



**THE IMPACT OF EXCHANGE RATE AND
INTEREST RATE ON FOREIGN DIRECT
INVESTMENT**

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PREPARED BY,

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بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

In the name of Allah, who is the Most Gracious, Most Merciful and
Him alone is worthy of all praise.

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ABSTRACT

Foreign Direct Investment (FDI) has propelled the country into a higher stage of industrialisation during the past decades. The path towards fully developed nation by the year 2020 will entail significant transformation in the economic structure of the country. The achievement of the objectives of vision 2020 will depend a lot on how Malaysia can stay competitive in the global environment and how it could adapt to the changing patterns of international trade and investment flows. This will in turn shows the role of foreign investment in the economic development of the country.

In the light of the considerable Foreign Direct Investment (FDI), that has ploughed into the Malaysian economy, this paper attempts to empirically examine the impact of exchange rate and interest rate movement on FDI. Using an annual time series data considering from 1988 to 1997, the regression analysis is used in estimating the variables. The Ordinary Least Squares (OLS) method is used to derive the estimated coefficient. The model used are the single variable and multi-variable model. In this study FDI is being divided into two sectors that are manufacturing and property sector.

Focussing on the primary objective of the study, it was found that exchange rate of RM per unit of US\$, RM per unit of £ and interest rate does not have a strong impact in influencing the inflow of Foreign Direct Investment. The result suggests that, other factors such as attractive and liberal policy towards foreign investment , conducive economics and political condition and infrastructure facilities available in the country are major factors that will influence investor's decision to invest in this country.

Couple with fairly liberal policy towards FDI, the country's FDI will continue to grows over the years. It is obvious that FDI is actively and directly involved in manufacturing and property sector. Therefore, FDI's increasing role can be seen as the beneficial factor towards Malaysia's economic development.