



**FACTORS AFFECTING FOREIGN DIRECT INVESTMENT DECISION IN  
MALAYSIA**

**MOHAMMAD HAFIZI BIN MUSTAFA**

**2015834524**

**BACHELOR OF BUSINESS ADMINISTRATION  
WITH HONOURS (FINANCE)  
FACULTY OF BUSINESS MANAGEMENT  
UNIVERSITI TEKNOLOGI MARA  
MALACCA CITY CAMPUS**

**JULY 2017**

## ACKNOWLEDGEMENT

*In the name of Allah and the most Beneficent and the most Merciful*

Praise to Allah S.W.T the Lord of the universe, for the wisdom, strength and blessings given to me in completing this project paper. Peace and blessing of Allah ne upon His Messenger, Muhammad S.A.W

First and foremost, I would like to give my appreciation towards my advisor, Madam Azhana bt Othman for helping me throughout the process of finishing my project paper. She has made a significant contribution and provided me with her analytical skill and timely response for the completion of this study.

My special thanks goes to the member under the same advisor, Ahmad Fitri bin Hassim directly and indirectly involve in giving fully corporation and commitment by providing valuable information in making this study possible.

I also wish to convey a special gratitude towards my supervisor in my workplace, Shapadu Properties Sdn Bhd, Madam Norshahila bt Hadi. She has guided me throughout the process and given the permission regarding project paper. Her kindness is much appreciated.

Last but not least, a very special thanks to my mother for her endless support as well as to all my wonderful classmates (BM242 6C), students of BBA (Hons) Finance. Thank you so much for sharing all the experiences. My project paper might not be completed without cooperation received by the student.

## ABSTRACT

This study examines the relationships that between foreign direct investment (FDI) and the determinants economic growth (GDP), exchange rate (EXC), inflation rate (INF) and trade openness (TRD) from the year of 1985 to 2015 which contains yearly data. This paper applies Ordinary Least Square methods in order to define the statistical relationship among the variables. Besides, there are steps involved in the study begin with ordinary least square methods and proceed with Descriptive Analysis, Diagnostic Checking, Unit Root tests, Multiple Linear Regressions.

In Diagnostic Checking, some tests done to check the significant presents of multicollinearity, autocorrelation, heteroscedasticity, the normality of data distribution and model specification. The result of this study show that there is a significant relationship between the Foreign direct investment (FDI) and the economic growth (GDP), exchange rate (EXC) and inflation rate (INF), while trade openness did not have any relationship with the FDI. The recommendation for the future studies is future studies should use other factors instead of macroeconomics factor in order to examine the factors that affecting the foreign direct investment decision in Malaysia. The conclusion for the studies shows that the GDP, INF and EXC become the factors that affecting the FDI decision in Malaysia.

Keywords: foreign direct investment, economic growth, inflation rate, exchange rate, trade openness

## TABLE OF CONTENT

CONTENT	PAGE
DECLARATION OF ORIGINAL WORK	i
LETTER OF SUBMISSION	ii
ACKNOWLEDGEMENT	iii
LIST OF FIGURES	viii
LIST OF TABLES	ix
LIST OF ABBREVIATIONS	x
ABSTRACT	xi
CHAPTER 1 RESEARCH OVERVIEW	
1.1 Introduction	1
1.2 Background of Study	1
1.2.1 Foreign Direct Investment in Malaysia	4
1.3 Problem Statement	6
1.4 Research Objectives	9
1.5 Research Questions	10
1.6 Significant of Study	11
1.7 Scope of Study	12
1.8 Limitation of Study	12
1.9 Definition of Term	13
1.10 Conclusion	15

## CHAPTER 2 LITERATURE REVIEW

2.1 Introduction	16
2.2 Review of the literature	
2.3.1 Overview of Foreign Direct Investments (FDI)	16
2.3.2 Relationship between Economic Growth (GDP) and FDI	20
2.3.3 Relationship between Exchange Rate (EXC) and FDI	25
2.3.4 Relationship between Inflation Rate (INF) and FDI	29
2.3.5 Relationship between Trade Openness (TRD) and FDI	33
2.3 Conclusion	37

## CHAPTER 3 RESEARCH METHODOLOGY

3.1 Introduction	38
3.2 Research Design	38
3.3 Data Collection Methods	40
3.4 Theoretical Framework	42
3.5 Hypothesis	43
3.6 Data Processing	45
3.7 Data Analysis	
3.7.1 E-views	45
3.7.2 Multiple Linear Regressions	47
3.7.3 F-Test Statistic	49
3.7.4 T-Test Statistic	50
3.7.5 Unit Root Test	50