THE IMPACT OF EXCHANGE CONTROL ON FOREIGN DIRECT INVESTMENT (FDI) IN MALAYSIA FOR PERIOD 1996 TO 2001

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MARCH 2002

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ACKNOWLEDGEMENTS:

This project paper would not be complete without mention of those who had helped point the way.

Firstly, my gratitude to my project advisor **Mr. William Duncan Lingkui** who had given constructive feedbacks and valuable suggestions throughout the process of preparing this project paper.

Secondly, I would like to thank **Mr. Syarinoor Bin Sahimi**, the Exchange Control Officer of The Exchange Control Department, Bank Negara Malaysia Kuching Branch for his time and assistance through ideas, advice and providing relevant references that make the completion of this project paper possible.

Finally I would like to thank my husband Mr. Abdul Rahman Haji Ellis, my sons Akmal Fuat and Akmal Faiz, daughter Nadira and friends for their generous help, support and understanding.

Thank you.

ABSTRACT

The East Asian Financial Crisis started in July 1997. When Thailand, Indonesia and South Korea took the IMF "rescue packages", Malaysia opted to reject IMF and decided to pursue its own strategies to tackle the crisis, among others, by imposing a selective exchange control. This drew strong criticisms, notably from IMF and its proponents. On September 2, 1998 Malaysia decided to peg the *ringgit* against US $ at RM3.80 to US $1 and that the *ringgit* was no longer traded outside the country.

This project attempts to study the impact of the exchange control, if any, on FDI in Malaysia, other than the effectiveness of the control in containing the financial crisis. The research, using hypothesis testing technique using the t-test statistics and ANOVA analysis, is based on the approved FDI for five consecutive years covering 1996 to 2000, i.e. those period directly before, during and after the imposition of the control. The focus of the study is on the total yearly values of FDI in application and approved, notably by USA, Japan, Singapore, Taiwan and Germany --- traditionally Malaysia's major trading partners and investors.

The findings revealed that the imposition of the exchange control has little impact on FDI. In fact, statistics have proven that Malaysia continues to become a lucrative haven for potential investors, as can be gleaned from the number and value of FDI in applications and approved in the year 2000.

CHAPTER 1

1. INTRODUCTION

1.1. Background Of Study

Prior to the East Asia financial crisis in 1997, many Asian countries experienced rapid economic growth, including Malaysia. The Asian financial crisis which started in July 1997 due to the devaluation of the Thai *baht* had spread to other Asian countries notably South Korea, Indonesia, Malaysia, the Philippines and to a lesser extent Singapore.

In early years when it used to be considered as one of the "emerging tigers" in the East Asian economic miracle, Malaysia had the world highest stock market capitalization ratio (310 percent of GDP compared to 116 percent in the United States (US) and 29 percent in South Korea). During the five years leading up to 1996, its real GDP growth averaged 8.7 percent per annum, inflation rate was around 3.8 percent and unemployment rate for 1996 was only 2.5 percent. Its external debt was US $45.2 billion. Malaysia's national saving was at 38.5 percent in 1996 and one of the highest in the world.