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    NEED/IMPORTANCE OF THE STUDY

    STATEMENT OF THE PROBLEM

    OBJECTIVES

    HYPOTHESES

    RESEARCH METHODOLOGY

    RESULTS & DISCUSSION

    FINDINGS

    RECOMMENDATIONS/SUGGESTIONS

    CONCLUSIONS

    SCOPE FOR FURTHER RESEARCH

    ACKNOWLEDGMENTS

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    APPENDIX/ANNEXURE

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CONTRIBUTIONS TO BOOKS

- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

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ANALAYSIS OF MACROECONOMIC FACTORS AFFECTING THE INFLOW OF FOREIGN DIRECT INVESTMENT IN MALAYSIA

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ABSTRACT

This study examines the impact of macroeconomic factors of source countries (US, UK and Japan) and host country (Malaysia) on the inflow of foreign direct investment (FDI) into Malaysia based on annual data for the period 1984 to 2006. In this empirical analysis, the independent variables namely Malaysian exchange rate to the source countries [U.S (dollar), UK (pound), and Japan (yen)]; Malaysian lending rate, change in Malaysian, change in U.S, Europe, and Japan Gross Domestic Product (GDP); change in Malaysian, U.S, Europe, and Japan inflation; change in U.S, Europe, and Japan export; and change in U.S, Europe, and Japan import were regressed against FDI inflow to Malaysia as the dependent variable. The findings from this study show that FDI inflow to Malaysia is positively and significantly correlated with Malaysian exchange rate to US dollar and change in Malaysian GDP. FDI is negatively and significantly correlated with change in Malaysian inflation rate, change in US inflation rate and change in Japan GDP. In addition, FDI inflow to Malaysia is correlated positively and insignificantly with Malaysian lending rate, change in US import, change in US export, Malaysian exchange rate to pound, change in UK export, and change in Japan inflation rate, change in UK GDP and change in Japan import. FDI is also negatively and insignificantly correlated with change in US GDP, change in UK inflation rate and change in UK import, Malaysian exchange rate to yen and change in Japan export.

KEYWORDS
Export, Foreign Direct Investment (FDI), Growth Domestic Product (GDP), Import, Inflation rate.

INTRODUCTION

Private foreign investment flows have emerged as the single largest source of external finance for developing countries in recent decades. These flows broadly take two forms. First are foreign direct investments (FDI) that multinational corporations (MNCs) bring in to establish production units or undertake specific projects in the host country independently or in collaboration with the local entrepreneurs. FDI entails not only a transfer of resources but also the acquiring of control. The investor aims at securing a lasting interest and an active role in the company of the host country (IMF, 1993). The second form of flows is the foreign portfolio investments. for example, in stocks, bonds and notes in credit and stock markets of a country by private foreign institutions such as banks, mutual funds and corporations or individuals. These investments, being liquid, are highly volatile, and move freely across national boundaries to enlarge profits and diversify investment packages (Lewis, 1999).

Conventionally, FDI is defined as a form of international inter-firm cooperation that involves a significant equity stake in or effective management control of host country enterprises (Sun, Tong & Yu, 2002). FDI has been one of the most fascinating and intriguing topics among researchers in international business, because it is one significant form of rapid international expansion to increase ownership of assets, derive location-specific advantages and acquire additional knowledge. There is a sizeable body of knowledge regarding the inflow of FDI into the United States (Grosse & Trevino, 1996; Tallman, 1988). By comparison, less is understood about what drives FDI in transitional economies (Batra, 1997; Child & Tse, 2001).

FDI plays a major role as a key factor in transferring new technology and promoting economic growth. Conceptually, FDI can influence a recipient country at both macro and micro-levels. At the micro-level, FDI for MNCs can affect the management and technical efficiency of domestic firms through technological transfer, labor training and produce positive spillover efficiency. At the macro level, FDI may influence both variables such as domestic investments, economic growth, employment, exports and imports (Dunning, 1988, 1995; Kholdy, 1995; Levine, 1997; Borensztein & Lee, 1998) and financial variables such as interest rates, foreign exchange rate, inflation and balance of payment (Limand & Pang, 1991).

Malaysia is the second fastest growing economy in the South East Asian region with an average Gross National Product (GNP) growth of 8% year in the last decade. Since independence in 1957 Malaysia has moved from an agricultural based economy to a more diversified and export oriented one. This transition has been made possible among other things by a steady and increasing inflow of FDI to this country especially to cater for saving investment domestically. Malaysian investment regime is designed to serve the changing needs and directions of the country's industrial policy, in which the government has always played an active role.

