

**MACROECONOMIC DETERMINANTS OF FOREIGN DIRECT
INVESTMENT INFLOW INTO MALAYSIA: EMPIRICAL STUDIES**

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ABSTRACT

The purpose of the research is to add insights into the field of FDI and to investigate more about the relations -if exist- between macro economic determinants i.e., interest rate, exchange rate, inflation rate, growth domestic product, export of goods and services, import of goods and services, and FDI inflow into Malaysia as a major host country. Based on the reviewed and analyzed results, findings reveal general trends of such relations. Time series data from 1990-2010 has been studied using a linear regression analysis based on the OLS model and OLI Paradigm. Results showed that positive relationships correlated with FDI inflow into Malaysia; namely, interest rate and imports of goods and services need to be strengthened to ensure higher level of FDI. Malaysia's GDP was found significant and its negative influence needs to be managed. On the other hand, Malaysia's inflation rate was found positively insignificant whereas exchange rate was found negatively insignificant. That would require further investigation since the insignificant indicators don't reflect real influence on FDI inflow into Malaysia.

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LIST OF ABBREVIATION

ASEAN	Association of Southeast Asian Nations
CEECs	Central and Eastern European countries
CPC	Central Product Classification
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
ISIC	International Standard Industrial Classification
MFN	Most Favored Nation
MNE	Multinational Enterprise
OECD	Organization for Economic Co-operation & Development
R&D	Research and Development
TNC	Transnational Corporation
TRAINS	Trade Analysis and Information System
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
US	United States
US\$	United States Dollar
WAIPA	World Association of Investment Promotion Agencies

CHAPTER 1

INTRODUCTION

1.0 Introduction

Foreign direct investment (FDI) has played an important role in the economic growth and development of many countries in recent decades. Data in Table 1.1 shows trends of increased value since 1982 in total FDI inflow and FDI inflow as a share of GDP. Although these measures declined in 2008 due to global recession, FDI is still crucial, especially for developing economies. Host countries acquire capital through the FDI of multinational enterprises (MNEs). This is critical to developing countries with limited ability to raise private capital. FDI can provide host country firms without access to capital markets a means to raise capital in a cost effective manner. FDI is also considered a common mode of entry to a foreign market, a way to access technology and skills, and away to pursue global strategic objectives and respond to market opportunity.

Policymakers of many countries, especially those with developing economies, work to encourage FDI by providing incentives to MNEs to establish plants or companies in their countries due to the numerous positive effects that can bring

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