GOVERNMENT'S ROLE IN ATTRACTING MNCS: A CASE STUDY OF MALAYSIA

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Submitted in Partial Fulfillment
of the Requirement for the
Bachelor of Business Administration
(Hons) International Business

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MELAKA

2007

ACKNOWLEDGEMENT

"Bismillahirrahmanirrahim", In the name of Allah, the Most Gracious and the Most Merciful.

Alhamdulillah, Praise to Allah S.W.T for giving me the courage, knowledge, time and strength in completing this research project. I would like to take this opportunity to express my special thanks and appreciations to those who directly and indirectly involved in the accomplishment of this project.

First and foremost, I would mostly appreciate, Associate Profesor Dr. Abdul Halim Bin Mohd Noor for the guidance, comments, assistances and ideas in making this research possible and eventually complete.

My appreciation also goes to my beloved parents and family who have encouraged me from the beginning of this effort in every possible way in all aspects of my life. I am truly grateful for their encouragement, support and patience throughout the process of making this research possible.

Last but not least, to all my friends and those whom I did not mentioned here, I thank them for sharing their ideas, kindness and a helping hand in the process of completing this research project.

Thank you, Wassalam.

TABLE OF CONTENTS

ABSTRACT

The purpose of this study is to identify the factors that make Malaysian market is attractive to MNCs and to determine the relationship between Malaysia's financial factors, economic factors and social factors with the inward investment, as the Government is seeking a way to promote a balanced industrial development. This research is also hoped to act as a knowledge contribution to this subject area by identifying the benefits of the MNCs and the factors that will attract MNCs to a host country. It is also to find out whether both MNCs and the host country will get maximum benefits from the international trade activities. The secondary data were used and the collected data were processed using the SPSS Software and Microsoft Excel.

The results suggest that level of development and literacy had a positive relationship with the FDI inflows, while the current account position, economic growth and interest rates had a negative relationship with the inflows of FDI. However, only the level of development and the economic growth variables were statistically significant. The current account, interest rates and educational level are not significantly determining the FDI inflows. This study might provide an insight for the Government as to ascertain and identify the roles and actions to be taken in order to improve the country's economic and development as both shows a significant correlation and relationship with the inflows of FDI to Malaysia.

CHAPTER 1

INTRODUCTION

1.1. Background of study

Globalization is characterized by the increasing integration of economies, markets and production chains around the world as a result of companies competing to be competitive in the global marketplace (***Nilses, 2003***). Companies that go global and involve in international trade activities are known as MNCs (Multinational Corporations). MNCs alone, occupy a central role in the process of globalization as evidenced through global FDI inflows valued at US$1.3 trillion by the end of 2000 (***Smith- Hillman & Omar, 2005***)

Constraints like small market size and limited natural resources in MNCs' home country encourage them to enter international trade activities to gain competitive advantage over other MNCs. MNCs are pursuing ownership and control of overseas productive activities, using FDI. Usually, MNCs will bring along with them scarce productive factors like technological know-how and business experience of their operation in home countries, while countries and regions in the world will be competing with each other to acquire MNCs because of their characteristics of mobility and international reach.

By most estimates, production by multinational enterprises now accounts for over one-fourth of the world's output and one-third of world trade. Moreover, many scholars believe that the investments of multinationals, commonly known