DOES THE FOREIGN DIRECT INVESTMENT CROWD IN OR CROWD OUT CAPITAL FORMATION? : CASE OF DEVELOPING COUNTRIES

RITA SUZI BINTI DOMMIN

2014935963

WITH HONOURS (BUSINESS ECONOMICS)

SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE BACHELOR OF BUSINESS ADMINISTRATION WITH HONOURS (ECONOMICS)

FACULTY OF BUSINESS MANAGEMENT
BACHELOR BUSINESS ADMINISTRATION
(HONS) BUSINESS ECONOMIC
UNIVERSITY TEKNOLOGI MARA
SABAH

ACKNOWLEDGEMENT

Assalamualaikum w.b.t and Alhamdulillah all praises to be Allah for all of this achievement.

First of all, I would like to express my sincere gratitude to my advisor Hj. Wahi Bin Ismail@Redzuan, my second examiner Mdm Herniza Roxxane Marcus and also my Research Method lecturer Dr. Abdul Aziz bin Karia who helped me directly and indirectly in the development and complexion of this thesis by contributed their time, making suggestions, giving constructive critism and encouragement.

I would like to thank my family: my parents and to my brothers and sister for supporting me spiritually throughout writing this thesis and my life in general. Last but not the least I would like to thank my friends for accepting nothing less than excellence from me.

Thank you very much for those who have support, giving advice and encourage me to keep on continue with my study until I reach this point.

1

TABLE OF CONTENT

TITLE PAGE Similaring Rule	i
DECLARATION OF WORK	ii
LETTER OF TRANSMITTAL	iii
ACKNOWLEDGEMENT	iv
TABLE OF CONTENT	v - vii
LIST OF ABBREVIATIONS	vii
ABSTRACT	ix
CHAPTER 1: INTRODUCTION	
1.0 Background of the study	1 - 3
1.1 Problem Statement	3 - 4
1.2 Research Objective	4
1.3 Significant of Research	5 - 6
1.4 Scope and Limitation of Study	6 - 7
1.5 Organization of Study	8
CHAPTER 2: THEORY AND LITERATURE REVIEW	
2.0 Introduction	9 32
2.1 Theory	9 - 12
2.2 Literature Review	13 - 17
2.3 Conceptual Framework	17
2.4 Research Hypothesis	18 - 19
2.5 Research Question	19
2.6 Conclusion	19
CHAPTER 3: DATA AND METHODOLOGY	
3.0 Introduction	20
3.1 Data	20
3.2 Dependent Variable	21
3.2.1 Domestic Investment	
3.3 Independent Variables	21 - 23

