COMPARATIVE STUDY ON MACROECONOMIC DETERMINANTS OF FOREIGN DIRECT INVESTMENT IN MALAYSIA AND CHINA

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ABSTRACT

The purpose of this paper is to examine the determinants of foreign direct investment (FDI) in Malaysia and China. This research paper used macroeconomic variables such as GDP, inflation, interest rate, money growth, openness and exchange rate as the independent variables and FDI as the dependent variables. This research paper consists of four objectives which is the first is to examine the relationship of macroeconomic variables and the inflow of FDI in Malaysia and China. Second is to investigate which macroeconomic variable is more dominant in determining the inflow of FDI in Malaysia and China. Next is to determine whether Malaysia and China having similar characteristics towards FDI and last is find out whether the findings on determinants of FDI is similar with the previous studies. Data for the foreign direct investment (FDI) and the macroeconomic variables which are GDP, inflation, interest rate, money growth, openness and exchange rate are derived from the Economist Intelligent Unit (EIU) country data and World Bank Database. The time period selected is for 31 years which is from 1985 to 2015. This research paper also used multiple regressions to explain the relationship of FDI with macroeconomics variables. It was found that of all macroeconomic variables taken, only GDP, inflation, interest rate and exchange rate had significance impact on FDI inflows into Malaysia. It also found only openness has significant impact on FDI into China.

CHAPTER ONE

INTRODUCTION

1.1 Background of Study

Capital of investment in the develop countries are affected by the economic environment of these nations. Therefore for emerging country like Malaysia and China, their government values investment especially foreign direct investment (FDI) as a powerful force for economic development which will not only guarantee for economic growth but also for export success. FDI is an important element to minimize the gap between the domestic savings and gross domestic investment. For developing countries, they need a constant foreign capital investment because this will cause a problem if they lack of national savings to finance their investment.

FDI is an easy way in getting foreign capital without exposed to any risks that link to debt. Therefore many countries now focused on revising their investment policies to get the best policies in order to attract more FDI to their countries. FDI is an investment of foreign country in the host country which separated into two types which is inflow and outflow of FDI. Inward of investment into your country is known as inflow of FDI while transfer of local capital into foreign country is an outflow of FDI.

In order to drive the economic growth and fasten the development, FDI has become a rule in many countries as they are making their way in FDI. For developed countries like China, they are making effort in finding cheap labour, produce new products, and thus earn good profits. In host country, FDI has present many functions. One of that is enhance the domestic investment and employment which result in fast economic development. It