This paper is organized as follows. In the next section, a brief literature review considers the factors that affect the foreign direct investment. In the following section, the methodology and hypotheses of the study are presented. Consequently, the theoretical framework that depicts the linkages between the variables of interest is then presented. Subsequently, the data collection procedures and variable measures are discussed. Finally, we discuss the results of regression analysis and some suggestions for future research are given.

LITERATURE REVIEW

Literature on FDI, both empirical and theoretical, mostly focuses either on studying the benefit of FDI to host country, at country level or firm level, or on the determinants of FDI flows. Consistent with the issue understudied, the focus in the section is on the second group of literature.

Several studies have been carried out previously on FDI in different countries. Tharumarajah (2001) investigated the determinants that led to the expansion of inward capitals inflows to Malaysia over the period of 1970 to 1998 using a sample model of linear regression. He found that the most significant factors are import of home country in to Malaysia and the GDP growth of Malaysia. Faster growth of GDP, import levels and domestic investment in Malaysia will result in greater amounts of FDI inflows. He also found that interest rates affect demand for loans and exchange rate of Malaysian ringgit against the U.S dollar. As expected both these variables coefficients carries a negative sign indicating lower interest rates which reduces the cost of borrowing and increases the level of

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inward capital flow. The lower cost of financing in a host country relative to that in the home country results in a lower valuation of currency. This attracts foreign entities to begin operations in a country. Both of these coefficients are negatively correlated and significant at 5% significant level.

Pan (2002) conducted a study in China to examine the impact of source and host country on FDI between 1984 and 1996. Using data from 30 countries, he found that exchange rate is not a significant determinant for FDI, the cost of borrowing in the source country has negative association with its inflow of FDI, and source country GDP has a significant impact on FDI in China.

Lopez (2002) analyzed the relationship between FDI inflows and exports, and FDI inflows and imports in Mexico, during the period from 1970 to 2000. He used annual World Development Indicators as data source and found that there is a causality relationship between FDI and imports, meaning that FDI has a close relationship with imports. Simultaneously as FDI increased, the import content also intensified. There exists a causality relationship between exports and FDI.

Furthermore, Wan (2003) conducted a study in Japan to examine the impact of exchange rate on FDI. They used data of Japanese FDI in nine Asian manufacturing sectors from 1981 to 2002 to examine the hypotheses in the context of the competition between China and ASEAN-4 (Indonesia, Malaysia, the Philippines and Thailand). They find that exchange rate plays a significant role in competition between FDI recipient countries. They also show that relative exchange rate is a significant factor that determines the relative inflows of Japanese FDI for manufacturing as a whole, and for such sub-sectors as textiles, food, electronics, transportation equipment, and others.

Bouoiyour (2003) investigated the determining factors of FDI in Morocco from 1960 to 2000. During this period Morocco was one of the most important recipients of FDI inflows in the Middle East and North African. He used an empirical model using some macro-economic variables. His results found that GDP has a positive impact on the FDI inflows and that this variable can also reflect the dynamism of Moroccan economy. He also found that the inflation rate is significant with expected sign. This result suggests that macroeconomic stability is an important determinant of investments influx. On other hand the results of the second regression found that coefficient GDP is a negative sign and is not significant, meaning that the instability of Moroccan economy growth can be a handicap for FDI inflows. According to the results of the third regression, an increase of FDI is equivalent to an increase of exports and imports and a depreciation of real exchange rate against the investing country increases FDI inflows. Exchange rate can reflect the influence of favorable prospects on the evolution of the Moroccan economy.

Venkataramany (2004) conducted a study in India, covering an eight-year period (1992 to 1999) to explore the factors that contribute to the independent of FDI and tests whether the variables really have a significant influence on the inflow of FDI into India. Theories of FDI suggest that firm size, profitability, trade, interest rates, economy and inflation would be significant influences in attracting FDI.

