



**UNIVERSITI TEKNOLOGI MARA**

**FACTORS AFFECTING FOREIGN DIRECT INVESTMENT  
(FDI) INFLOW IN MALAYSIA**

**MARFAZIRA NUR BINTI MOHD MAHADAR  
2019229842**

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

**Faculty of Business and Management**

**AUGUST 2022**

---

## **ABSTRACT**

Foreign Direct Investment (FDI) is one of the critical component to a country's economic growth and development. Developing countries frequently confront a capital shortfall throughout the development process. As a result, they rely increasingly on FDI, which contributes capital and technology. According to statistics, FDI is the driving force behind Malaysia's rapid economic expansion, so it is important to know what attracts FDI inflow. The issue of a drop in FDI in Malaysia occurred in 2000, and it occurred again last year in 2020. As a result of the problem, the researcher wants to look at the aspects that influence FDI performance. The independent variables used in this research are inflation rate, interest rate, exchange rate and unemployment rate in Malaysia. All the data used in this study are secondary and time series data that consists of 30 data sets gathered from 1991 to 2020. Multiple linear regressions analysis was used to regress the data in this study. From the findings, only two of the independent variables which are inflation rate and exchange rate that have a significant relationship with FDI inflow while the other two independent variables; interest rate and unemployment rate are not significant.

## **ACKNOWLEDGEMENT**

First and foremost, praise and gratitude to God, the Almighty, for His showers of blessings during my study effort, which enabled me to successfully complete the research. I wouldn't be able to accomplish this without His blessing. He has led me in the right direction.

Next, I'd want to express my heartfelt appreciation to my advisor, Puan Nor Haliza Hamzah, for her unwavering support of my final year project, as well as her patience and vast knowledge. Her advice has been useful in all my research and writing for this project. She has worked hard by examining my work chapter by chapter, addressing major and minor errors, and assisting me in correcting them for me to receive good grades. It was a wonderful pleasure and honour to be her advisee and study under her supervision. I could not have imagine having a better, flexible, and kind supervisor for my final year project as Madam Haliza.

Also, many thanks to Madam Yuslizawati Mohd Yusoff, who coordinated my study project. Thank you for constantly reminding us to finish our final year assignment on time and for keeping us up to date with the newest information. Her encouragement and drive are limitless in keeping us going forward and passionate about our final year project. Without her reminders and inspiration, I would be completely lost while working on my final year project.

This project would not have been possible without the kind support of my friends. Throughout this project paper journey, they have offered moral support and encouragement. They answer my questions and assist me in locating the data if I am unsure. I am very grateful to have them as my friends.

## TABLE OF CONTENTS

<b>ABSTRACT</b> .....	1
<b>ACKNOWLEDGEMENT</b> .....	2
<b>LIST OF TABLES</b> .....	3
<b>LIST OF FIGURES</b> .....	4
<b>CHAPTER 1: INTRODUCTION</b> .....	7
<b>1.1 BACKGROUND OF STUDY</b> .....	7
<b>1.2 PROBLEM STATEMENT</b> .....	8
<b>1.3 RESEARCH QUESTIONS</b> .....	9
1.3.1 Main Research Question.....	9
1.3.2 Specific Research Questions .....	9
<b>1.4 RESEARCH OBJECTIVE</b> .....	10
1.4.1 Main Research Objective .....	10
1.4.2 Specific Research Objective.....	10
<b>1.5 SIGNIFICANCE OF STUDY</b> .....	10
<b>1.6 SCOPE OF STUDY</b> .....	10
<b>1.7 GAP OF STUDY</b> .....	11
<b>1.8 LIMITATION OF STUDY</b> .....	11
<b>1.9 SUMMARY</b> .....	11
<b>CHAPTER 2: LITERATURE REVIEW</b> .....	12
<b>2.1 INTRODUCTION</b> .....	12
<b>2.2 UNDERLYING THEORIES OF STUDY</b> .....	12
<b>2.3 LITERATURE REVIEW</b> .....	13
<b>2.4 RESEARCH FRAMEWORK</b> .....	17
<b>2.5 SUMMARY</b> .....	17
<b>CHAPTER 3: RESEARCH METHODOLOGY</b> .....	18
<b>3.1 INTRODUCTION</b> .....	18
<b>3.2 DATA</b> .....	18
3.2.1 Data Collection .....	18
<b>3.3 SAMPLING SIZE</b> .....	18
<b>3.4 VARIABLES</b> .....	19
3.4.1 Dependent Variable .....	19
3.4.2 Independent Variables.....	19
<b>3.5 DATA ANALYSIS METHOD</b> .....	20
<b>3.6 TEST FOR DATA ANALYSIS</b> .....	21
3.7.1 Correlation Analysis .....	21

