investment (FDI) has been increasing rapidly in the developing countries, especially in some of the developing Asian countries (Gao, 2004). It is believed that the dramatic rise of FDI to the Asian countries is mainly driven by the increasing openness of host countries.

Few papers stated that there are bidirectional effect between FDI and economic growth, in which FDI can affect economic growth and economic growth also can affect FDI (Chakraborty & Nunnenkamp, 2008; Hsiao & Hsiao, 2006). However Li and Liu (2004) claimed that it is possible that FDI not only has positive effect on economic growth but also negative effect. Besides economic growth, international relations is believed to contribute to the economic growth as well, in which has been be conceptualized by a French philosopher, Pierre Bourdieu as "social capital". His social capital concept mainly refers to connections within and between social networks as well as connections among individuals, which coincidently similar to the conceptual of "relationship networking" or "guanxi" of the Oriental. The important role of guanxi in Chinese business and its related network known as "Bamboo network" has been widely reported. However, although the influence of Chinese and phenomenon of guanxi are expanding throughout East Asia with the increasing economic importance of China, yet it remains argumentative of how guanxi affect firm's performance and what is the importance of guanxi (Park & Luo, 2001; Xin & Pearce, 1996). Moreover, both Western business practice and guanxi-type system, which are different types of business approach are believed to have different impact on the economic growth (Lovett, Simmons & Kali, 1999). The FDI-economic growth nexus and international relationship-economic growth nexus lead to the possibility of triangular relationship between the three variables, where international relationship can influence the FDI as well. In Malaysia's international relations with Islamic countries of West Asia, an *ummah* networking could bring potentially huge win-win benefit as of the *guanxi* networking in the Chinese community.

Since guanxi refers to Chinese system of doing business on the basis of relationship, papers regarding guanxi are mostly based on China. Few papers evaluate guanxi through firms, Park and Luo (2001) studied 128 firms across various industries in China, whereas Xin and Pearce (1996) studied 32 firms, in which firms are being categorized into 3 types, state-owned, privately owned and collective hybrids, using data based on 1992. Guanxi also can be evaluated through the labor force involved in firm production (Lovett, Simmons & Kali, 1999). From the guanxi perspective, an integrative framework on guanxi utilization based on firm-specific attributes is used to examine guanxi impact on firm growth and internal operation (Park & Luo, 2001). The relation between guanxi and economic growth cannot really be explained through economic sense as guanxi is a social connection, which is viewed in the business sense as an exchange for mutual interest and benefits (Xin & Pearce, 1996). Due to political uncertainty, ineffective factor markets and ambiguous property rights, guanxi served as substitutions for government protection to compensate for the uncertainty risk (Park & Luo, 2001). Quoting Jacob (1980) in their literature, Xin and Pearce (1996) states that guanxi can be made closer either by a social interaction that contributes to positive affect (ganqing), or by helping , in which both rely on gift giving as an indication of goodwill and respect. Since the principle of fairness or equal opportunity has been violated in the guanxi way of business conduct, Westerner threats this type of business conduct as unethical or corruption (Lovett, Simmons & Kali, 1999). While the type of business conduct practiced in the developed countries, are considered by the Westerner as a modern legal system (Chow, 1997). Findings also indicates that guanxi can contributes to firm growth through market expansion and helps firm to position itself more competitively in the market, but not in term of improving net profit (Park & Luo, 2001). It is however viewed as more important for private companies compare to other types of organization, to compensate for the lack of formal institutional support (Xin & Pearce, 1996). Xin and Pearce (1996) also state that the extent of guanxi networking is idiosyncratic to the firm, which depends on various organizational characteristics, such as strategic capabilities and orientations, size, and history. Due to the increasing influence of China, guanxi-type system will be adapted by western countries in the future, and a convergence may result from both Western and Eastern system, whereby each incorporates in the most effective aspect of the other (Lovett, Simmons & Kali, 1999).

Despite having literatures indicating that a closer relationship between firms can leads to better firm performance and economic growth, there is no convincing economic theory or valid prove that international relations between countries can affect FDI. Nevertheless, since there is a linkage between FDI and economic growth, and from the microeconomic perspective, relationship between firms can affect the economic growth in the business sense, thus it is possible that international relations can affect both the FDI and growth from the macroeconomic perspective.

