

**“THE EFFECTS OF FOREIGN DIRECT INVESTMENT (FDI) INFLOWS TO  
THE HOST COUNTRY’S ECONOMIC GROWTH:  
AN EVIDENCE OF MALAYSIA”**

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## LETTER OF TRANSMITTAL

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The Head of Program  
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Dear Sir,

### **SUBMISSION OF PROJECT PAPER (FIN 660)**

Attached here is the project paper entitled **“THE EFFECTS OF FOREIGN DIRECT INVESTMENT (FDI) INFLOWS TO THE HOST COUNTRY’S ECONOMIC GROWTH: AN EVIDENCE OF MALAYSIA”** to fulfill the requirement needed by the Faculty of Business and Management, Universiti Teknologi MARA.

I truly hope this project paper will meet your requirement. Your kindness in accepting this project paper is highly appreciated.

Thank you.

Yours Sincerely,

.....*efw*.....

**NORHAFIZAWATI BINTI AB WAHAB**  
**2005652863**

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## **ABSTRACT**

This study is aim mainly to focus on the effects of foreign direct investment (FDI) inflows to the host country's economic growth taking Malaysia as an evidence. The purpose of this study is to identify which macroeconomics variables between export, unemployment rate and gross domestic product (GDP) are most significantly affected by FDI inflows. In order to measure the effects of FDI inflows, this study took 37 numbers of observations in yearly basis data from 1970 until 2006. Pearson Correlation Coefficients and Simple Linear Regression model were used in order to analyze the relationship of FDI inflows with export, unemployment rate and GDP. Finally, the findings from this study show that all of the variables have relationship with FDI inflows. However, GDP has been proved to be the most significantly affected by FDI inflows.

## **1.0 INTRODUCTION**

### **1.1 BACKGROUND OF THE STUDY**

#### **1.1.1 Overview of Malaysian Economy**

The Malaysian economy is one of the most open economies in the world. Malaysia's economic openness has increased over the years. Economic openness, however, has rendered the Malaysian economy susceptible to external fluctuations, although the vulnerability of the domestic economy to external influences has been to some extent ameliorated by domestic policies. It is noteworthy that Malaysia has been adopting fairly sound macroeconomic policies since mid-1980s with budgetary discipline and monetary prudence.

Foreign direct investment (FDI) has played a crucial role in the development of the Malaysian economy. Indeed, trade and investment are closely interrelated. Much of the manufactured exports are associated with FDI activities in the country. Japan, Singapore, the United State and the European Countries have long been the major sources of FDI for Malaysia. More recently, Taiwan and Korea have emerged as important investors in Malaysia. FDI has gone into a wide spectrum of manufacturing activities, ranging from food processing to the production of scientific and precision instruments. Nonetheless, electronics, chemicals, textiles and wood products account for the bulk of FDI interests in the country.