4.2 Panel Unit Root Test 4.3 Breusch Pagan Lagrange Multiplier (BPLM) 37 - 38 4.4 Hausman Test 38 - 39 4.5 Regression Model 40 - 41 4.6 Diagnostic Check	3.3.1 Foreign Direct Investment	
3.4 Methodology 23 - 27 3.4.1 Panel Data 23 3.4.2 Panel Unit Root Test 24 3.4.3 Lee, Levin and Chu (LLC) test 24 - 25 3.4.4 Breitung Test 25 3.4.5 Im Pesaran and Shin (IPS) test 26 3.4.6 BPLM test 26 - 27 3.4.7 Hausman Test 27 3.5 Diagnostic Check 28 - 31 3.5.1 Multicollinearity 3.5.2 Heteroscedasticity 3.5.3 Autocorrelation 33 CHAPTER 4: FINDINGS 4.0 Introduction 34 4.1 Descriptive statistic 34 - 35 4.2 Panel Unit Root Test 36 - 37 4.3 Breusch Pagan Lagrange Multiplier (BPLM) 37 - 38 4.4 Hausman Test 38 - 39 4.5 Regression Model 40 - 44 4.6 Diagnostic Check 41 - 45	3.3.2 Real Exchange Rate	
3.4 Methodology 3.4.1 Panel Data 3.4.2 Panel Unit Root Test 3.4.3 Lee, Levin and Chu (LLC) test 3.4.4 Breitung Test 3.4.5 Im Pesaran and Shin (IPS) test 3.4.6 BPLM test 3.4.7 Hausman Test 3.5.1 Multicollinearity 3.5.2 Heteroscedasticity 3.5.3 Autocorrelation 3.6 Research Flow 3.7 Conclusion 23 - 27 24 - 25 25 - 34 - 31 3.5.1 Multicollinearity 3.5.2 Heteroscedasticity 3.5.3 Autocorrelation 3.6 Research Flow 3.7 Conclusion 23 - 27 24 - 25 25 - 34 - 31 3.4.5 Im Pesaran and Shin (IPS) test 26 - 27 3.5.1 Multicollinearity 3.5.2 Heteroscedasticity 3.5.3 Autocorrelation 34 - 31 35 - 31 36 - 37 37 - 38 - 39 4.1 Descriptive statistic 4.2 Panel Unit Root Test 4.3 Breusch Pagan Lagrange Multiplier (BPLM) 37 - 38 4.4 Hausman Test 4.5 Regression Model 4.6 Diagnostic Check 41 - 43	3.3.3 Inflation Rate	
3.4.1 Panel Data 3.4.2 Panel Unit Root Test 24 3.4.3 Lee, Levin and Chu (LLC) test 24 - 25 3.4.4 Breitung Test 25 3.4.5 Im Pesaran and Shin (IPS) test 26 - 27 3.4.7 Hausman Test 27 3.5 Diagnostic Check 28 - 31 3.5.1 Multicollinearity 3.5.2 Heteroscedasticity 3.5.3 Autocorrelation 3.6 Research Flow 3.7 Conclusion 24 34 35 25 36 37 28 31 31 32 33 33 33 34 34 34 35 34 35 36 37 38 38 39 39 30 31 31 31 32 34 34 35 36 37 38 38 39 39 30 30 31 31 32 33 34 34 35 36 36 37 38 38 39 39 30 30 31 31 31 32 33 34 34 35 36 36 37 38 38 39 39 30 30 31 31 31 32 33 34 34 35 36 36 37 38 38 39 39 30 30 31 31 31 32 34 35 36 36 37 38 38 38 39 39 30 30 31 31 31 32 34 35 36 36 37 38 38 39 30 30 31 31 31 31 32 34 35 36 36 37 38 38 38 39 30 30 30 31 31 31 31 32 34 35 36 36 37 38 38 39 30 30 30 31 31 31 31 32 34 34 35 36 36 37 38 38 38 39 30 30 31 31 31 32 34 34 35 36 36 37 38 38 38 38 39 30 30 30 31 31 31 32 32 34 34 35 36 36 37 38 38 38 38 38 38 38 38 38	3.3.4 GDP	
3.4.2 Panel Unit Root Test 3.4.3 Lee, Levin and Chu (LLC) test 3.4.4 Breitung Test 3.4.5 Im Pesaran and Shin (IPS) test 3.4.6 BPLM test 3.4.7 Hausman Test 27 3.5 Diagnostic Check 3.5.1 Multicollinearity 3.5.2 Heteroscedasticity 3.5.3 Autocorrelation 3.6 Research Flow 3.7 Conclusion 24 25 34 35 26 37 38 28 31 31 31 32 33 34 34 35 34 35 34 35 34 35 34 35 34 35 36 37 38 38 39 39 39 39 39 30 30 31 31 31 32 33 34 34 35 36 37 38 38 39 39 39 39 39 39 30 30 31 31 31 32 33 34 35 36 37 38 38 39 39 39 39 30 30 31 31 31 32 33 34 35 36 37 38 38 39 39 39 39 39 39 39 39	3.4 Methodology	23 - 27
3.4.3 Lee, Levin and Chu (LLC) test 3.4.4 Breitung Test 25 3.4.5 Im Pesaran and Shin (IPS) test 26 3.4.6 BPLM test 27 3.5 Diagnostic Check 28 - 31 3.5.1 Multicollinearity 3.5.2 Heteroscedasticity 3.7 Conclusion 28 29 21 21 22 32 34 34 35 36 37 38 38 38 39 40 41 Descriptive statistic 4.2 Panel Unit Root Test 4.3 Breusch Pagan Lagrange Multiplier (BPLM) 4.4 Hausman Test 4.5 Regression Model 4.6 Diagnostic Check 41 - 43	3.4.1 Panel Data	23
