UNIVERSITI TEKNOLOGI MARA

THE DETERMINANTS OF FOREIGN DIRECT INVESTMENT (FDI): MALAYSIAN EVIDENCE

NOR ZULAIKHA BINTI ZULKIFLI

2020957625

Final Year Project submitted in fulfilment

of the requirements for the degree of

Bachelor of Business Administration (HONS)

Investment Management

Faculty of Business and Management

FEBRUARY 2022

ABSTRACT

This study is primarily interested in examining the determinants that impacted the FDI in Malaysia from 2011 to 2020. A specific question that is addressed in this study is whether the determinants of FDI contribute to the impact of FDI in Malaysia. Hence, the independent variables that are chosen in this study are government expenditure, unemployment rate, exports, corruption perception index and global peace index. This paper utilised the Ordinary Least Squares (OLS) regression method in determining the significance of the independent variables in causing FDI. The correlation test, normality test and multicollinearity test were also employed in order to discover the properties of data collected from The World Bank, Knoema and Thomson Reuters DataStream. The results identified government expenditure and global peace shows positive and insignificant, meanwhile unemployment rate, exports and corruption perception show negative and insignificant relationship towards FDI. Thus, some recommendations suggest to future researchers which are using ARDL test to see long cointegration relationship between dependent and independent variables.

ACKNOWLEDGMENTS

TABLE OF CONTENT

CHAPTER 1: INTRODUCTION

1.1 Chapter Review

The discussion in this chapter starts with an introduction to foreign direct investment and then moves on the study's background, problem statement, research objectives and research questions will be illustrated in the following subtopics.

1.2 Introduction

In recent decades, foreign direct investment (FDI) has played an essential role in the economic growth and development of various countries. According to Alzaidy et al. (2017) considering Malaysia is a developing country, FDI has long been acknowledged as a measure to protect Malaysia's economic performance and increasing national welfare. For example, an increase in FDI may help to boost the economy by allowing new and existing firms alike, as well as their workforces, to benefit from the latest technological advances.

One of the variables that influence FDI is the exchange rate. According to previous research conducted by Abdulqader & Hamood (2019) the exchange rate is significantly affecting FDI inflow in Malaysia. The results can be supported by the study of Nabi (2015) that exchange rates were evaluated as an instrument on FDI in Malaysia and discovered that FDI is positively related to exchange rate.

In the above past literature, the past research has focused on independent variables such as gross domestic product (GDP), exchange rate, and inflation rate. However, there is less study on the relationship between government expenditure, unemployment rate, exports, corruption perception index , and global peace index with FDI.

As a result, this research is important in detecting and analysing FDI and its drivers in Malaysia, which may subsequently be used for economic planning. Therefore, the focus of this study will be on the independent factors of the government expenditure, unemployment rate, exports, corruption perception index, and global peace index which will contribute to FDI in Malaysia by using data from 2011 to 2020.