International Relations and FDI

In colonial era, foreign direct investment (FDI) to Malaysia mostly originated from United Kingdom (U.K). British colonial encouraged FDI in primary sector, predominantly in plantation and mining sector. Thoburn (1970: 28) reported that percentage of Malaysian ownership in Malaysian-incorporated and United Kingdom-incorporated tin dredging companies in Malaysia is 56.3% and 20.0% respectively. The remaining foreign ownership was mostly from United Kingdom. British investment not only help developed Malaysian tin mining sector but also initiated rubber planting. During early post-independent period, relationship with British through Commonwealth continued help attracting investment from United Kingdom. Nevertheless, the beginning of Mahathir's era caused a change in Malaysia's international relations policy from British friendly relationship to "buy British last". The then Prime Minister launched "Look East Policy" in 1982, aiming to foster better international relations with Japan, Taiwan and South Korea. This policy was successful in term of increasing the amount of foreign investment from Japan and Taiwan, but not much from South Korea (refers Table 1). As for Germany, the establishment of German-Malaysia Institute in 1992 might have started to foster stronger relationship between the two countries. However, the two countries relationship greatly improved in the early 2000s that also witnessed the first ever visit of the Chancellor of Germany, Gerhard Schroder to Malaysia from 11th to 13th March 2002 and the Malaysian-German Business Forum held in Munich on 18th March 2002. Accordingly, German's FDI to Malaysia increased tremendously in 2001 and 2002 but fluctuate greatly in subsequent years. Nevertheless, in recent years, German companies have further expanded their activities in Malaysia, investing EUR 806.8 million in 29 projects in 2007. Germany was the second-largest foreign investor in Malaysia in 2007, after Japan (Germany Federal Foreign Office Malaysia 2008).

Table 1: Malaysia: Foreign Investments in Approved Projects, 1985-2002 (percentage)

	1985	1986	1987	1988	1989	1990	1998	1999	2000	2001	2002
U.K.	2.8	2.9	3.7	0.4	8.8	4.9	3.6	1.5	3.8	0.6	1.4
USA	11.6	3.1	7.9	11.0	3.6	3.2	49.2	44.4	37.7	18.0	23.0
Japan	27.5	6.8	34.7	25.1	31.3	23.9	14.2	8.1	14.5	17.8	5.0
Taiwan	3.3	6.4	11.8	17.0	24.7	35.9	7.6	2.1	4.6	6.0	2.1
Singapore	10.4	10.9	12.5	8.6	10.6	5.0	7.4	2.1	4.6	6.0	2.1
Korea	2.6	0.2	0.2	0.9	2.2	3.6	0.5	0.2	3.6	9.0	3.1
Germany	n.a.	n.a.	n.a.	n.a.	n.a.	0.7	1.2	1.5	8.3	13.8	44.9

Sources: MIDA (various issues, cited in Poon 2005: 190)

Malaysia-West Asia International Relations

Besides building new relationships with Western and Asia Pacific countries, Malaysia also had long history of relationships with West Asian countries. In April 1965, in order to further raise the profile of Malaysia, the King had paid state visits to several West Asian countries, which include United Arab Republic (UAR) and Saudi Arabia (Jeshurun, 2007). The bond between Malaysia and Saudi Arabia were then further improved when both countries became members of the Organisation of The Islamic Conference (OIC) in 1969. This Organisation was established with the fundamental purposes of strengthening the solidarity and cooperation among the 57 Member States (Organization of The Islamic Conference, 2008). Nevertheless, it was understood that Malaysia value the importance of the participation within the OIC as part of the foreign policy strategy with other Islamic countries, which of course include Turkey and United Arab Emirates (UAE). During the period 2003-2007, Turkey, Saudi Arabia, and Malaysia are three of the largest Muslim majority economies, which have shown significantly larger growth in trade with OIC member countries than with the rest of the world (Shikoh and Zain, 2008).