3.4.4 Breitung Test 3.4.5 Im Pesaran and Shin (IPS) test 26 3.4.6 BPLM test 26 - 27 3.4.7 Hausman Test 27 3.5 Diagnostic Check 28 - 31 3.5.1 Multicollinearity 3.5.2 Heteroscedasticity 3.5.3 Autocorrelation 3.6 Research Flow 3.7 Conclusion 3.7 Conclusion 3.8 CHAPTER 4: FINDINGS 4.0 Introduction 4.1 Descriptive statistic 4.2 Panel Unit Root Test 4.3 Breusch Pagan Lagrange Multiplier (BPLM) 4.4 Hausman Test 4.5 Regression Model 4.6 Diagnostic Check 26 27 3.4 - 37 38 - 39 4.5 Regression Model 4.6 Diagnostic Check 41 - 43	3.4.2 Panel Unit Root Test	24
3.4.5 Im Pesaran and Shin (IPS) test 3.4.6 BPLM test 26 - 27 3.4.7 Hausman Test 27 3.5 Diagnostic Check 28 - 31 3.5.1 Multicollinearity 3.5.2 Heteroscedasticity 3.5.3 Autocorrelation 3.6 Research Flow 3.7 Conclusion 28 29 30 31 32 33 21 34 35 40 Introduction 34 4.1 Descriptive statistic 4.2 Panel Unit Root Test 4.3 Breusch Pagan Lagrange Multiplier (BPLM) 4.4 Hausman Test 4.5 Regression Model 4.6 Diagnostic Check 41 - 43	3.4.3 Lee, Levin and Chu (LLC) test	24 - 25
3.4.6 BPLM test 3.4.7 Hausman Test 27 3.5 Diagnostic Check 28 - 31 3.5.1 Multicollinearity 3.5.2 Heteroscedasticity 3.5.3 Autocorrelation 3.6 Research Flow 3.7 Conclusion 24.0 Introduction 4.1 Descriptive statistic 4.2 Panel Unit Root Test 4.3 Breusch Pagan Lagrange Multiplier (BPLM) 4.4 Hausman Test 4.5 Regression Model 4.6 Diagnostic Check 28 - 31 34 - 31 34 - 32 35 - 36 - 37 36 - 37 37 - 38 4.5 Regression Model 4.6 Diagnostic Check 41 - 43	3.4.4 Breitung Test	25
3.4.7 Hausman Test 27 3.5 Diagnostic Check 28 - 31 3.5.1 Multicollinearity 3.5.2 Heteroscedasticity 3.5.3 Autocorrelation 3.6 Research Flow 32 3.7 Conclusion 33 CHAPTER 4: FINDINGS 4.0 Introduction 34 4.1 Descriptive statistic 34 - 35 4.2 Panel Unit Root Test 36 - 37 4.3 Breusch Pagan Lagrange Multiplier (BPLM) 37 - 38 4.4 Hausman Test 38 - 39 4.5 Regression Model 40 - 41 4.6 Diagnostic Check 41 - 43	3.4.5 Im Pesaran and Shin (IPS) test	26
3.5 Diagnostic Check 3.5.1 Multicollinearity 3.5.2 Heteroscedasticity 3.5.3 Autocorrelation 3.6 Research Flow 3.7 Conclusion 33 CHAPTER 4: FINDINGS 4.0 Introduction 4.1 Descriptive statistic 4.2 Panel Unit Root Test 4.3 Breusch Pagan Lagrange Multiplier (BPLM) 3.7 - 38 4.4 Hausman Test 4.5 Regression Model 4.6 Diagnostic Check 28 - 31 32 34 - 31 35 - 37 36 - 37 47 - 38 48 - 39 49 - 41 41 - 42	3.4.6 BPLM test	26 - 27
3.5.1 Multicollinearity 3.5.2 Heteroscedasticity 3.5.3 Autocorrelation 3.6 Research Flow 32 3.7 Conclusion 33 CHAPTER 4: FINDINGS 4.0 Introduction 34 4.1 Descriptive statistic 34 - 35 4.2 Panel Unit Root Test 36 - 37 4.3 Breusch Pagan Lagrange Multiplier (BPLM) 37 - 38 4.4 Hausman Test 38 - 39 4.5 Regression Model 40 - 41 4.6 Diagnostic Check 41 - 43	3.4.7 Hausman Test	27
3.5.2 Heteroscedasticity 3.5.3 Autocorrelation 3.6 Research Flow 3.7 Conclusion 3.7 Conclusion 3.8 CHAPTER 4: FINDINGS 4.0 Introduction 34 4.1 Descriptive statistic 34 - 35 4.2 Panel Unit Root Test 36 - 37 4.3 Breusch Pagan Lagrange Multiplier (BPLM) 37 - 38 4.4 Hausman Test 38 - 35 4.5 Regression Model 40 - 41 4.6 Diagnostic Check 41 - 43	3.5 Diagnostic Check	28 - 31
