



**DETERMINANTS OF FOREIGN DIRECT INVESTMENT IN
MALAYSIA**

ALIA AKMAR BINTI MD NORDIN

2012609964

Submitted in Partial Fulfillment

Of the Requirement for the

Bachelor of Business Administration

(Hons) Finance

FACULTY OF BUSINESS MANAGEMENT

UNIVERSITI TEKNOLOGI MARA,

JOHOR.

JUN 2015

ABSTRACT

This paper attempts to investigate the possible factors that influence the determinants of the foreign direct investment in Malaysia. For this purpose, an times series quarterly dataset of Malaysia were used and tested using times series data regression technique over the period of 1980 to 2013. To get the differences of determinants domestic of foreign direct investment in Malaysia, all the samples were then split according to inflation rate, exchange rate, growth rate and market size (gross domestic product) of Malaysia. This result will indicate the determinants of foreign direct investment in environment in Malaysia. In this study we will determine the significant relationship between all the variable toward the foreign direct investment whether result in positive or negative.

TABLE OF CONTENTS

1.0 INTRODUCTION.....	1
1.1 Background of study.....	1
1.2 Problem Statement.....	2
1.3 Research Objective	3
1.4 Research Questions.....	3
1.5 Significance of Study	4
1.6 Scope of Study	4
1.6.1 Limitation of study.....	5
1.7 Term Definition.....	5
1.8 Hypothesis.....	6
1.9 Summary	7
2.0 LITERATURE REVIEW	8
2.0 Introduction.....	8
2.1 FDI in Malaysia.....	8
2.2 Exchange Rate.....	8
2.3 Market Size(GDP)	9
2.4 Growth Rate	10
2.5 Inflation Rate	10
3.0 RESEARCH METHODOLOGY.....	11
3.1 Introduction.....	11
3.2 Sample and Data.....	11
3.2.1 Population And Sample	11
3.2.2 Data Collection.....	11
3.2.3 Variables.....	12
3.3 Theoretical Framework	12

CHAPTER 1: INTRODUCTION

1.0 INTRODUCTION

Foreign Direct Investment plays important roles in the economic development of the countries. Some of the economists believe that Foreign Direct Investment promoted the competitiveness of local firms in Malaysia. Foreign Direct Investment tends to be a major form of international capital transfer over all countries. Nowadays most of the Foreign Direct Investment is done through mergers and acquisitions. However, the main objective to select the Foreign Direct Investment as the main topic is to find the determinants that determine the relationship of the Foreign Direct Investment in the environment of Malaysia between the variables that are market size (Gross Domestic Product), growth rate, inflation rate, and exchange rate.

1.1 BACKGROUND OF THE STUDY

The main purpose of this study is to determine the determinants of the Foreign Direct Investment in the environment of Malaysia. In the study we only selected one country that is Malaysia with the data from 1980 to 2013 which included inflation rate, growth rate, market size (GDP), exchange rate as the independent variables while Foreign Direct Investment as the dependent variable.

Research has been conducted by analyzing some of the previous studies about determinants of the Foreign Direct Investment from different journals to determine which are the most suitable variables that could help to implement the suitable method that influence the environment of Malaysia.

From their empirical findings, Abdullah and (2013) stated that Foreign Direct Investment remains a significant explorable area for developing economies in order to boost up their growth capabilities and development. According to Tim Rogmans and Haico Ebbers (2013) stated that Foreign Direct Investment inflows in the Middle East North Africa region are positively associated with a country's market attractiveness. Foreign Direct Investment has been seen as a key driver underlying the strong growth performance experienced by the Malaysia economy. Also that, Foreign Direct Investment

can promote the long run growth by augmenting the existing stock of knowledge in the host economy through labour training and skill acquisition (Tim and Haico, 2013). At the time the government has recognised the importance of liberalisation and openness to FDI, effective measures are designed to attract the capital and management expertise to transform inefficient state-dominated economies, at the same time easing the burden of this transformation on the public budget and assumed to positively affect local economic development.

1.2 PROBLEM STATEMENT

In general, Foreign Direct Investment has been as a key driver underlying the strong growth performance experienced by the Malaysia economy. It provides an inflow of Foreign Direct Investment of foreign capital and funds in addition to an increase in the transfer skills, technology, and job opportunities. Furthermore, it would be difficult to generate this capital through domestic savings, and even if it were not, it would still be difficult to import the necessary technology from abroad (Muhammad and Zulkornain, 2009). The Foreign Direct Investment finding from the 10 different countries resulted there was significant positive relationship between growth rate and exchange rate but for market size (GDP) only significant (Abdullah and Zulfiqar, 2013). According to Coskun (2001) stated that Turkey are highly motivated by the economic performance and the growing market size of the country and geographical location will be very meaningful for foreign investor when in lower inflation and interest rate with higher growth. In China, market size (GDP) have positive relationship between Foreign Direct Investment with statistically significant (Junjie, 2008). For Middle East, there was significant negative relationships between Foreign Direct Investment on the labor cost combined it with the growth rate, inflation rate and trade deficit but growth rate have a significantly positive when combined with inflation. Other that that, Foreign Direct Investment have significant relationship between growth rate but significant negative relationship between inflation rate (Erdal and Mahmut, 2008). The different resulted from different countries was the problem that found in this study. Thus, the main problem statement in this research is to investigate the determinant of foreign direct investment in Malaysia. The important here is to determine whether those variables involve which are inflation rate, exchange rate, growth rate and market size (gross domestic product) have the positive or negative relationships for the environment of Malaysia.