In 2007, according to International Monetary Fund's Direction of Trade Statistics and Dinar Standard Research, Saudi Arabia was one of the top OIC trading partners of Malaysia (Shikoh and Zain, 2008). Recent years also showed steady increase in trade and investment between both countries. The strong bilateral relations between Malaysia and Saudi Arabia was boosted again when both the countries join forces on Yesser project in 2008, in which Saudi Arabia looks set to become the first country in the Gulf Cooperation Council (GCC) to develop a complete e-government platform (Menon, 2008).

During the period of the early 1980s, Malaysia's foreign policy was mostly focus on smaller Third World countries. Under the Mahathir's administration, Malaysia also identified itself as an Islamic state in its foreign relations. During April and May 1983, in order to promote the causes of South-South dialogue and encourage more direct trade with other countries, Mahathir paid official visits to some countries, one of the countries visited was Turkey (Jeshurun, 2007). Besides that, Turkey was also one of the few Muslim countries with whom Malaysia's joint commission agreements were extended by the Mahathir administration to include political matters. It is undeniable that Turkey has always been a major trading partner for Malaysia. During June 2003, the visit of Turkish Prime Minister, Recep Tayyip Erdogan to Malaysia further enhances the existing relationship between both countries (Daily News, 2003). Not only was the bilateral relations between both countries improved and became more active, Turkey also aimed to boost up the bilateral trade between both countries to U.S. $1 billion a year. In 2007, Turkey was ranked 6th in the top OIC trading partners of Malaysia (Shikoh and Zain, 2008).

As for United Arab Emirates (UAE), even though UAE was also one of the members of OIC, but it only became member in 1972, which was 3 years later than Malaysia, Turkey and Saudi Arabia. Nevertheless, in 1975, to broaden Malaysia's international contacts, then Prime Minister, Abdul Razak had boosted relationships by visiting some of the West Asia countries, which includes Gulf States of Kuwait, Oman, Qatar, Bahrain and UAE (Jeshurun, 2007). Ties between Malaysia and UAE had been growing in mutual confidence; both countries had been working closer than ever throughout the years. The bilateral relations between both countries are particularly strong in trade and commerce. According to Dato' Mubin Razali, Malaysian Ambassador to the UAE, both countries not only share common aspirations and views at international and regional level, but they also share close working relationship at international organizations such as the United Nation, Non-Aligned Movement (NAM), and OIC (Khaleej Times Online, 2007). The good relationships between both countries were able to boost up the trade volume. In 2005, Malaysia's export to UAE stood at Dh7 billion, the main export items were gold, jewellery, wood products, palm oil, petroleum products and electrical appliances. While the imports from UAE recorded a sharp increase to Dh2.8 billion, in which the main import items were petroleum products and chemicals. Based on the International Monetary Fund's Direction of Trade Statistics and Dinar Standard Research, UAE was the 2nd top OIC trading partner of Malaysia in 2007, and is considered to be the most important trading partner of Malaysia among the West Asia countries (Shikoh and Zain, 2008).

Social Capital and Exploring Beneficial Malaysia-West Asia Partnerships

Pierre Bourdieu has expanded the conceptualization of capital to four types, which are beyond being narrowly constraint by economic characteristic only. The four types are economic capital, social capital, cultural capital and symbolic capital. The traditional concept of capital in economic field is referred to "economic capital", which include money (wealth) and machinery. "Cultural capital" referred to knowledge and skills acquired, usually through formal and informal education. "Symbolic capital" is the perceived value on a symbol. Bourdieu conceptualized "social capital" as power and resources that accrued to an individual or group through networking and social relationship. This type of capital is strongly portrayed in elite club membership. Nevertheless, association of any kind like family ties, ethnic, religion, region (geographical) and ideology also generate social capital. Membership in international organizations such as Organization of Islamic Conference (OIC) and World Trade Organization (WTO) merely formalized the networking aspect while "Bamboo network" among the Chinese diasporas, which is also known as *guanxi* network is a good example of informal networking that embedded social capital.

