# UNIVERSITI TEKNOLOGI MARA

# THE DETERMINANTS OF FOREIGN DIRECT INVESTMENT IN MALAYSIA

**RINELDY AWING RICHARD**
**2017615626**

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# ABSTRACT

Foreign Direct Investment has been a major source of private external financing for developing countries like Malaysia. As the Covid-19 pandemic hit economic activity globally, it found that Malaysia's net foreign direct investment decrease for about 56% in 2020. The performance of FDI in Malaysia has fluctuated and been volatile. The issue about the downturn of Foreign Direct Investment in Malaysia has happened back in year 2000, and it happened again last year in 2020. Due to the issue, we are interested to investigate the factors that affect the FDI performance. The independent variables used in this research are exchange rate, inflation rate, and market size (using GDP per capita) in Malaysia.All of the information gathered is secondary and consists of time series data. The strategy utilized in this study to regress the data was multiple linear regressions analysis. Due to restrictions, the data was collected on a yearly basis for 20 years, from 2000 to 2019. From the findings we can see only market size is significant in this study, meanwhile, the other two variables; inflation rate and exchange rate is not significant.

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# INTRODUCTION

## 1.1 Introduction

This chapter will go over the study's history as well as an outline of the research that was done. This study's problem will also be emphasized. The findings will answer the research objective and research question in this study. In addition, the scope of the study, its significance, limitations, and essential phrases will all be covered in this paper.

## 1.2 Research Background

A financial investment made by a corporation or individual from one country into a company in another country is known as foreign direct investment (FDI). In general, FDI happens when a foreign corporation establishes or acquires foreign business operations or properties. FDIs, on the other hand, are not the same as portfolio investments, which are purchases of a company's shares by an investor. FDIs, on the other hand, are not the same as portfolio investments, in which an investor merely buys stock in a foreign-based company.

The vast majority of foreign direct investments go to economies that are open with a competent workforce and above-average growth potential.FDI typically comprises more than a monetary investment. It may also include management or technology specifications. The essential tenet of FDI is that it maintains effective control over, or at the very least significant influence over, the decision-making of a foreign corporation.

## 1.3 Problem Statement

FDI flows in Malaysia expanded to RM31.7 billion in 2019, supported by higher investment from Japan precisely in Health activity. It is increased to RM691.6 billion compared to RM639.7 billion in 2018, according to press released by Department of Statistic Malaysia.