

**THE FUNDAMENTAL RESEARCH ON DETERMINANTS OF FOREIGN DIRECT
INVESTMENT: CASE IN MALAYSIA**

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FEBRUARY 2010

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ACKNOWLEDGEMENT

“In the name of Allah, The Merciful, The Benefial”

First and foremost, we would like to express our special thanks to ALLAH SWT, the Almighty of His Most Gracious and the Most Merciful that I'm able to produce this research properly.

A very special thanks and deepest appreciation to our honorable Dean of Business Management Faculty, Prof. Dr. Noormala Dato' Amir Ishak. A special thanks also dedicated to Associate Prof. Dr. Nik Kamaruzaman Hj. Abdul Latiff, for his valuable comments, advises, guidance and general supervision in preparing this whole research paper.

Last but not least, out thanks to everyone who involved either directly or indirectly in preparing and completing this research paper. The efforts and co-operation from everyone is highly appreciated.

Thank you very much and may ALLAH bless you.

ABSTRACT

Over the past two decades, Malaysia received substantial of foreign direct investment (FDI) in its location which is an important engine of its economic growth. Therefore, this study explores the determinants of FDI in Malaysia by focusing on three macroeconomic variables namely GDP, Exchange Rate and Development Expenditure. The reasons for choosing three variables are to narrow down the actual contributor of FDI inflows in Malaysia and to know its definite results. The analysis was done by using Statistical Package for Social Science (SPSS version 16). After going through the model adequacy checking, lag dependent variable (FDI_{t-1}) is added as explanatory variable to overcome the problem of autocorrelation. The result of the corrected model shows that GDP and lag dependent variable are significantly influenced inflow of FDI to Malaysia and the relationships are positive while the exchange rate is not significant in explaining the determinants of FDI in Malaysia. Meanwhile, development expenditure is dropped because of the multicollinearity problem.

Keywords: *foreign direct investment, determinants, exchange rate, GDP, development expenditure, Malaysia.*

CHAPTER 1

INTRODUCTION

1.0 INTRODUCTION

This section discusses briefly on the background of the study, the objectives, hypotheses and other relevant areas of the study which were highlighted and are expected to fulfill the requirement of the study.

1.1 BACKGROUND OF THE STUDY

The flows of FDI have been increasing dramatically around the world since 1970s. However, the level of FDI tends to fluctuate sharply over time. The rise in FDI is regarded by traditional theories as being motivated by the differences in the costs of domestic versus foreign production of the internationalization of transaction costs involved in exporting or licensing a product to another country (Chen, Rau and Lin, 2005).

However, the success in attracting FDI has varied widely between countries. Such success is also seen to have varied over time. According to UNCTAD (2006), The East and Southeast Asia received more than three-fourths of total FDI flowing into developing