Hasan (2004), on the other hand, conducted a study to see factors that attract foreign capital to the developing economies, and which of these or other factors have been relevant in the Malaysian case and what policy lessons the experience has for Malaysia or others using annual data over a thirty one year from 1970 to 2000. He found that the positive sign for the Malaysia Ringgit (RM) to dollar exchange rate is in line with the empirical evidence that a weak currency is likely to increase foreign investment flows to a country over time (Toro, 1999). Indeed, the exchange rate has been the most dominant determinant of the FDI flow into Malaysia. He also found that a 1 percent rise in exports to GDP ratio is likely to increase FDI inflow by RM120 million, indicating that exports play a crucial role in attracting foreign capital to Malaysia.

Herrero and Santabárbara (2004) analyzed empirically whether the emergence of China as a large recipient of FDI has affected the amount of FDI received by Latin American countries, during the period 1984 to 2001. They used data from the international financial statistics. Results show that coefficient of bilateral exports is significant and positively correlated with FDI. In addition, there are a number of significant variables in the first specification with all regresses, which become not significant in the restricted ones. These are the bilateral exchange rate and GDP growth in the host country. On the other hand, the bilateral exchange depreciation is clearly significant in increasing FDI to Latin American countries, suggesting a lower investment cost due to the exchange rate depreciation which weighs more than a reduction in repatriated benefits. In addition, larger bilateral imports seem to imply less Latin American inward FDI.

Abd Ghani (2007) examined the relationship between FDI and financial sector performance in Malaysia and its neighboring countries, Indonesia and Thailand based on quarterly data for the period 1999 to 2006. The results of panel data analysis using no lag valves for independent variables found that GDP and inflation rates significantly and positively influence total FDI to the three countries. Lower interest rate was also found to have attracted higher FDI. As such, The results of panel data analysis using lag one quarter valves for independent variables showed that total FDI for a particular period is significantly related to changes in last quarter inflation rate at 95% confidence level and is significantly related to last quarter interest rate. Change in inflation in the last quarter is found to be positively related to FDI while interest rate last quarter is found to be negatively related with FDI. In addition, the results of panel data analysis using lag two quarter valves for independent variables indicate that commercial bank asset interest rate and inflation rate is positively and significantly related to overall FDI at 95% confidence level.

RESEARCH METHODOLOGY

The theoretical framework of this study uses factors related to both the host country (Malaysia) and the source countries (U.S, UK, and Japan) which are used to explain the inflow of FDI in Malaysia. For the first independent variable, we use Malaysian exchange rate to dollar, pound, and yen. The second independent variable is Malaysia lending rate. The third independent variable is change in Malaysian, U.S, UK, and Japan GDP. The fourth independent variable is change in Malaysian, U.S, UK, and Japan inflation rates. The next independent variable is change in U.S, UK, and Japan import. The last independent variable is change in U.S, UK, and Japan export to Malaysia that may influence FDI in Malaysia. Figure 3 presents the theoretical framework of this study. In the next section, we set our hypothesis for this study.

HYPOTHESIS

Country specific factors are macroeconomic level environmental characteristics of source and host countries that are presumed to affect firm's investment activities (Kogut & Singh, 1988; Tallman, 1988). This empirical analysis seeks to extend the understanding on macroeconomic factors that affect FDI in Malaysia based on the incorporation of key factors drawn from the literature review into the modeling process.

Pan (2003) noted that exchange rate is not a significant determinant for FDI in China. Similarly, Moshirian (1997) showed that exchange rate is positively correlated with FDI in U.S. Herrero and Santabárbara (2004) noted that bilateral exchange depreciation is significant in increasing FDI to Latin American countries. Lewis (1999) concluded that the exchange rate highly and significantly affects FDI in LDCs.

Tharumarajah (2001) found that the exchange rate of Malaysian ringgit against the U.S dollar is negatively correlated and significant suggesting a lower valuation of currency will attract foreign entities to begin operations in a country. Goldberg and Klien (1997) noted that a significant linkage between real exchange rates to FDI. Hasan (2004) found that a positive sign for the Malaysia ringgit to U.S dollar exchange rate is in line with the empirical evidence that a weak currency is likely to increase the foreign investment flows to a country over time. Therefore, I hypothesize the following:

H1: There is a significant relationship between Malaysian exchange rate to dollar, pound, and yen with FDI in Malaysia.

