



UNIVERSITI TEKNOLOGI MARA

**THE DETERMINANTS OF FOREIGN DIRECT
INVESTMENT: FOCUSED IN ASIA DEVELOPING
COUNTRIES**

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Thesis submitted in fulfillment
of the requirements for the degree of
Bachelor of Business Administration (Hons)
(Islamic Banking)

Faculty of Business and Management

July 2017

ABSTRACT

The purpose of this research is to determine the determinants of foreign direct investment focused in Asia developing countries. Besides, the research paper also examines the determinants of Foreign Direct Investment (FDI) and measure the significance of the factors that determine the Foreign Direct Investment. Dependent variable used in this research is foreign direct investment and the independent variables are market size, market potential, inflation, trade openness, financial stability, interest rate and exchange rate. Using the secondary data method, a set of panel data consists of the data from the year of 2007 until 2015 for the total of 23 countries under the region of Asia developing countries. The data were collected from World Development Indicators database and being analyzed by the panel least square regression. The E-Views program is used as the estimation tool to run the analysis of the data used in this research paper. The findings signify that among those variables, all factors significantly determine the Foreign Direct Investment except for inflation. Inflation inversely insignificant correlated with foreign direct investment.

ACKNOWLEDGEMENT

All thanks are due to Almighty Allah, the compassionate and merciful, who knows about whatever is there in the universe, hidden and evident, and has enabled us to clarify a drop from the existing ocean of knowledge.

Alhamdulillah, first and foremost, I would like to express my gratitude to both of my advisors, Mr. Khairul Ariff bin Noh and also Prof. Dr. Haji Omar bin Samat for their continuous support, guidance, motivation and immense knowledge towards accomplishing my research paper.

I would like to take this opportunity to extend my appreciation to all those who have assisted directly or indirectly in the completion of this research paper. Sincere thanks to all my friends for their understanding, kindness and moral support during the period in completing this project paper. Last but not least, my deepest gratitude to my beloved family, especially both of my parents, A Ramlee bin Mohammad and Khamniza binti Zahari for their unwavering support, invaluable assistance and sincere blessings.

Thank you.

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CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION

Foreign Direct Investment, FDI is one of the policies introduced to attract investors. It is difficult to define the comprehensive definition of foreign direct investment (FDI). Most definitions seem to have two common elements. One of that is FDI involves minimum two countries which show the multinational character of FDI. The other is related to the issue of ownership and control which distinguish FDI from portfolio investment. According to the Balance of Payment Division, IMF Statistics Department, portfolio investment is defined as cross-border transactions and positions which involving equity or debt securities, other than that are included in direct investment or reserve assets (Taw, 2015). Meanwhile, FDI is defined as cross-border investment correlated with an investment which a resident in one economy having control over the enterprise of an economy from another resident (Margeirsson, 2015).

In Malaysia, in order to attract more Foreign Direct Investment (FDI), a more focused approach will be applied to facilitate the targets for investments (Lean, 2008). FDI has been known as a key source of income, capital flows, business competition, innovations, job creations, technological transfer, which are significant process for economic development (Xaypanya, Rangkakulnuwat, & Paweenawat, 2015). According to Hooi Hooi Lean, he also found that the statement approves the important role of FDI in promoting the growth of economic condition in the country. Besides, FDI able to affect positively towards desirable features affected the quality of growth which can also significantly reduce poverty (Lean, 2008).