## **CHAPTER 1: INTRODUCTION**

This study investigates the factor influencing the Foreign Direct Investment (FDI) inflow in Malaysia. This part of the chapter will cover the brief introduction on the topic researchers chose to do. This chapter consists of background of the study, problem statement, research questions, research objectives, significance of study, scope of study, gap of study, limitation of study and the summary of this part of the chapter.

### **1.1 BACKGROUND OF STUDY**

Foreign Direct Investment (FDI) is an investment by an entity located in another nation in the form of controlling ownership in a firm in one country. More generally, FDI refers to the process of moving capital from one state to another state for long-term involvement. It usually entails expertise collaboration, cross-border acquisition, technology transfer, greenfield investments, and joint venture.

Foreign investment in Malaysia began even during the colonial period, as Malaysia has always been a resource-rich country. Malaysia, which gained independence in the 1957, is now able to accommodate global investment because of its outstanding infrastructure, educated workforce, favourable government policies, and political stability. A collaborative survey is being conducted by the Malaysian Department of Statistics and Bank Negara Malaysia to strengthen the capabilities of providing thorough analyses.

The most important purpose of FDI in the Malaysian economy is to produce economic growth by boosting capital creation through the increase of production capacity. The second purpose is to encourage export growth. Investing in enterprises that have their own product reputation and brand image in the international market decreases the need for local firms to invest resources and time entering and acquiring overseas markets. It is proven that strong export operations make Malaysia's economic growth increase during the last forty year, which the export operations have been supported by FDI presence (Juita Mohamad, 2022). The third function of FDI is to facilitate the transfer of new technologies to the host nation and to reduce unemployment through economic development and job creation. Furthermore, FDI functions as a catalyst for change in the Malaysian economy.

**UNIVERSITI TEKNOLOGI MARA**

**FACTORS AFFECTING FOREIGN DIRECT INVESTMENT  
(FDI) INFLOW IN MALAYSIA**

**MARFAZIRA NUR BINTI MOHD MAHADAR  
2019229842**

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

**Faculty of Business and Management**

**AUGUST 2022**

## **ACKNOWLEDGEMENT**

First and foremost, praise and gratitude to God, the Almighty, for His showers of blessings during my study effort, which enabled me to successfully complete the research. I wouldn't be able to accomplish this without His blessing. He has led me in the right direction.

Next, I'd want to express my heartfelt appreciation to my advisor, Puan Nor Haliza Hamzah, for her unwavering support of my final year project, as well as her patience and vast knowledge. Her advice has been useful in all my research and writing for this project. She has worked hard by examining my work chapter by chapter, addressing major and minor errors, and assisting me in correcting them for me to receive good grades. It was a wonderful pleasure and honour to be her advisee and study under her supervision. I could not have imagine having a better, flexible, and kind supervisor for my final year project as Madam Haliza.

Also, many thanks to Madam Yuslizawati Mohd Yusoff, who coordinated my study project. Thank you for constantly reminding us to finish our final year assignment on time and for keeping us up to date with the newest information. Her encouragement and drive are limitless in keeping us going forward and passionate about our final year project. Without her reminders and inspiration, I would be completely lost while working on my final year project.