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FIGURE1: THEORETICAL FRAMEWORK
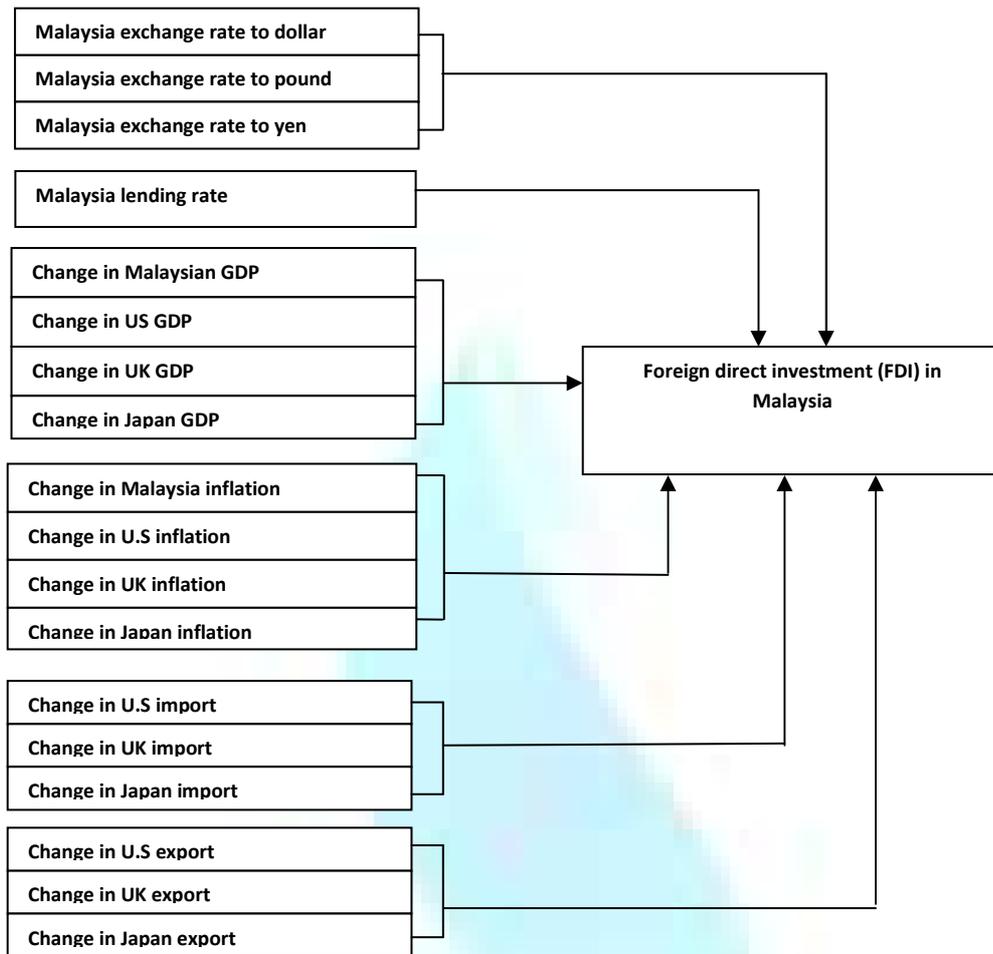
Previous studies have shown that the cost of raising capital in a country affects its FDI outflow (Froot & Stein, 1991; Pan, 2002). Higher lending rates increase such costs, causing firms to earn higher profits to meet their expectations net of debt repayments. Domestically, it can be argued that firms compete on roughly equal footing, because they are faced with similar interest rates. Internationally, however, firms from source countries with high lending rates are at a cost disadvantage in raising capital, compared with those from countries with low lending rates (Grosse & Trevino, 1996). One might expect that, since in a world with mobile capital, risk adjusted expected returns on all international assets would be equalized, interest rate differences should have no bearing on FDI. In reality, capital mobility is not perfect. Only very large multinational corporations can raise capital internationally. In addition, complications such as hidden costs and exchange rate fluctuations work against raising capital in a third country.

Grosse and Trevino (1996) found that cost of borrowing at source country affects outward FDI into the United States. Firms from countries with low interest rates enjoy a cost advantage that enables them to raise more capital with a lower burden of interest payment. Pan (2003) emphasized that cost of borrowing in source country has negative association with its inflow of FDI. Tharumarajah (2001) revealed that a negative relationship exists between interest rates and demand for loans. Lower interest rates reduce cost of borrowing and increase the level of inward capital flow. On the other hand, Abd Ghani (2007) argued that interest rate is negatively related with FDI in last quarter of the period 1999 to 2006 in Malaysia. Venkataramany (2004) finds that deposit and commercial interest rates are highly significant with FDI. Thus, it can be hypothesized as following:

