UNIVERSITI TEKNOLOGI MARA

THE DETERMINANTS OF FOREIGN PORTFOLIO INVESTMENT INFLOWS IN MALAYSIA

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

Faculty of Business and Management

FEBRUARY 2022

ABSTRACT

Foreign portfolio investment (FPI) comprises of securities and other financial assets held by foreign investors that invest in Malaysia. A variety of determinants include in this research. They are gross domestic product (GDP) growth rate, tax cuts, exchange rate, external debt, and interest rate play an important role in attracting steady and smooth foreign investment in developing countries. This study examined the determinants of FPI inflows in Malaysia. This study is using the time series data. The study uses quarterly data covering the periods 2001 to 2020 and the ordinary least square regression model is applying to estimate the relationship of dependent and independent variables. Only secondary data are utilised in this study, which are already published and may be obtained from earlier journals or publications, and regression analysis is performed to analyse the data. In order to get the findings, this study employed E-Views to run all of the acquired data. The finding in this research shows that all the independent variable significant toward the FPI inflows in Malaysia.

ACKNOWLEDGEMENT

First and foremost, I am grateful to Allah SWT for providing me with the strength and direction I needed to accomplish my research paper on time. I am unable to do my study without the assistance of my instructor, friends, and family. I would not be able to complete my Bachelor of Investment Management without the help of others. I am grateful to Mr. Wan Mohd Farid Wan Zakaria, my adviser, for his direction and consistent monitoring, as well as for supplying important information regarding this study and for his assistance in finishing this research report. Last but not least, I would like to thank my parents, Mr. Anuar Bin Md Yusoff and Mrs. Zalimah Binti Ahmad Arif, my siblings, and all of my friends for their encouragement and support from the beginning, which enabled me to accomplish my research paper. I would want to offer my gratitude to all persons participating in this study work, both directly and indirectly. The contributions not be forgotten, and may Allah SWT recompense and honour these people's charity.

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CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

This research is to investigate the determinants of foreign portfolio investment (FPI) inflows in Malaysia. The introduction of the study, the problem statement of the study, the research question, the research objective, the significance of the investigation, the scope of the study, and the summary discuss briefly in this chapter. FPI is one of the sources of financial for developing country like Malaysia. Malaysia's growth strategy pushes the aim of becoming a high-income nation in 2025 but now Malaysia working on economic recovery. There five determinants include in this research for support Malaysia to become high-income nation. This research also helps the decision maker such as government of Malaysia, related parties and investor to make decision on their investment, and the future research also can use the content as a body of the research. FPI boosts local capital market liquidity while also helping to improve market efficiency. FPI can also help domestic capital markets gain discipline and expertise.

1.2 BACKGROUND OF THE STUDY

A portfolio is a collection of financial investments like stocks, bonds, commodities, cash, and cash equivalents. A portfolio investment is a passive and active investment of securities made with the expectation of earning a return or grow in value over time, or both. Firstly, the FPI is effective for obtaining higher return and decreases risk through international diversification. Secondly, it plays a significant role in the economic growth of the host country. Thirdly, it encourages investment of new funds in the country due to which investment level would increase Aziz & Anwar, (2019).

The relationship between FPI and economic performance of a country continue to be the topic of significant discussions amongst academics and researchers. Capital market integration advocates often highlight at FPI attributes that support economic development such as the establishment of financial markets in host countries and facilitate access to funding for local deficit units Duasa & Kassim, (2008). There is no economy alone. In order to hedge between other nations of the world, domestic savings