THE ROLES OF MACROECONOMIC FACTORS AND COUNTRY SPECIFIC INDICATORS IN PROMOTING INTERNATIONAL TRADE AND FDI INFLOWS IN BRICS, ASEAN 5 AND DEVELOPED COUNTRIES

AMIRHOSSEIN KARBALAEI
MOHAMMAD HOSSEIN

Thesis submitted in fulfillment of the requirement for the degree of Master of Science

Faculty of Business Management

January 2015
AUTHOR'S DECLARATION

I declare that the work in this thesis was carried out in accordance with the regulations of Universiti Teknologi MARA. It is original and is the result of my own work, unless otherwise indicated or acknowledged as referenced work. This thesis has not been submitted to any other academic institution or non-academic institution for any degree or qualification.

I, hereby, acknowledge that I have been supplied with the Academic Rules and Regulations for Post Graduate, Universiti Teknologi MARA, regulating the conduct of my study and research.

Name of Student : Amirhossein Karbalaei Mohammad Hossein
Student I. D. No. : 2010658792
Programme : Master of Science (BM780)
Faculty : Business Management
Thesis Title : The Roles of Macroeconomic Factors and Country Specific Indicators in Promoting International Trade and FDI Inflows in BRICS, ASEAN 5, and Developed Countries

Signature of Student : 
Date : January 2015
Total trade and foreign direct investment (FDI) are important incentives to enhance the economic development of emerging countries. This paper aims to investigate the effects of macroeconomic and country specific indicators on total trade and FDI inflows in 16 countries, in three groups of BRICS, ASEAN 5 and developed countries for the period from 1981 to 2012. The ordinary least square and cross-sectional econometric model of fixed effect panel data are applied to explore the extent to which these variables are related in individual countries and sets of countries as a panel, respectively. In addition, the outcomes of this study help policy makers in developed and developing countries to identify influential determinants of total trade and FDI in order to optimize policies to increase international trade as well as foreign investments, and benefit from higher employment rate and economic growth. The findings from ordinary least square analysis indicate that both sets of factors are significant in influencing total trade of all countries except China where macroeconomic factors are more significant in affecting total trade. Moreover, the results from the fixed effect panel analysis also denote that both macroeconomic and country specific indicators significantly influence total trade in the three groups of countries. The findings indicate that both macroeconomic factors and country specific indicators are significant in determining FDI inflows of South Africa, Malaysia, Indonesia, the Philippines, Germany, Hong Kong, and Japan. However, it is also concluded that macroeconomic factors are more significant in affecting FDI inflows in Russia, China, Korea and the United States. Alternatively, country specific indicators are more significant in determining FDI inflows in Brazil. The findings from the fixed effect panel model indicate that FDI inflows in developed countries are significantly influenced by both sets of macroeconomic and country specific indicators. For the group of ASEAN 5 and BRICS countries, the set of macroeconomic factors are more significant in determining FDI inflows.
ACKNOWLEDGMENT

The completion of this thesis is one of the greatest achievements for me and I wish to express my enormous appreciation to all those individuals who have helped me during this long journey of my life. This period of my life was very challenging in terms of the learning process and the amount of time one must dedicate to complete a thesis.

I am sincerely grateful to my main supervisor, Prof. Dr Catherine Ho Soke Fun for her support, guidance and encouragement during the progression of this thesis. Her direction and feedback were essential in defeating the difficulties encountered in the research, and more importantly, the privilege of working with her made my enrolment at UiTM a great experience. Above and beyond that I also wish to thank her more than anyone else, because she has attempted to draw the best out of me.

I also wish to thank my co-supervisor Dr. Tan Peck Leong for his great supervision in the analysis part of my thesis. I learned much from him during my studies and his guidance on my thesis was very useful. I have benefited from what he taught me and the ideas he gave me for this thesis. Going far beyond the role of supervisor, he has also been a friend who has given me the confidence to succeed. To him in particular I am indebted.

I am also thankful to the graduate school and the Faculty of Business Management at UiTM for providing all facilities needed to conduct this research in a generous and exciting research environment. This research has benefited immensely from comments by lecturers at UiTM, and many other individuals at the 15th Malaysian Finance Association Conference in 2013. Their suggestions are highly treasured. Special thanks are also extended to Prof Ismail Ahmad who made my work at UiTM an educational experience.

Finally, I would like to appreciate my lovely wife, Barbara Ong, my dear parents, Javad and Nadia Karbalaei, my dear brother Komeil Karbalaei and his beloved wife Hosna who provided me with strong motivation, moral support, and incredible patience and understanding during the past few years that enabled me to carry on my education. I could never have completed my thesis without their love and encouragement. This research is appreciatively dedicated to them.
# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>AUTHOR'S DECLARATION</td>
<td>ii</td>
</tr>
<tr>
<td>ABSTRACT</td>
<td>iii</td>
</tr>
<tr>
<td>ACKNOWLEDGEMENT</td>
<td>iv</td>
</tr>
<tr>
<td>TABLE OF CONTENTS</td>
<td>v</td>
</tr>
<tr>
<td>LIST OF TABLES</td>
<td>ix</td>
</tr>
<tr>
<td>LIST OF FIGURES</td>
<td>xii</td>
</tr>
</tbody>
</table>

## CHAPTER ONE: INTRODUCTION OF THE STUDY

1.1 INTRODUCTION                                                        1

1.2 BACKGROUND OF THE STUDY                                             2

   1.2.1 Background of Total Trade                                      3

   1.2.2 Background of Foreign Direct Investment                       5

1.3 PROBLEM STATEMENT                                                   6

1.4 OBJECTIVE OF THE STUDY                                              8

1.5 RESEARCH QUESTIONS                                                  8

1.6 SIGNIFICANCE OF THE STUDY                                           9

1.7 ORGANIZATION OF THE THESIS                                          9

## CHAPTER TWO: OVERVIEW OF THE THEORIES AND VARIABLES

2.1 INTRODUCTION                                                        11

2.2 THEORIES OF STUDY                                                   11

   2.2.1 Theories of Total Trade                                       11

   2.2.2 Foreign Direct Investment Theories                            13

2.3 TOTAL TRADE AND FOREIGN DIRECT INVESTMENT                           15