H2: There is a significant relationship between Malaysian base lending rate and FDI in Malaysia

Existing literature suggests a positive impact of GDP on the outflow of FDI (Ajami & Barniv, 1984; Tallman, 1988; Grosse &Trevino, 1996). It is easier for firms from a large home country to raise the capital needed to invest overseas, because larger countries tend to have more firms that can expand into international markets aggressively and on a larger scale. Tharumarajah (2004) noted that GDP is the most significant factor in Malaysia, this means that faster growth of GDP level and domestic investment in Malaysia will result in greater amounts of FDI inflows. Bouoiyour (2003) found the coefficient GDP is a negative sign and is not significant; meaning that the instability of Moroccan economy growth can be a handicap for FDI inflows. Goldberg and Klien (1997) showed that there is a significant linkage between GDP to FDI. Lewis (1999) noted that the average GDP growth is highly significant in LDCs. Similarly, Abd Ghani (2007) revealed that GDP is significant in influencing total FDI to Malaysia, Indonesia and Thailand. Gross and Golderg (1995) investigated location determinant of FDI in the U.S and found a strong relationship between FDI and GDP growth which it means that Foreign firms or countries of origin are attracted to host countries having strong, stable economic growth. Hermsey and Cliff (1984) found a strong GDP growth of host country is positively correlated with inward capital flow. A source country GDP has a significant impact on FDI in China (Pan, 2003). The growth rate of GDP has a positive coefficient, but is insignificant in India (Maniam, 1998). Therefore, It can be hypothesized as following:

H3: There is a significant relationship between change in Malaysian, U.S, UK and Japan GDP with FDI in Malaysia.

Previous research has shown that inflation rate is significant in influencing total FDI in three countries, Malaysia, Indonesia and Thailand (Abd Ghani, 2007). Venkataramany (2004) showed that there is a high significance and negative sign in the change in inflation indicating the adverse effect inflation can have on the inflow of FDI in India. Lewis (1999) said that inflation rate is highly significant at the 0.5 level. Bouoiyour (2003) revealed that inflation rate significantly influences FDI. Thus, it can be hypothesized as following:

H4: There is a significant relationship between change in Malaysian, U.S, UK, and Japan inflation rates with FDI in Malaysia.

Tharumarajah (2004) discovered that the import of source country is significant with FDI into Malaysia. This means that faster growth of import level and domestic investment in Malaysia will result in greater amounts of FDI inflows. Bouoiyour (2003) noted that an increase of FDI is equivalent to an increase of imports against the investing country. Lopez (2002) determined that there is causality relationship between FDI and imports, which means FDI has a close relationship with imports. Simultaneously as FDI has increased, the import content has intensified. Venkataramany (2004) emphasized that change in imports proved to be highly significant to FDI in India. Therefore, it can be hypothesized as following:

H5: There is a significant relationship between change in U.S, UK, and Japan import with FDI in Malaysia

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Hasan (2004) showed that the crucial role of exports in attracting foreign capital to Malaysia, where a 1 percent rise in exports to GDP is likely to increase FDI inflow by RM120 million. Bouoiyour (2003) revealed that an increase of exports against the investing country increases FDI inflows in Morocco. Venkataramany (2004) found that change in exports is not significant in both analyses of FDI inflows in India. Lopez (2002) found an evidence of bi-directional Granger causality between exports and FDI. Herrero and Santabárbara (2004) discovered that the coefficient of bilateral exports is significantly positive with FDI. Therefore, it can be hypothesized as following:

H6: There is a significant relationship between change in U.S, UK, and Japan export with FDI in Malaysia.

DATA COLLECTION AND MODELS

The sampling frame will be used in the sample selection consists of six factors: the Malaysian exchange rate to three currencies (dollar, pound, and yen); Malaysian base lending rate; change in Malaysian, U.S, UK and Japan total GDP; change in Malaysian, U.S, UK and Japan inflation rates; change in U.S, UK and Japan total export of goods and services, and change in U.S, UK and Japan total import of goods and services and total amount of FDI in Malaysia. The period of study is from 1984 to 2006 data collected, is based on annual basis and is obtained from the global market information DataStream, and also from University Utara Malaysia (UUM) DataStream.

