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

BY

NORHAYATIE ABU BAKAR

MASTER OF SCIENCE (MANAGEMENT)
UNIVERSITY UTARA MALAYSIA

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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

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