This project would not have been possible without the kind support of my friends. Throughout this project paper journey, they have offered moral support and encouragement. They answer my questions and assist me in locating the data if I am unsure. I am very grateful to have them as my friends.

## TABLE OF CONTENTS

<b>ABSTRACT</b> .....	1
<b>ACKNOWLEDGEMENT</b> .....	2
<b>LIST OF TABLES</b> .....	3
<b>LIST OF FIGURES</b> .....	4
<b>CHAPTER 1: INTRODUCTION</b> .....	7
<b>1.1 BACKGROUND OF STUDY</b> .....	7
<b>1.2 PROBLEM STATEMENT</b> .....	8
<b>1.3 RESEARCH QUESTIONS</b> .....	9
1.3.1 Main Research Question.....	9
1.3.2 Specific Research Questions.....	9
<b>1.4 RESEARCH OBJECTIVE</b> .....	10
1.4.1 Main Research Objective.....	10
1.4.2 Specific Research Objective.....	10
<b>1.5 SIGNIFICANCE OF STUDY</b> .....	10
<b>1.6 SCOPE OF STUDY</b> .....	10
<b>1.7 GAP OF STUDY</b> .....	11
<b>1.8 LIMITATION OF STUDY</b> .....	11
<b>1.9 SUMMARY</b> .....	11
<b>CHAPTER 2: LITERATURE REVIEW</b> .....	12
<b>2.1 INTRODUCTION</b> .....	12
<b>2.2 UNDERLYING THEORIES OF STUDY</b> .....	12
<b>2.3 LITERATURE REVIEW</b> .....	13
<b>2.4 RESEARCH FRAMEWORK</b> .....	17
<b>2.5 SUMMARY</b> .....	17
<b>CHAPTER 3: RESEARCH METHODOLOGY</b> .....	18
<b>3.1 INTRODUCTION</b> .....	18
<b>3.2 DATA</b> .....	18
3.2.1 Data Collection.....	18
<b>3.3 SAMPLING SIZE</b> .....	18
<b>3.4 VARIABLES</b> .....	19
3.4.1 Dependent Variable.....	19
3.4.2 Independent Variables.....	19
<b>3.5 DATA ANALYSIS METHOD</b> .....	20
<b>3.6 TEST FOR DATA ANALYSIS</b> .....	21
3.7.1 Correlation Analysis.....	21



## CHAPTER 1: INTRODUCTION

This study investigates the factor influencing the Foreign Direct Investment (FDI) inflow in Malaysia. This part of the chapter will cover the brief introduction on the topic researchers chose to do. This chapter consists of background of the study, problem statement, research questions, research objectives, significance of study, scope of study, gap of study, limitation of study and the summary of this part of the chapter.

### 1.1 BACKGROUND OF STUDY

Foreign Direct Investment (FDI) is an investment by an entity located in another nation in the form of controlling ownership in a firm in one country. More generally, FDI refers to the process of moving capital from one state to another state for long-term involvement. It usually entails expertise collaboration, cross-border acquisition, technology transfer, greenfield investments, and joint venture.

Foreign investment in Malaysia began even during the colonial period, as Malaysia has always been a resource-rich country. Malaysia, which gained independence in the 1957, is now able to accommodate global investment because of its outstanding infrastructure, educated workforce, favourable government policies, and political stability. A collaborative survey is being conducted by the Malaysian Department of Statistics and Bank Negara Malaysia to strengthen the capabilities of providing thorough analyses.

The most important purpose of FDI in the Malaysian economy is to produce economic growth by boosting capital creation through the increase of production capacity. The second purpose is to encourage export growth. Investing in enterprises that have their own product reputation and brand image in the international market decreases the need for local firms to invest resources and time entering and acquiring overseas markets. It is proven that strong export operations make Malaysia's economic growth increase during the last forty year, which the export operations have been supported by FDI presence (Juita Mohamad, 2022). The third function of FDI is to facilitate the transfer of new technologies to the host nation and to reduce unemployment through economic development and job creation. Furthermore, FDI functions as a catalyst for change in the Malaysian economy.