



UNIVERSITI TEKNOLOGI MARA

**FACTORS INFLUENCING FOREIGN DIRECT
INVESTMENT IN THE MALAYSIAN SERVICES
SECTOR**

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ABSTRACT

Foreign direct investment (FDI) in the service industries has increased significantly. FDI in the service sector can exacerbate domestic competition or provide access to services that domestic producers do not provide. FDI has been identified as a significant contributor of the Malaysian economy's excellent growth record. Plus, Foreign Direct Investment being one of the contributor to the economic growth. However, there are issues rose when there is imbalance of the FDI policy preference to developing country. Some of the countries need to face economic challenges or will become victims of globalization. Thus, they need to know the importance of achieving high economic growth despite of many unprecedented issues in Malaysia Economy which will be good for future project. Next, the purpose of this study is to investigate the relationship between the three independent variables which is infrastructure, exchange rate and market size and Foreign Direct Investment. The research methodology will explain all the tests that have been used in this research. In this research, several tests are being tested to investigate the relationship of the variables. This study is using panel data from Gross Domestic Product within 15 years of time frame. Descriptive analysis, correlation test, and regression analysis test will be used. As a result, transportation have significant relationship. This is due to the role and impact of each independent variable towards the foreign direct investment in Malaysia services sector. This test will show the strength of the relationship that exists between those two variables. In conclusion, this study has found that there are only transportation that showed significant relationships, thus impacting and influencing the foreign direct investment in Malaysia. It is suggested that foreign direct investment in Malaysia need to prioritize and focus on other significant factors that will influence the foreign direct investment growth.

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CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION

In recent decades, foreign direct investment (FDI) in the service industries has increased significantly. FDI in the service sector can exacerbate domestic competition or provide access to services that domestic producers do not provide. FDI has been identified as a significant contributor of the Malaysian economy's excellent growth record. Domestic investments will continue to assume a leading role in the growth of the economy. Among the major strategies include creating Malaysian conglomerates by identifying potential companies to provide the necessary support; harnessing on outsourcing opportunities created by Multinational Corporations operating in Malaysia.

According to Hermes and Lensink (2003), the financial development channel was an essential factor that affected a host country's economic growth. This is because the spillover of technical development from foreign direct investment can benefit the recipient country. The influence of spillover on the recipient nation, on the other hand, is primarily determined by the function it plays and the conditions in which the recipient country finds itself.

The determinant that been identified were infrastructure, exchange rate and market size. Despite this, there is potential of constant economic growth, thus it is a worthwhile to investigate more for the Foreign direct investment inflows in services sector. The purpose of this study is to examine the factors that affect foreign direct investment in Malaysia service sectors.