# ECONOMETRIC ANALYSIS : RE-EXAMINING FDI AND GROWTH LINGKAGES IN MALAYSIA

**INSTITUT PENGURUSAN PENYELIDIKAN**

**UNIVERSITI TEKNOLOGI MARA**

**40450 SHAH ALAM, SELANGOR**

**MALAYSIA**

**BY:**

**NOR JANA BINTI SALIM**

**RAJMI BINTI MUSTAFFA**

**ASMA' RASHIDAH BINTI IDRIS**

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# TABLE OF CONTENT

**CHAPTER 2**

**LITERATURE REVIEW**



**CHAPTER 3**

**DATA AND METHODOLOGY**



**CHAPTER 4**

**EMPIRICAL RESULT AND DISCUSSION**

# ABSTRACT

FDI is perceived to have accelerated economic growth through the financing of domestic investment of developing countries that lack of domestic saving. Malaysia is not left out to rely on FDI to finance domestic investment during the saving-investment gap recorded the negative values in the 80’s and 90’s. This study aims to re-examine the relationship between FDI and GDP when saving-investment gap has recorded the surplus in the late 90’s. Covering the period from 2000-2010 this study employs Autoregressive Distributed Lag (ARDL) model for integration, the results show all the variables used in the study are co-integrated in the long run. Furthermore, the granger causality test shows a unidirectional causality from FDI to GDP. This can be the evidence that Malaysia still relies on FDI to boost economic growth even though there is a surplus in saving – investment gap.

# CHAPTER 1

# INTRODUCTION

## 1.1 Background

Foreign Direct Investment(FDI) has been a great accelerator to the economic growth of developing countries especially during the 1980's, the rise of debt crisis among these countries. Among the contributions of FDI are to supply capital for investment, transfer the technology, create jobs opportunity, improvise management of technical know how and many more. Later, in the 1990's FDI flows have increased dramatically. Removal of restrictions and implementation of new policies to attract FDI inflows, trade and investments have become the important agenda to developing countries, particularly in Asia region until a lot of multilateral framework of foreign investment rules negotiated under the auspices of the World Trade Organization(WTO).

In general, FDI is defined as capital movement from one country to another. Thi capital is supplied by the government or private firms either in the forms of portfolio investments or FDI. Portfolio investments are the buying and selling of financial assets without having the interest to control the assets, whereas, FDI is the supply of capital with the purpose of controlling the assets or equities and directly involve in the management of the firms.

Among the earliest theories that try to explain how FDI comes into existence in the perspective of micro are product life cycle by (Vernon,1966), transnational companies and their motivations by (Hymer, 1976) and Kindleberger (1969), eclectic paradigm by (Dunning,1988) and many others. On the other hand, in the macro perspective Mac Dougall(1960) analysed the effect of capital movement while Japanese researcher, Kojima and Ozawa(1984) have created a model to explain both the international trade and FDI on the basis of comparative advantage. Due to