UNIVERSITI TEKNOLOGI MARA

FACTOR AFFECTING FOREIGN DIRECT INVESTMENT IN MALAYSIA

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ABSTRACT

Foreign Direct Investment (FDI) plays a crucial role in increasing a country's development and economic growth. In developing countries, as they face capital shortages in their development process, they depend on FDI to encourage their economy. The strong growth performance of the Malaysian economy depends heavily on FDI. FDI generates economic growth by increasing capital formation through the expansion of production capacity, promotion of export and creation of employment in Malaysia. The researchers' attention to examine the factors affecting FDI inflows in Malaysia by using the annual data from year 1970 until 2019. Multiple linear regressions model is applied to study the relationship between independent variables and dependent variable. The results of the study show that gross domestic product and exports have significantly and positively affect FDI inflows. Other than that, external debt also significantly affects FDI inflows but its relation with FDI is negative. Imports are the final goods and its relationship with the FDI inflow is negative. It is significant effect on FDI.

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INTRODUCTION

1.1 INTRODUCTION

Foreign Direct Investment (FDI) is appraised of foreign ownership of operating assets, such as factories, mines and lands. Increasing foreign investment can be used for instance one measure of rising economic globalization. The growth in international flows of goods, and capital implies that global financial system is becoming increasingly interconnected as economic activity is extended across boundaries. This study investigates different factors of FDI using data for FDI. For the possibility of findings results that can provide knowledge about the nature of FDI with the aim to help the policy makers of the host country and the investing country to take suitable decisions for the progress and grow of economies to both countries.

1.2 BACKGROUND OF STUDY

Based on Maitena Duce and Banco de España (2003), according to the International Monetary Fund (IMF) and Organisation for Economic Co-operation and Development (OECD) definitions, direct investment reflects the aim of obtaining a lasting interest by a resident entity of one economy (direct investor) in an enterprise that is resident in another economy (the direct investment enterprise). The "lasting interest" implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence on the management of the latter. Direct investment involves both the initial transaction establishing the relationship between the investor and the enterprise and all subsequent capital transactions between them and among affiliated enterprises, both incorporated and unincorporated. It should be noted that capital transactions which do not give rise to any settlement, an interchange of shares among affiliated companies, must also be recorded in the Balance of Payments and in the IIP.

Concerning the terms direct investor and direct investment enterprise, the IMF and the OECD define them as follows. A direct investor may be an individual, an incorporated or unincorporated private or public enterprise, a government, a group of related individuals, or a group of related incorporated or unincorporated enterprises which have a direct investment enterprise, operating in a country other than the country of residence of the direct investor. A direct investment enterprise is an incorporated or unincorporated enterprise in which a foreign investor owns 10% or more of the ordinary shares or voting power of an incorporated enterprise or the equivalent of an unincorporated enterprise. Direct investment enterprises may be subsidiaries, associates or branches.