



UNIVERSITI TEKNOLOGI MARA

**THE PERFORMANCE OF
FOREIGN DIRECT INVESTMENT IN MALAYSIA**

**NURUL NATASHA BINTI ZAKARIA
2020978899**

Final Year Project submitted in fulfillment of
the requirements for the degree of
Bachelor of Business Administration (Hons)
Investment Management

Faculty of Business and Management

FEBRUARY 2022

ABSTRACT

Foreign Direct Investment (FDI) plays an important role as it helps to sustain the country's economic growth by achieving the country's vision and mission. Besides, it is essential for a country like Malaysia, as the country is one of the developing countries that wishes to expand the economy and obtain more benefits from developed countries such as the United States of America and China, by improving the technological advancement, gaining new skills and knowledge, labor workforce, and the development of new infrastructure. From there, it helps Malaysia become a stable country by improving the qualities and growth of the economy. Moreover, Malaysia is one of developing countries that have a plan and initiative to be a country with a stable economic performance year by year. The plan that has been introduced by Tun Dr. Mahathir Mohamad, Malaysia's fourth prime minister, is "*Wawasan 2020*". This plan is one of the efforts that Tun Dr. Mahathir applied in order to boost the performance of Malaysia's economy in 1991. Thus, this study initially investigated the performance of Foreign Direct Investment in Malaysia by measuring it using the macroeconomics variables such as Gross Domestic Product (GDP), unemployment rate, interest rate and inflation rate. The time horizon for this study would be ten years, which is from 2011 until 2020. The time series data has been applied for this study and all the variables have been run by using the method of Ordinary Least Square (OLS).

Keywords: Foreign Direct Investment (FDI), Gross Domestic Product (GDP), unemployment, interest rate, inflation, Ordinary Least Square (OLS) and economy of Malaysia.

ACKNOWLEDGEMENT

First and foremost, I want to thank Allah, the Almighty, for giving me the ability to complete this final year project paper from beginning to end. Thank you, Allah, for providing me the patience and strength to finish my research despite the numerous problems and challenges that I have encountered.

Second, without the help and supervision of my personal adviser, Sir Syamsyul Samsudin, and the coordinator programme, Puan Yuslizawati Binti Mohd Yusoff, this final year project may not be completed entirely. They provide me with a lot of information and provide me with advice during the course. In addition, I'd like to express my gratitude to the second examiner of my project, Dr. Nur Fatihah Binti Shaari, for her patience and commitment to review this research study from the first chapter until the end of the chapter.

Next, I am deeply grateful to my parents and sister, Zakaria Bin Kamat, Abibah Binti Arum, and Nur Hazwani Binti Zakaria, for their prayers, love, and support during my studies until I was capable of completing my task within the time frame allowed.

Finally, I want to express my gratitude to my friends who helped me complete this research work for this semester by sharing their knowledge and advice. This project may not be completed effectively without the assistance of Allah and the people mentioned above, as my power and ability to do this work within the time frame were derived from them.

Thank you.

TABLE OF CONTENT

AUTHOR'S DECLARATION	I
ABSTRACT	II
ACKNOWLEDGEMENT	III
1.1 INTRODUCTION	1
1.2 BACKGROUND OF STUDY	2
1.3 PROBLEM STATEMENT	3
1.4 RESEARCH QUESTIONS	5
1.5 RESEARCH OBJECTIVES	5
1.6 SIGNIFICANCE OF STUDY	6
1.7 SCOPE OF STUDY	7
1.8 LIMITATIONS OF THE STUDY	7
1.9 DEFINITION OF KEY TERMS	8
1.10 SUMMARY	9
2.1 INTRODUCTION	10
2.2 FOREIGN DIRECT INVESTMENT	10
2.3 GROSS DOMESTIC PRODUCT	12
2.4 UNEMPLOYMENT RATE	13
2.5 INTEREST RATE	14
2.6 INFLATION RATE	15
2.7 RESEARCH FRAMEWORK	16
2.8 SUMMARY	17
3.1 INTRODUCTION	18
3.2 SAMPLING	18
3.3 DATA COLLECTION	18
3.3.1 DEPARTMENT OF STATISTICS MALAYSIA (DOSM)	19

CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION

Malaysia is one of the developing countries which is located in Southeast Asia with 32.37 million population as at 2020. As a developing country, Malaysia must strengthen its economy by attracting more foreign investors to ensure that the country can reap greater benefits in terms of development, technology, new skills, and knowledge. Foreign Direct Investment (FDI) is one of the tools that Malaysia can apply to help Malaysia become a developed country for the future. Besides, Malaysia is one of the countries that openly receives FDI in order to become a stable country globally, and this is in line with Malaysia's "*Wawasan 2020*" plan devised by Tun Dr. Mahathir Mohamad, Malaysia's fourth Prime Minister, in order to grow the economy of the country. Tun Dr. Mahathir Mohamad has introduced "*Wawasan 2020*" in 1991, with the purpose to overcome the nine challenges, including establishing a healthy society with an economy that is capable of competing, dynamic, robust, and resilient. Hence, it indicates that FDI plays an important role for Malaysia in order to overcome the internal and external problems and become a successful country in the future like in the US and China.

Next, FDI refers to an investment made by a group of businesses or organizations in another country in order to establish a connection by investing in the country's project. This connection is important since it can provide more benefits and opportunities to the country in order for them to achieve their own objectives and targets. There are two types of FDI flow which are FDI inwards and FDI outwards. FDI inwards refers to the value or transaction made by people outside the country in order to bring goods and economic advantages to the country in order to boost economic growth. Meanwhile, FDI outwards implies the value or transaction made by residents by investing its funds in the country that required funds in order to spread its power.

Thus, it is significant for developing country especially for Malaysia to seek an opportunity by accepting FDI to build a connections between the other country in order to gain more advantages and indirectly can give contribution towards the economy grow. It also helps