UNIVERSITI TEKNOLOGI MARA

FACTORS AFFECTING FOREIGN DIRECT INVESTMENT INFLOWS TOWARDS ECONOMIC GROWTH IN MALAYSIA

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ABSTRACT

Foreign Direct Investment (FDI) has been a significant source of economic development for Malaysia, bringing in the necessary capital, technology and knowledge. In recent years, Malaysia has only been successful in attracting a small number of foreign investors. Therefore, the main objective of this paper is to investigate the main factors that attracts FDI inflows into Malaysia from 1990 to 2020. The study examines the relationships between FDI and the proposed explanatory variables, namely market size (GDP), trade openness (OPN), inflation rate (INF), and infrastructure (INFRA) that are expected to determine FDI inflows into Malaysia using multiple regression analysis represented by ordinary least square (OLS). The correlation, multicollinearity, and heteroskedasticity are also employed in order to discover the properties of data primarily collected mainly from the World Bank Data. The results indicated that GDP and INFRA are positively affected the FDI inflows while OPN and INFRA are not determinant in affecting FDI inflows towards economic growth in Malaysia.

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CHAPTER ONE
INTRODUCTION

1.1 INTRODUCTION

Foreign Direct Investment (FDI) is defined as an investment made by an entity in a business in another country in which the non-residents own 50% or more of the equity share capital (Sulong & Agus, 2005). It involves both transfer of resources and acquisition of control, which aids in the business growth and may result in cost reduction and profit maximization (Haudi, Wijoyo & Cahyono, 2020). For decades, various countries have taken the initiative to promote their country as a main destination for FDI. According to the United Nations Conference on Trade and Development (UNCTAD), FDI has increased significantly in both developed and developing countries, making FDI the key source of economic development in both countries. The fact that FDI not only provides capital but also advances technology and managerial skills to restructure a firm in the host country has made it one of the most essential aspects contributing to economic development (Nor, Wah & Nor, 2015).

According to Yol & Teng (2009), FDI is seen as a key indicator of a country's economic globalisation and integration into the global economy and is essential for both home and host nations. They assert that FDI flows provide substantial opportunities for businesses to avoid increasing domestic production costs and find attractive foreign markets. Second, FDI flows contribute to growth by lowering the cost of research and development (R & D) in the host nation by encouraging innovation. Additionally, since FDI flows do not generate debt, they are a favoured tool for financing external current account deficits, especially in developing nations (Demekas, Horvath, Ribakova & Wu, 2005). Not only that, FDI can have a beneficial