This study uses annual data from 1984 to 2006, covering a period of 23 years. Following to Venkataramany (2004), a simple Ordinary Least Squares (OLS) will be used to run regression tests for complete sample, target industry FDI inflows and source country FDI. The data will be analyzed using OLS regression model in order to estimate the factors of macroeconomic that are significantly related to FDI in Malaysia. All of the six macroeconomic factors indicator variables are included in the analysis. The model takes the form of:

Ordinary Least Squares (OLS)

$Y_{ijt} = B_0 + B_1X_{ijt} + \varepsilon_{ijt}$

Where:

Y_{ijt}: Dependent variable

B_0: Parameter

B_1X_{ij}: Independent variables

ε_{ijt}: Error term

There are three general linear regression models will be used in this study. The first model uses total FDI in Malaysia as the dependent variable and Malaysian exchange rate to dollar; Malaysian base lending rate; change in Malaysian and U.S total GDP; change in Malaysian and U.S inflation rates; change in U.S import of goods and services and change in U.S export of goods and services as independent variables. The second model also uses the total of FDI in Malaysia as the dependent variable and Malaysian exchange rate to pound; Malaysian base lending rate; change in Malaysian and UK total GDP; change in Malaysian and UK inflation rates; change in UK import of goods and services and change in UK export of goods and services as independent variables. The last model uses the total of FDI in Malaysia as the dependent variable and Malaysian exchange rate to yen; Malaysian base lending rate; change in Malaysian and Japan total GDP; change in Malaysian and Japan inflation rates; change in Japan import of goods and services and change in Japan export of goods and services as independent variables.

Model 1

$FDI_m = B_0 + B_1MUSER + B_2MLR + B_3CHMGDP + B_4CHUSGDP + B_5CHMF + B6CHUSF + B_7CHUSIM + B_8CHUSEXP + \varepsilon$

Dependent variable:

FDI_m: Total Foreign Direct Investment (FDI) in Malaysia (1984-2006)

Independent variables:

B_0: Constant

MUSER: Malaysian exchange rate to dollar (1984-2006)

MLR: Malaysia base lending rate (1984-2006)

CHMGDP: Change in Malaysia total GDP (1984-2006)

CHUSGDP: Change in U.S total GDP (1984-2006)

CHMF: Change in Malaysia inflation rate (1984-2006)

CHUSF: Change in U.S inflation rate (1984-2006)

CHUSIM: Changing in U.S total import of goods and services (1984-2006)

CHUSEXP: Change in U.S total export of goods and services (1984-2006)

ε: Error term

Model 2

$FDI_m = B_0 + B_1MUKER + B_2MLR + B_3CHMGDP + B_4CHUKGDP + B_5CHMF + B_6CHUKF + B_7CHUKIM + B_8CHUKEXP + \varepsilon$

Dependent Variables:

FDI_m: Total Foreign Direct Investment (FDI) in Malaysia (1984-2006)

Independent variables:

B_0: Constant

MUKER: Malaysian exchange rate to pound (1984-2006)

MLR: Malaysia base lending rate (1984-2006)

CHMGDP: Change in Malaysia total GDP (1984-2006)

CHUKGDP: Change in UK total GDP (1984-2006)

CHMF: Change in Malaysia inflation rate (1984-2006)

CHUKF: Change in UK inflation rate (1984-2006)

CHUKIM: Change in UK total import of goods and services (1984-2006)

CHUKEXP: Change in UK total export of goods and services (1984-2006)

ε: Error term

Model 3

$FDI_m = B_0 + B_1MJPER + B_2MLR + B_3CHMGDP + B_4CHJPGDP + B_5CHMF + B_6CHJPF + B_7CHJPIM + B_8CHJPEXP + \varepsilon$

Dependent variable:

FDI_m: Total Foreign Direct Investment (FDI) in Malaysia (1984-2006)

Independent variables:

B_0: Constant

MJPER: Malaysian exchange rate to yen (1984-2006)

MLR: Malaysia base lending rate (1984-2006)

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CHMGDP: Change in Malaysia total GDP (1984-2006)
CHJPGDP: Change in Japan total GDP (1984-2006)
CHMF: Change in Malaysia inflation rate (1984-2006)
CHJPF: Change in Japan inflation rate (1984-2006)
 CHJPIM: Changing in Japan total import of goods and services (1984-2006)
CHJPEXP: Change in Japan total export of goods and services (1984-2006)