This paper define "Ummah" as "brotherhood" of Islam, in which in economic context, refers to the business and investment network between Islamic countries or individual investors from those countries. "Ummah" is an Arabic word meaning "community", "collective nation of states", "community of the Believers" or "brotherhood of Islam". The phrase *Ummah Wahida* in the Qur'an (the "One Community") refers to the entire Islamic world unified (Wikipedia 2008).

The success of Bamboo Network could be translated into beneficial Ummah network or informal partnership among countries in the Malays world, especially Muslim communities of Malaysia, Indonesia, Brunei and East Timor with its brotherhoods of Western Asia that comprises the Arab states in the Middle East, Turkey, and some Islamic Northern African countries like Egypt, Sudan, Algeria and Morocco. Nevertheless, due to economic disparity, this paper believes potential FDI most possibly comes from richer countries like UAE, Saudi Arabia and Turkey while countries that relatively less developed than Malaysia could be potential investment destination to our investors.

The concept of informal networking is not new to Islamic world but regretfully, not being emphasis explicitly at global level. Informal trading network has long established thousands years ago leading to a prosperous and mutual beneficial trading partnership between Arab traders with Malays world. This is greatly in contrast with the greed and aggressiveness of Western's one-sided domination of trade during that era, especially trade of spices and local natural resources. Rapid rise capitalism sees their domination continue into the millennium in all aspects, be it economy, social and politic. Giant conglomerates from developed countries (the West, Japan and South Korea) topped the world best brands, controlling various industries from heavy automobile and aerospace industries to high-technology sectors of computer and software, financial markets and even cultural commodities industries such as football, Formula One racing, café house, fashions and education services.

West Asian countries, particularly the Arab world might have crude oil as their negotiation tools in global economy and politic. However, oil by itself is yield little power as demand for crude oil is derived demand that depends on the demand for industrial products. Worst for the Malay world including Malaysia, those countries practically have very low negotiation power. Thus, not surprisingly, heavy monetary incentives are requested as incentive to attract investment from developed countries. Subsequently, potential of a "win-win" or mutually beneficial partnership evaporates.

There are certain mutual benefits in relying FDI from Ummah network rather than purely using monetary-based incentives as attraction. Firtsly, social network is truly borderless in which they neither constraint by nation state boundaries nor binding agreement. It is also a misconception that informal network is constraint by certain ideology or ethnicity. For example, despite having a "Chinese businessman club" identity, Bamboo network is Chinese-centric yet not limited to Chinese diasporas only but also business associates of other races. Western investors include giant Microsoft to smaller trading business divert great effort to join the network and build strong guanxi with the Chinese, especially in China and Taiwan. Indeed, this "Chinese businessman club" does not intrinsically exist, thus so does the limitation of its membership. Nevertheless, since it is rooted in Chinese business communities since hundreds or even thousands years ago, it is not surprising that if any non-Chinese wishes to join the club, certain advantages have to be given to its "original" Chinese members as the "host" of this network.

Here, we see a big different to the capitalism system where the giant foreign investors usually emerge as winner over the host countries. This phenomenon has never been solved through WTO, which itself is commonly being blame for its biasness towards big capitalist nations such as the United States. In reality, Malaysia and Western Asian countries, be it individually or collectively, did not have the economic power to negotiate terms and conditions with global giant investors. Besides, there are researches that challenged the effectiveness of monetary-based incentive, particularly referred to "tax incentives". As example, Li (2008) noted that in China, FDI tax incentives that had the effect of overcoming market failures in the late 1970s and 1980s became barriers to market-based competition in the late 1990s and 2000s. With the gradual improvement in China market conditions, the incentive measures became less efficient. Referring to the OECD report on *Harmful Tax Competition Report: An Emerging Global Issue*, Li highlighted that countries engage in harmful tax competition by offering "preferential tax regimes" or being tax havens. Tax havens are harmful to other countries by eroding their tax base, thereby reducing those countries' revenue for financing social welfare. The "New Horizons: Multinational Company Investment in Developing Countries" report found that popular incentives to attract foreign investors such as tax holidays and free land "have negative and unintended consequences" (cited in Lexard 2003). The report also stated that these incentives "serve only to detract value from those investments that would be likely to be made in any case", resulting in more bureaucracy, particularly, direct fiscal and administrative costs as well as indirect costs, particularly reduced productivity.

