UNIVERSITI TEKNOLOGI MARA

FOREIGN DIRECT INVESTMENT AND ECONOMIC DEVELOPMENT RELATIONSHIP: AN EMPIRICAL STUDY ON MALAYSIA

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ABSTRACT

Foreign direct investment (FDI) has been an important factor in economic development for Malaysia. It generates economic by increasing capital formation through the expansion of production capacity, promotion of export growth, and creation of employment in Malaysia. However, behind the rapid expansion of the Malaysian economy, the shortage of capital for future development is crucial and needs to be investigated. Thus, this study provides shred of empirical evidence on the relationship between FDI and Malaysia's development for the period of 1970 to 2020. Three (3) independent variables have been identified as proxies of the Malaysia development such as the infrastructure, market size, and exchange rate. Data of this study is derived from various sources such as World Data Bank and Investing.com and examined using the Ordinary Least Square (OLS) method. Results of the study revealed that infrastructure and market size have significant relationship with FDI while exchange rate has insignificant relationship with FDI.

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INTRODUCTION

1.1 INTRODUCTION

Foreign Direct Investment (FDI) is an investment made by a firm or individual in one country into business interests located in another country. It takes place when an investor establishes foreign business operations or acquires foreign business assets in a foreign company (Abel, 2021). In other words, it is the progress of transferring funds abroad. FDI is a cross border organizational governance that carries out an investment of assets abroad intro local goods and services in other countries (Tsen, 2005). Lots of developing countries and less developed countries globally and lightly are taking part in the progress of FDI activities. For many lengths of time, FDI shapes a massive component in a few rising countries.

Two decades ago, FDI flows showed a rapid growth worldwide because lots of countries and particularly developing countries view foreign direct investment as an essential factor of their trading strategy to develop their economy (Adams, 2009). Previous study had identified that the effect of FDI is from macroeconomics factors (Mugableh, 2015). FDI can be defined as a measure of foreign ownership of productive assets (Tapera, 2016). It is an investment carried out to actively control the property, assets or companies located in the host country (Griffin, 2015).

FDI is an important element of productive global system to boost up development and growth of economy (Awan, 2011). FDI is generated by developing countries for assets that multinational corporations distribute for investments. These assets are largely intangible in nature and are limited especially in developing countries. Example for these assets is design of the product, managerial skills, technology, brand name and global ways of marketing the products and so on (Agosin, 2013).

1.2 BACKGROUND OF THE STUDY

This study focuses on the relationship between FDI on the Malaysia development. Basically, FDI plays an extraordinary and growing role in global business. It can be used to determine how good a country in their economic growth until