3.5.3 Autocorrelation 3.6 Research Flow 3.7 Conclusion 3.7 Conclusion 3.8 CHAPTER 4: FINDINGS 4.0 Introduction 4.1 Descriptive statistic 4.2 Panel Unit Root Test 4.3 Breusch Pagan Lagrange Multiplier (BPLM) 4.4 Hausman Test 4.5 Regression Model 4.6 Diagnostic Check 32 33 34 35 34 34 34 35 36 37 38 38 39 41 42 43 44 45 46 47 47 47	3.5.1 Multicollinearity	
3.6 Research Flow 32 3.7 Conclusion 33 CHAPTER 4: FINDINGS 4.0 Introduction 34 4.1 Descriptive statistic 34 - 35 4.2 Panel Unit Root Test 36 - 37 4.3 Breusch Pagan Lagrange Multiplier (BPLM) 37 - 38 4.4 Hausman Test 38 - 39 4.5 Regression Model 40 - 41 4.6 Diagnostic Check 41 - 43	3.5.2 Heteroscedasticity	
3.7 Conclusion 33 CHAPTER 4: FINDINGS 34 4.0 Introduction 34 4.1 Descriptive statistic 34 - 35 4.2 Panel Unit Root Test 36 - 37 4.3 Breusch Pagan Lagrange Multiplier (BPLM) 37 - 38 4.4 Hausman Test 38 - 39 4.5 Regression Model 40 - 41 4.6 Diagnostic Check 41 - 43	3.5.3 Autocorrelation	
CHAPTER 4: FINDINGS 4.0 Introduction 34 4.1 Descriptive statistic 34 - 35 4.2 Panel Unit Root Test 36 - 37 4.3 Breusch Pagan Lagrange Multiplier (BPLM) 37 - 38 4.4 Hausman Test 38 - 39 4.5 Regression Model 40 - 41 4.6 Diagnostic Check 41 - 43	3.6 Research Flow	32
4.0 Introduction 4.1 Descriptive statistic 4.2 Panel Unit Root Test 4.3 Breusch Pagan Lagrange Multiplier (BPLM) 4.4 Hausman Test 4.5 Regression Model 4.6 Diagnostic Check 34 - 35 35 - 36 4.7 Regression Model 4.8 Diagnostic Check	3.7 Conclusion	33
4.1 Descriptive statistic 4.2 Panel Unit Root Test 4.3 Breusch Pagan Lagrange Multiplier (BPLM) 37 - 38 4.4 Hausman Test 38 - 39 4.5 Regression Model 40 - 41 4.6 Diagnostic Check	CHAPTER 4: FINDINGS	
4.2 Panel Unit Root Test 4.3 Breusch Pagan Lagrange Multiplier (BPLM) 37 - 38 4.4 Hausman Test 38 - 39 4.5 Regression Model 40 - 41 4.6 Diagnostic Check	4.0 Introduction	34
4.3 Breusch Pagan Lagrange Multiplier (BPLM) 37 - 38 4.4 Hausman Test 38 - 39 4.5 Regression Model 40 - 41 4.6 Diagnostic Check 41 - 43	4.1 Descriptive statistic	34 - 35
4.4 Hausman Test 38 - 39 4.5 Regression Model 40 - 41 4.6 Diagnostic Check 41 - 43	4.2 Panel Unit Root Test	36 - 37
4.5 Regression Model 4.6 Diagnostic Check 41 - 43	4.3 Breusch Pagan Lagrange Multiplier (BPLM)	37 - 38
4.6 Diagnostic Check 41 - 43	4.4 Hausman Test	38 - 39
	4.5 Regression Model	40 - 41
4.7 Robust Standard Error 43 – 4	4.6 Diagnostic Check	41 - 43
	4.7 Robust Standard Error	43 – 43

ABSTRACT

This study aimed to investigate whether foreign direct investment (FDI) crowd in or crowd

out on domestic investment (DI) in the developing countries over the period of 2008 to 2015.

The data of FDI net inflow used for FDI and gross capital formation used for domestic

investment (DI), therefore both variable will be analyse through panel data analysis. Apart

from that, the data of real exchange rate, inflation and gross domestic product used as a

control variables in the panel analysis. After several statistical tests have been conducted, the

results show quite an interesting finding along with some of the previous study whereby the

analysis shows the existence of relationship between foreign direct investment (FDI) and

domestic investment (DI) hence its proved the crowding in effect of domestic investment(DI)

by the foreign direct investment (FDI).

Keywords; FDI, DI, exchange rate, inflation, GDP

of investment made by foreign investor or fin

the form of controlling ownership of an enterprise in any nation based on another