As for Malaysia, FDI played its role in the country industrialization. However, the majority of Malaysia's early import-substituting industries were set up by foreign-owned companies (during the years from 1950s to 1960s). Thus, not only did protection (as part of the incentive) give rise to high profit to them at the expanse of domestic consumers, but the profit accrued to foreign companies were more likely to be remitted out of the countries. Since 1958, tax incentives has been offered to pioneer industries but from the beginning of the 1960s, with the establishment of the tariff Advisory Board, import substituting industries were encouraged by providing protection through import duties and quotas (Jomo & Edwards 1993: 19). In Malaysia's early export oriented industrialization period, most companies producing in Export Processing Zones (EPZs) were also foreign-owned. So, most of the profit will have been remitted. Net foreign exchange earnings are estimated to only a little over 10% of gross sales. Furthermore, wages in EPZs have been very low. With increase in low-wage EPZ employment, by 1978 the real wages in manufacturing sector was below that of 1968 (Jomo & Edwards 1993: 27). These indicated that FDI on surface benefit the host country but in reality, the powerful profit-maximizer foreign investors benefited at the expanse of the host. Thus, the Ummah network is an alternative to share capital, knowledge and technology within an ethnical condition for mutual benefits.

In developing countries include Malaysia, excessive incentive needed to be given to attract foreign direct investment. A recent shocking event, dubbed the "Motorola case" that highlighted the hidden peril of FDI was revealed during the 12th Malaysian General Election. On 2nd March 2008, *Malaysiakini* revealed that the Penang state government had asked the federal government to offer a RM1 billion project to Motorola in a desperate attempt to stop the American telecommunications giant from pulling out of the state (Beh 2008). This was later confirmed by the then Chief Minister of Penang. Continues huge monetary-based incentives like the Malaysian's favourite "10-years tax exemption" incentive did not benefit the country in long term. Foreign investors whose has been enjoying the tax exemption previously are believed shift their production base in Malaysia to other countries such as China and Vietnam after the tax exemption expire. Those investors did not see Malaysia as their "friend" or "brotherhood", hence leaving the host countries in trouble water to find new investments (in this case, "replacement investment") when they withdraw their capital.

Proposal for an Ummah Network: Its Framework and Rationale

Firstly, the proposed Ummah Network should be conceptually an informal set-up and remain as a virtual network. The network could be initially giving focus on trading and investment partnership among members. "Informal" in this context refers to "unbound by explicit agreement between nation-state". Therefore, this network is unbound by sovereign borders, hence providing this network with virtually unlimited space for expansion. However, to some extend, Ummah Network should be initially bound by religion belief, but this boundary could be faded away for a total integration with other formal and informal global networks to establish a fairer international system. Therefore, the initial religion constraint should not be seen as discriminatory, anti-liberalization or hostile to free trade. The rationale is that greed has become so embedded in human civilization, especially in developed countries which mostly consists of non-Asian countries except Japan, South Korean and Singapore. The eagerness to dominate and maximized self interest have been so strong that it is very likely endangering the existence of mutual benefit of a "strong-weak" partnership. Each of the Western Asia countries and Malaysia (also Indonesia and Brunei in the Malays world of South East Asia) are considered as "weak" as individual country but are "strong" as partner-unit. Trade and investment negotiation between Ummah partnership as a united unit with individual developed countries or united group like the European Union could be fairer, thus paving more potential and sustainable partnerships. Hence, the formation of Ummah Network should be viewed as catalyst for free trades and global partnership in investments, not vice versa. Besides, Ummah Network should also be a catalyst for trade and investment partnership among its members. This helps faster the development of member countries, be it on micro level (companies) or macro level (country or in aggregate).

