

**MACROECONOMICS VARIABLES AND BUSINESS  
ENVIRONMENT INFLUENCE THE FOREIGN DIRECT  
INVESTMENT (FDI) INFLOWS IN MALAYSIA**

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2015

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## ABSTRACT

This study examines the relationship between macroeconomics variables, business environment variables and FDI inflow in Malaysia. The data is collected for the period of 21 years from 1991-2012 from World Bank data base for FDI inflow and seven variable, including macroeconomics variables (GPD growth rate, exchange rate, export, imports and inflation), business environment variables (corruption index and political stability). The data has been analysed by using Eviews 6.0 and SPSS 19.0. Descriptive analysis, Pearson's Correlation analysis and Ordinary Least Square (OLS) were used as for inferential statistics. This study used the Augmented Dickey Fuller (ADF) test to check the stationary of the data using Eviews and Pearson's correlation using SPSS. The finding of this study revealed that macro-economic variable such as import, export and the exchange rate has a significant relationship with the FDI inflow but economic growth found insignificant relationship with FDI inflow. It also has been found that business environment variables, corruption control and political stability have significant relationship with FDI inflow, but inflation rate has an insignificant relationship with FDI inflow. The findings from this study suggested that for macroeconomics and environment variables such as import, export, exchange rate, corruption control and political stability are very important in order to influence FDI inflows. Political stability and corruption control are the most significant variables for FDI inflow in Malaysia. It is further suggested that these variables may keep in consideration in the future course of action. This study also suggests the policy recommendations for foster the economic activities in the Malaysian economy by attracting FDI and rising its inflow.

**Keywords:** Foreign Direct Investment (FDI), Macroeconomics Variables, Business Environment, Malaysia

## ABSTRAK

Kajian ini dijalankan bertujuan untuk mengenalpasti hubungan yang wujud diantara pemboleh ubah ekonomi makro, pemboleh ubah persekitaran perniagaan serta Aliran Pelaburan Asing ke Malaysia. Kajian dijalankan berdasarkan hasil pengumpulan data untuk tempoh 22 tahun mulai dari tahun 1991 sehingga tahun 2012 daripada database Bank Dunia untuk Aliran Langsung Asing dan ini menunjukkan bahawa tujuh daripada pemboleh ubah yang dikaji iaitu termasuk pemboleh ubah ekonomi makro seperti Kadar Pertumbuhan Keluaran Dalam Negara Kasar(KDNK), Kadar Tukaran, Impot, Ekspot serta Kadar Inflasi manakala pemboleh ubah persekitaran perniagaan seperti Indeks Kawalan Rasuah serta Kestabilan politik memberi impak kepada Aliran Langsung Asing. Data yang diperolehi dianalisa menggunakan perisian EViews serta pakej perisian statistik SPSS 19.0. Manakala untuk Analisis Deskriptif, Analisis Korelasi Pearson serta Analisis Ordinary Least Square(OLS) digunapakai sebagai statistic inferensi. Kajian ini juga menggunakan Ujian Augmented Dickey Fuller(ADF) untuk menguji data yang *pegun* menggunakan perisian EViews dan Analisis Korelasi Pearson menggunakan pakej perisian statistik SPSS. Oleh itu, penemuan ini dengan jelas membuktikan bahawa pemboleh ubah ekonomi makro seperti impot, ekspot serta kadar tukaran merupakan penentu yang signifikan bagi Aliran Langsung Asing manakala pertumbuhan ekonomi tidak menunjukkan hubungan yang signifikan dengan Aliran Langsung Asing. Selain daripada itu, pemboleh ubah persekitaran perniagaan iaitu indeks kawalan rasuah dan kestabilan politik menunjukkan hubungan yang signifikan dengan Aliran Langsung Asing manakala kadar inflasi tidak menunjukkan hubungan yang signifikan dengan Aliran Langsung Asing. Oleh yang demikian, hasil dapatan daripada kajian mencadangkan bahawa pemboleh ubah ekonomi makro serta pemboleh ubah persekitaran perniagaan yang terdiri daripada impot, ekspot, kadar tukaran, indeks kawalan rasuah dan kestabilan politik amat penting dalam menentukan hala tuju pertumbuhan ekonomi melalui Aliran Langsung Asing bagi sesebuah negara termasuk Malaysia. Bagaimanapun, kestabilan politik serta indeks kawalan rasuah merupakan antara yang paling signifikan untuk Aliran Langsung Asing di Malaysia. Oleh yang demikian dengan jelas menunjukkan bahawa pemboleh ubah tersebut perlu diberi perhatian yang sewajarnya untuk memastikan kelangsungan Aliran Langsung Asing di masa akan datang. Selain itu, kajian ini juga membuat beberapa kesimpulan serta beberapa cadangan polisi yang wajar demi untuk menggalakan pertumbuhan kadar aktiviti ekonomi Negara dengan peningkatan aliran masuk pelaburan langsung asing ke dalam Malaysia khususnya.

**Katakunci:** Aliran Langsung Asing, Pemboleh ubah Ekonomi Makro, Pemboleh ubah Persekitaran Perniagaan, Malaysia

## **ACKNOWLEDMENTS**

In the name of Allah, the Most Gracious and the Most Merciful.

First of all, I would deeply praise The Al Mighty Allah who has given me the opportunity to pursue my study and yet have finished with successfully by completing this research. I'm gratefully thanks to Allah for all his blessing and guidance which have provided me with strength to face all the tribulations and trials in completing this part of my life. I therefore send my love and gratitude to the ones who really have cared for me, and never stopped supporting me until I reached to where I am now. I would like to thank my spouse Kapt Sabarin bin Haji Abu Bakar for supporting me through out my journey finishing my study. In addition, a very huge appreciation to my all my kids who understand their mom's condition while finishing every angle of my study.

My foremost gratitude goes to my supervisor, Dr ArfanShahzad for his professional guidance and advices, his precise time to guide me. Besides, to Ass.Prof Dr Abdul Ghani Golamdin and also Ass.Prof Dr Faudziah Hanim for their professional advices and comments. My fellow friends, Imran Arshad for his passionate guidance and helping in completing this research. Also to my colleagues, Eija, Shakira, Zulaikha, Farhana, and Suganthi who spent time together, never stopped supporting me in completing my study. Thanks for the time we have spent together.

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## **CHAPTER 1**

### **INTRODUCTION**

#### **1.1 Background of the Study**

For many years, Foreign Direct Investment (FDI) plays an important role as a source of financial funding for developing countries including the Asian countries like Malaysia. In order to sustain economic and development growth, they have increasingly turned to FDI as a source of capital. FDI usually involves its participation in management, joint ventures and also in terms of transfer of technologies and expertise. More specifically, FDI act as an agent to create mechanism to help one country to get productive assets from other countries through cross-border corporate governance. As mentioned by Wong (2005), FDI is different from the other major type of foreign investment where mainly motivated by a long term profit prospect in production activities that are directly controlled by the investors. However, in some other developing countries including Malaysia, FDI can be an important factor in order to support and improve the economic growth of the host country. Therefore, FDI provides the way forward for technological promotion and benefit the domestic industries. They are significant effect in different sectors including increasing productions, help in upgrading the living standards, promote export, create employment opportunities, poverty alleviation and inflation rate in assisting the economy to achieve economic growth.

According to the study by Borensztein, De Gregorio and Lee (1998), any host country that successful to attract the inflows of FDI. That country will get access to the new market, become efficient in utilizing the available resources, and observe improvement in its skills and knowledge. FDI also help in development of

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