



**UNIVERSITI TEKNOLOGI MARA**

**DETERMINANTS OF FOREIGN DIRECT INVESTMENT FLOW IN MALAYSIA**

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## ABSTRACT

The Purpose of this research is to examine the sustainability of economic factors make a significant impact to the Foreign Direct Investment (FDI) into Malaysia. The issues of FDI have concern much since it is already make movement start investing into the abroad company instead stay made invest in Malaysian. This problem become more serious for economy growth in Malaysia since COVID-19 pandemic. Besides, the financial issue in Malaysia effect the FDI. FDI increase will cause the economic growth in our country. In this study, the research examines the long-run relationship between Foreign Direct Investment (FDI), Unemployment Rate, Stocks Traded, Manufacturing, Inflation Rate and Market Size. The secondary data collected for this research were from information on company's related to databases of World Bank, Humanitarian Data Exchange and World Development Indicators between the year 1990 to 2019. The purpose of running this research is to focus on descriptive analysis, correlation and regression. From the finding we can see only unemployment, stocks traded and market size is significant in this study, meanwhile the other two variables; manufacturing and inflation rate is not significant.

**Keywords:** *Foreign Direct Investment (FDI), in Malaysia, Unemployment Rate (UR), Stocks Traded (ST), Manufacturing (MFG), Inflation Rate (IFR), and Market Size (MKSZ)*

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## TABLE OF CONTENT

	Page
AUTHOR'S DECLARATION	ii
ABSTRACT	iii
ACKNOWLEDGEMENT	iv
LIST OF TABLES	vii
LIST OF FIGURES	viii
LIST OF ABBREVIATIONS	ix
<b>CHAPTER ONE: INTRODUCTION</b> .....	<b>1</b>
<b>1.1 Introduction</b> .....	<b>1</b>
<b>1.2 Research Background</b> .....	<b>2</b>
<b>1.3 Problem Statement</b> .....	<b>3</b>
<b>1.4 Research Question</b> .....	<b>5</b>
<b>1.5 Research Objective</b> .....	<b>6</b>
<b>1.6 Significant of Study</b> .....	<b>6</b>
<b>1.7 Scope of Study</b> .....	<b>7</b>
<b>1.8 Limitation of Study</b> .....	<b>8</b>
<b>1.9 Definition of Key Terms</b> .....	<b>8</b>
<b>1.10 Summary</b> .....	<b>9</b>
<b>CHAPTER TWO: LITERATURE REVIEW</b> .....	<b>10</b>
<b>2.1 Introduction</b> .....	<b>10</b>
<b>2.2 Literature Review on Foreign Direct Investment (FDI) in Malaysia</b> .....	<b>10</b>
<b>2.3 Literature Review on Unemployment</b> .....	<b>11</b>
<b>2.4 Literature Review on Stocks Traded</b> .....	<b>12</b>
<b>2.5 Literature Review on Manufacturing</b> .....	<b>13</b>

# CHAPTER 1

## INTRODUCTION

### 1.1 Introduction

Corporate Finance Institute (2021), Foreign Direct Investment (FDI) is foreign investment in a foreign business or corporation to establish a long-term relationship. Farrell (2008) defined FDI as a combination of finance, technology, management, and entrepreneurship that enables a company to operate and deliver goods and services in a foreign market. Long-term interest distinguishes FDI from passive securities holdings from a foreign country in a foreign portfolio. When making a foreign direct investment, acquiring a good or expanding one's business abroad is possible. There must be a long-term relationship between a foreign investor and the industry to have an abiding interest.

According to the Department of Statistics Malaysia (2021), Malaysia's net FDI inflow fell by 54.8% in 2020, from RM32.4 billion in 2019 to RM14.6 billion in 2020, according to the department. As a result, there is a lot of uncertainty in the global economy because of the new virus Covid-19. However, Malaysia's foreign direct investment (FDI) position is still on the upswing as the country is expected to receive RM698.8 billion in 2020, an increase from the previous year's RM687.8 billion. At the end of 2020, Malaysia's services sector will be the country's primary source of foreign direct investment (FDI), followed by the manufacturing sector.

Picardo (2021), control is the difference between FDI and Foreign Portfolio Investment (FPI), reflecting the purpose of actively managing the foreign firm's company. There is a difference between FPI and FDI regarding foreign investors, which is investments in securities by a pension fund, mutual fund, or other institutional investment can fall under the umbrella of portfolio investment. Another difference is that the FDI investment term is longer than the FPI investment period since the investment might include the planning phase till the finish of a project. There is also a difference in the liquidity of investor assets between foreign direct investment (FDI) and foreign portfolio investment (FPI). For FDI investors, it will be more challenging to sell their holdings than for FPI investors because the assets invested in the firm are more significant, and some of them might be regarded as