Secondly, big and continuously forces are needed to kick off this virtual concept of Ummah Network. Drawing analogy from Newton's First Law of Motion (also known as Law of Inertia), "a body at rest tends to remain at rest". Therefore, to "move" the Ummah Network from its "motionless" state, very big forces are required. To gather such a big forces, it needs a politically construct big push mechanism. Islamic West Asian countries, Malaysia, Indonesia, Brunei and East Timor need to publicly announce their encouragement for an ummah partnership that seek mutual helping hand and not self-maximization agenda among Islamic countries. Non-Islamic countries should be welcome to join the network if they are seeking mutual beneficially partnership, not domination and exploitation. As many countries (members of the network) as possible should simultaneously explicitly voiced out support for such network, thus capitalizing the effect of the big push. Furthermore, investment (and also trade) partnership should encompass a wide spectrum of sectors. The following is possible sectors that West Asia and Malaysia could foster win-win partnership.

Islamic banking

In current Malaysia's aggressively effort to develop Islamic banking sector, the contributions of Islamic banks from Middle Eastern countries like Al Rajhi Bank and Kuwait Finance House. Their investments not only enhance the competitiveness of Islamic banking sector but also play the role of attracting more investment from other renowned Islamic banks from Arab countries of West Asia. Despite allowing selected Islamic banks to invest and operate in Malaysia, there is not much effort in further liberalizing the banking Islamic banking sector. Malaysia commitments to WTO's General Agreement on Trade in Services (GATS) and ASEAN Framework Agreement on Services (AFAS) are limited to "cross-border supply" (Mode 1), "consumption abroad" (Mode 2), and "movement of natural persons" (Mode 4), missing the crucial "commercial presence" mode of supply (Mode 3). Under the latest AFAS (Package 4 dated 2008), international Islamic banks are given slightly further liberalization, but yet it is very limited to foreign currency transactions only. Islamic countries of West Asia neither have significant commitment on GATS on banking sector. Therefore, any breakthrough in truly liberalizing and developing this sector shall need commitment of belief, in which can be provided through Ummah Network that operate based on trust and mutual benefit. Besides, the Ummah network can act as an enhance to existing global partnership like Islamic Development Bank (IDB) and International Islamic Trade Finance Corporation (IFTC).

Halal Market

There is a "story" that the great success of minority Muslim population in Southern Thailand in exporting *halal* products all over the world has drew both envy and encouragement to Malaysia in aggressively developing its *halal* market. Given large Muslim population in the world and majority in Malaysia, the government see its potential but massive effort and investment still needed to success. The Halal industry is a rapidly expanding business now reaching 1.8 billion consumers worldwide and worth an estimated US $2.1 trillion. Within the Middle East, the Halal industry is estimated to be worth more than US $20 billion (IHI 2008a). Abdullah Badawi, Malaysia Prime Minister has been expressing confident that by 2010, the Malaysian blueprint for halal industry development could spur Malaysia to be a global leader in *halal* integrity (Sabanayagam 2008). Unfortunately, the blueprint still very much focused on using monetary incentive as foreign direct investment attraction, thus failing to tap social capital network as alternative (if not better) way for foreign investment.

Currently, various global partnerships or alliances have established such as International Halal Integrity Alliance (IHI). It is an international non-profit organization, created to uphold the integrity of the halal market concept in global trade through certification, collaboration and membership (IHI 2008b). There is also World Global Forum as a focal point for global *halal* industry to discuss, collaborate and promote industry-specific issues and Organization of Islamic Conference's Trade Preferential System (OIC-TPS) that aimed to create a world free trade zone for Islamic countries. Despite the existence of various organizations for partnership in *halal* market, Ummah network could play the as universal catalyst that virtually does not constraint to only *halal* market nor Muslim only, but borderless except following Islamic principle. Perhaps, Malaysian food franchise like Malaysia Kitchen could be more success through the borderless multi-directional partnership in term of investments, operation collaboration and recipe developments as of the framework of Ummah network.

