UNIVERSITI TEKNOLOGI MARA

FACTORS AFFECTING FOREIGN DIRECT INVESTMENT IN SELECTED DEVELOPING COUNTRIES

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AUTHOR'S DECLARATION

I declare that the work in this thesis was carried out in accordance with the regulations of Universiti Teknologi MARA, Johor Branch, Segamat Campus. It is original and is the results of my own work, unless otherwise indicated or acknowledged as referenced work. This thesis has not been submitted to any other academic institution or non-academic institution for any degree or qualification.

I, hereby, acknowledge that I have been supplied with the Academic Rules and Regulations for Undergaduate, Universiti Teknologi MARA, Johor Branch, Segamat Campus, regulating the conduct of my study and research.

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ABSTRACT

Foreign direct investment (FDI) inflows have been a major concern to developing countries and economy at large as an important factor that contribute to economy growth for the country (Mohammad Amin Almfraji, Mahmoud Khalid Almsafir, 2013). The high inflows of funds by foreign investors into the country give them competitive edge in the economic growth of the country. This mainly because of them is a part of a larger international organization with a huge capital base. In any form of market competition, these foreign investors are capable of pulling in more funds as means of economic growth of a country. Over the past two decades, world saving as a proportion of world income has fallen (Chakrabarti, 2001). As a result saving, real interest rate has declined and inflation rate has risen in the world. It is against this background that foreign direct investment (FDI) has appeared increasingly attractive to developing countries facing declining domestic investment and higher cost of foreign borrowing. The government therefore has been putting up incentives to ensure that foreign companies are attracted to the country in an attempt to increase the investments to the country and improve the level of economic growth in the country (Musau, 2011). In view of this, the researchers have decided to investigate these variables to know the factors that have impact on the foreign direct investment inflows of developing countries that are important to improved economy growth. Research question for this working paper is what is relationship between GDP growth rate, trade openness, inflation rate, exchange rate and broad money towards FDI? And research objective is to identify the factors affect the relationship between GDP growth rate, trade openness, inflation rate, exchange rate and broad money on FDI in selected developing countries. By using panel data for 30 years from the period of 1986 to 2015 collected from World Bank database, this paper examines the factors that affect foreign direct investment in selected developing countries. It aims on finding the impact of the GDP growth rate, trade openness, inflation rate, exchange rate and broad money towards foreign direct investment of selected developing countries whether it is positively or negatively related. Analysis has been done using descriptive analysis as well as OLS Regression Model. Country that included in this paper are Malaysia, Argentina, Bangladesh, Benin, Botswana, Brazil, Bolivia, Burundi, Cameroon, Chad, China, Comoros, Colombia, Costa Rica, Grenada, India, Indonesia, Jordan, Kenya, Nigeria, Pakistan, Panama, Philippines, Senegal, South Africa, Sri Lanka, Sudan, Thailand, Turkey, And Vietnam. Consistence with the predictions, GDP is found to have significance positive impacts on FDI inflows (Ang, 2007), same goes for variable broad money. While for trade openness and inflation rate, it has a negative impact on inwards FDI (Mugableh, 2015). These finding could lead to further research questions that seek for answers.

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