UNIVERSITI TEKNOLOGI MARA

THE RELATIONSHIP BETWEEN FOREIGN DIRECT INVESTMENT AND ECONOMIC GROWTH IN SINGAPORE

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2020971401

Final Year Project submitted in fulfilment of
the requirement for degree of
Bachelor of Business Administration(Hons)
Investment Management

Faculty of Business and Management

FEBRUARY 2022

ABSTRACT

Foreign direct investment is a serious issue, and many factors have influenced Singapore in recent years. The objective of the present study is to examine the relationship between foreign direct investment and Singapore from 1991 to 2020. The study specifically addresses whether there is a relationship between foreign direct investment and economic growth in Singapore. Here, the independent variables in this study are Gross Domestic Product (GDP), Gross Fixed Capital Formation (GFCF), and exchange rate (ER), and the dependent variable is Foreign Direct Investment (FDI). The Ordinary Least Squares (OLS) regression method was used in this paper to determine the significance of the independent variables in the relationship between foreign direct investment and economic growth in Singapore. The correlation test, multicollinearity, and heteroscedasticity tests were also used to discover the properties of data collected from the World Bank and Knoema. The findings show that gross domestic product (GDP) is insignificant to foreign direct investment (FDI). In contrast, the exchange rate (ER) and gross fixed capital formation (GFCF) are significant with FDI.

Keyword: Foreign Direct Investment(FDI), Exchange Rate (ER), Gross Fixed Capital Formation(GFCF), and Gross Domestic Product

ACKNOWLEDGEMENTS

First and foremost, I am grateful to the gracious Almighty Allah, the most merciful and hearty honor for His last Prophet Muhammad (peace be upon him), for enlightening our conscience with the essence of faith in Allah converging all the blessings and mercy us. Alhamdulillah and thank you, Allah, for providing me with the strength and patience to finish this research project.

I am profoundly grateful and wish to express our deepest gratitude to my advisor, Puan Rabiatul Alawiyah binti Zainal Abidin, for her sincere guidance, untiring cooperation, valuable advice, and endless inspiration during the preparation of this research project. In addition, I also appreciated the facilities provided by Universiti Teknologi Mara (UiTM), such as the library, which brought me more convenience to obtain the data required in the period of completing the research project.

Last but not least, I would like to convey our heartfelt gratitude to our friends and parents for their spiritual support throughout the research project.

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CHAPTER ONE: INTRODUCTION

1.1 INTRODUCTION

Foreign direct investment (FDI) plays an important part in a country's economic development and acts as a platform for economic growth. It is stated that FDI can create additional jobs, enhance technological advancement in the receiving country, and improve the host country's overall economic status.

As mentioned by various authors, there are many advantages to FDI for both the host country and the home country. The term "home country" refers to the country where the company's center is located, whereas "host country" refers to the foreign countries the company invests in. According to Alfaro (2003), FDI can provide vital technology and know-how to host developing nations and direct capital investment through building ties with local enterprises. These technological advances by MNEs are critical to the economy, and MNEs also act as economic catalysts in emerging markets. MNEs have the capital to invest in large-scale plants, and this may be difficult for local investors due to a lack of large investment funds that MNEs can afford. Thus, foreign direct investment (FDI) can make "scarce" capital available to developing countries, and this is important for economic development. According to Jones (1996), capital transfers by MNEs may supplement domestic savings and contribute to domestic capital formation in capital-constrained countries, thereby increasing domestic investment.

Foreign Direct Investment (FDI) has emerged as an essential strategy for developing a country's economy. FDI allows the investment firm to use its unique assets, such as technology and managerial know-how. Thus, FDI provides benefits in various areas, including a source of finances in terms of capital stock, an increase in employment, income, growth, and improvements in skills and technology. As a result, FDI has been a hugely important source of capital for developing countries, especially during the debt crisis. Several empirical research has been conducted to determine the primary element that can attract FDI to host countries.

Figure 1.1 shows the FDI net flow in Singapore from 2011 until 2020. From 2012 until 2018, the foreign direct investment inflow in Singapore stayed between 60101.9 million and 75954.1million, however in 2019, the foreign direct investment inflow in Singapore increased by 114158.4 million.