Tourism

Tourism is a "subjective" matter, meaning that choice of tourism destinations still being heavily influence by physiological factor including cultural and religion bonding. Hence, enhancing the *ummah* bonding could increase the attractiveness of tourism. Hospitality industries in Malaysia, especially hotels follow *halal* requirements in their operation, thus more tourists friendly to Muslim visitors while vice versa, Malaysian Muslim tourists could find Islamic West Asian countries their preferred choice due to religion factor. This type of tourism is termed as "halal tourism", in which growth due to both pull and push factors. Push factors such as difficulties to obtain visa for Middle Easterners to visit the West should be tapped within the Ummah Network but much detail cooperation from tourism services (airline, hotels, food and beverages) to finance (concept of *halal* tourism bank like the Arab Tourism Bank, permissible financing for tourism development and banking transactions) need to be sorted out collectively.

Entertainment

Entertainment industry is another potential mutually benefit sector for Malaysia-West Asia investment partnership. Entertainments from Hollywood, Bollywood, Japan, Korea, Indonesia, Taiwan, China and Hong Kong have strong presence in Malaysia. Even *telenovela* of Latin America was once very sought after but yet entertainment from Arabic world seem limited to documentary. Some years back, Arabic entertainments were popular during the month of Ramadan. In entertainment aspect, investment in cross-production between Malaysia, Indonesia and West Asian countries (especially the Arab world countries) could boost popularity and enhance the quality of production, hence should be encouraged.

Sports

Investment from Abu Dhabi United Group (ADUG) to buy over Manchester City football club together with "money is not a problem" transfer of Brazilian Robinho make global headline. One may question the rationale of this investment as it does not seem to be profitable except that it is glamorous. However, we can again draw lesson that investment decision did not make purely on profit/loss calculation but influence by psychological factors. Therefore, Ummah network could have swung psychological factors in favour of its members countries (for example, Malaysia, Indonesia and Islamic West Asian countries). With high level of development in sport in West Asia, couple with ample liquidity, an Ummah partnership should see investment such as ADUG benefit countries like Malaysia. Bilateral investment and technical partnership could see Asian football giants of Saudi Arabia, UAE or Kuwait making investment and know-how transfer to Malaysian football clubs while Malaysia could share expertise in badminton to them in various means, including opening badminton academy or country-to-country collaboration.

Conclusion

International relation is believed to a hidden resource, which could have great impact to economic but unfortunately, often overlooked. International relation has usually been treated as an endogenous variable in various economic modelling, in which its effect would not explicitly being captured by the model nor utilized in real world. Thus, this conceptual study on international relation between Malaysia and West Asia with possibility of establishing a virtual but powerful Ummah network could bring mutual benefit to all participating countries. In addition, Malaysia is a multi-racial society comprises of many ethnic groups, mainly Malay (predominantly, Malay are also Muslim), Chinese and Indian. Malaysia's historical background as former colonial of British and its contemporary international association with Commonwealth, regional blocks like ASEAN and various other international bodies provide ample "hidden resources" in the form of international relation. Hence, this adds to the significant of this study where Malaysia could establish not only Ummah network, but various social capital-based partnerships for sustainable economic prosperity.

Reference

Beh, L. Y. (2008). Letter: Penang 'bribed' Motorola to stay. Retrieved October 20, 2008 from http://www.malaysiakini.com/news/78997.

Chakraborty, C. & Nunnenkamp, P. (2008). Economic reforms, FDI and economic growth in India: A sector level analysis. *World Development*, 36(7), pp. 1192 – 1212.

Chow, G.C. (1997). Challenges of China's economic system for economic theory. *The American Economic Review*, 87(2), PP. 321 – 327.

Daily News. (2003). Daily News: *Turkish Premier Visit to Malaysia A Success.* Retrieved October 21, 2008, from http://www.turks.us/article.php?story=20030615105644528&mode=print.

Gao, T. (2004). Foreign direct investment and growth under economic integration. *Journal of International Economics*, 67, pp 157 – 174.

Germany Federal Foreign Office Malaysia. 2008. Malaysia. Retrieved October 26, 2008 from http://www.auswaertiges-amt.de/diplo/en/Laenderinformationen/01-Laender/Malaysia.html#t2.

Hsiao, F. S. T. & Hsiao, M. C. W. (2006). FDI, export and GDP in East and Southeast Asia: Panel data versus time-series causality analysis. *Journal of Asian Economies*, 17, pp. 1082 – 1106.

