

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

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ABSTRACT

This research report aims to identify the determinants of foreign direct investment (FDI) in Malaysia. In 2005, Malaysia's inward FDI dipped 14 percent to US\$3.97bil, the only Asean country to register a decline. Empirical studies overseas have shown that economic, social and political factors are important determinants of FDI inflows. It cannot be very much different in the case of Malaysia. Inflows of FDI in Malaysia always fluctuate over the years. The fluctuations are because of the Asian financial crisis in 1997, increasing number in world oil price and the emerging markets like China and India. The research objectives are to study the trend of FDI inflows and the factors that influence the FDI inflows to Malaysia.

In this study, researcher has used secondary data. The data used in this study covers annual data for the period from 1976 until 2005. In addition, researcher used multiple regression analysis in this study because the independent variables are more than two. The fluctuation of FDI inflows in Malaysia can be seen in data analysis section. From the regression analysis, all of the independent variables show the correct theoretical signs and significant except for inflation rate.

CHAPTER ONE

INTRODUCTION

1.1 Introduction

In this chapter, researcher explained about the history of foreign direct investment (FDI) in Malaysia, the major foreign direct investors in Malaysia for selected years and the different industries of FDI in Malaysia. In addition, this chapter also focuses on problem statement, research question, research objective, significance of study, scope of study, limitation of study and definition of term.

1.2 Background of the Study

Among the various forms of capital flows, foreign direct investment (FDI) gets the most attention. It is one of the most reliable components of capital flows and is widely regarded as having a stronger positive impact on economic development and growth than any other.

FDI may be defined as equity investment of multinational corporations in host countries. It can be thought of as trade in entrepreneurial services and ideas. Malaysia's impressive economic growth since the 1960's can be traced back to policies promoting foreign investment. In fact, FDI is the most important contributing factor for Malaysia's economic performance.