International Halal Integrity Alliance (IHI). 2008a. Tapping the halal market. Retrieved November 16, 2008 from http://www.ihialliance.org/news/129-tapping-the-halal-market.html.

International Halal Integrity Alliance (IHI). 2008b. Welcome to IHI Alliance. Retrieved November 16, 2008 from http://www.ihialliance.org/index.php.

Jacob, J.B. (1980). The concept of guanxi and local politics in a rural Chinese cultural setting. In Greenblatt, S. L., Wilson, R. W. & Wilson, a. A. (Eds). *Social interaction in Chinese society*: 209 – 236.

Jomo, K.S. & Edwards, C. (1993). Malaysian industrialization in historical perspective. In Jomo, K.S. (Ed). *Industrializing Malaysia: Policy, performance, prospect.* London: Routledge: 14 – 39.

Jeshurun, C. (2007). *Malaysia fifty years of diplomacy*. Kuala Lumpur: The Other Press.

Khaleej Times Online. (2007). Economy: Growing Ties with UAE. Retrieved October 22, 2008, from http://www.khaleejtimes.com/malaysia/mt_eco_cnt1.html.

Lezard, A. (2003). Investment incentives do more harm than good. Retrieved October 26, 2008 from http://www.fdimagazine.com/news/fullstory.php/aid/482/Investment_incentives_do_more_harm_than_good.html.

Li, J. (2008). The Rise and Fall of Chinese Tax Incentives and Implications for International Tax Debates. CLPE Research Paper No. 5/2008. Available at SSRN: http://ssrn.com/abstract=1087382.

Li, X. & Liu, X. (2004). Foreign direct investment and economic growth: An increasingly endogenous relationship. *World Development*, 33(3), pp. 393 – 407.

Lovett, S., Simmons, L. C. & Kali, R. (1999). Guanxi versus the market: Ethnics and efficiency. *Journal of International Business Studies*, 30(2), pp. 231 – 247.

Organization of Islamic Conference. (2008). About OIC. Retrieved October 21, 2008, from http://www.oic-oci.org/oicnew/page_detail.asp?p_id=52

Menon, V. (2008). Arabian Business: Malaysia and Saudi Arabia join forces for Yesser project. Retrieved October 21, 2008, from http://www.arabianbusiness.com/523923-malaysia-and-saudi-arabia-join-forces-for-yesser-project.

Park, S. H. & Luo, Y. (2001). Guanxi and organizational dynamics: Organizational networking in Chinese firms. *Strategic Management Journal*, 22, pp. 455 – 477.

Poon, W. C. (2005). *The development of Malaysian economy*. Kuala Lumpur: Pearson Prentice-Hall

Sabanayagam, N. (2008). Blueprint to make Malaysia global halal industry hub. *New Straits Times*. 13 May: pp. 4 (Retrieved November 12, 2008 from http://www.standardsmalaysia.gov.my/keratan%20akhbar/halal/Blueprint%20to%20make%20malaysia%20global%20halal%20industry%20hub.pdf)

Shikoh, R., & Zain, M. (2008). OIC Trade: Malaysia, Turkey & Saudi Arabia Driving Increased Intra-OIC Trade. Retrieved October 21, 2008, from http://www.dinarstandard.com/intraoic/intraoic052708.html#malaysia.

Tomlinson, P., Abdullah, N.I. & Kolesnikov-Jessop, S. (2006). Falling FDIs. Retrieved November 10, 2008 from http://www.accaglobal.com/members/publications/accounting_business/archive/2006/novemberdecember/2855112.

Thoburn, J.T. (1970). Ownership of shares in UK-incorporated public rubber planting and tin dredging companies in Malaysia. *Kajian Ekonomi Malaysia*, **7**(2), pp. 26 – 29.

Wikipedia. 2008. Ummah. Retrieved October 17, 2008 from http://en.wikipedia.org/wiki/Ummah.

Xin, K.R. & Pearce, J. L. (1996). Guanxi: Connections as substitutes for former institutional support. *Academy of Management Journal*, 39(6), pp. 1641 – 1658.