ε : Error term

DESCRIPTIVE ANALYSIS

Results of the descriptive analysis of the variables included in the models of this study are provided in Table 1 (for US). The variables are foreign direct investment in Malaysia (FDIM), Malaysia exchange rate to US dollar (MUSEX), Malaysia lending rate (MLR), change in Malaysia gross domestic product (CHMGDP), change in US gross domestic product (CHUSGDP), change in Malaysia inflation rate (CHMF), change in US inflation rate (CHUSF), change in US import (CHUSIM) and change in US export (CHUSEX). In Table 2(for UK) the variables are foreign direct investment in Malaysia (FDIM), Malaysia exchange rate to UK pound (MUKEX), Malaysia lending rate (MLR), change in Malaysia gross domestic product (CHMGDP), change in UK gross domestic product (CHUKGDP), change in Malaysia inflation rate (CHMF), change in UK inflation rate (CHUKF), change in UK import (CHUKIM) and change in UK export (CHUKEX) In Table 3 (for Japan), the variables are foreign direct investment in Malaysia (FDIM), Malaysia exchange rate to Japan yen (MJAPEX), Malaysia lending rate (MLR), change in Malaysia gross domestic product (CHMGDP), change in Japan gross domestic product (CHJAPGDP), change in Malaysia inflation rate (CHMF), change in Japan inflation rate (CHJAPF), change in Japan import (CHJAPIM) and change in Japan export (CHJAPEX). The data for the variables are annual data from 1984 to 2006 (a twenty three-year period).The descriptive analysis for the three countries is discussed below.

DESCRIPTIVE ANALYSIS FOR U.S

Table 1 summarizes the descriptive analysis of a total of 23 time series data for FDIM, MUSEX, MLR, CHMGDP, CHUSGDP, CHMF, CHUSF, CHUSIM and CHUSEX for the twenty three year period (1984-2006).

TABLE 1: DESCRIPTIVE STATISTICS FOR US (1984-2006)

Variables	N	Minimum	Maximum	Mean	Std. Deviation
FDIM	23	1844.2900	23374.0400	12732.3417	7137.8412
MUSEX	23	2.3400	3.9880	3.0986	.6101
MLR	23	6.0000	10.5000	7.7478	1.4975
CHMGDP	23	-.0900	.1384	.0667	.0607
CHUSGDP	23	-.0087	.0661	.0272	.0151
CHMF	23	-.9103	7.8276	.4016	1.6990
CHUSF	23	-.4775	1.0108	.0529	.3485
CHUSIM	23	-.0775	.1816	.0547	.0585
CHUSEX	23	-.0838	.1733	.0441	.0560

The mean of annual FDI inflow to Malaysia during the period understudied is RM 12,732.3417 million. The highest annually FDI inflow is RM1844.29 million while the lowest annually inflow is RM1844.2900 million. In addition there is a big difference between the highest and lowest of FDI inflow as indicated by the high value of standard deviation of about RM7137.8412 million.
The annual mean of Malaysian exchange rate to US in the sample is 3.0986%. The highest annual Malaysia exchange rate to US is 3.9880%, while the lowest is 2.340%. The standard deviation is 0.6101%.
Based on the annual data, it is found that average Malaysia lending rate during the period is 7.7478% with a maximum value of 10.5000% and a minimum value of 6.0000%. The standard deviation is 1.4975%.
Change in Malaysia GDP records a mean of 0.0667% with the highest value of 0.1384% and the lowest value of -0.0900%. Its standard deviation is 0.0607%.
Change in US GDP averages 0.0272%. The maximum value is 0.0661%, while the minimum value is -0.0087%. The standard deviation of change in US GDP is 0.0151%.
Change in Malaysian inflation rate records a mean of 1.6990%, with the highest change recorded at 7.8276%, and the lowest at -0.9103%. The standard deviation is 1.6990%.
Change in US inflation rate records a mean of 0.0529%. The highest change in US inflation rate is 1.0108%, while the lowest is -0.4775%, and the standard deviation is 0.3485%.
For the change in US import, the mean reported is 0.0529%, and the range is from a lower value -0.0775% to higher value 0.1816%. The standard deviation for change in US import is 0.0585%.
For the change in US export, the mean reported is 0.0441%, and the range is from a lower value -0.0838% to higher value 0.1733%. The standard deviation for change in US import is 0.0560%.

DESCRIPTIVE ANALYSIS FOR UK

Table 2 summarizes the descriptive analysis of a total of 23 time series data for FDIM, MUKEX, MLR, CHMGDP, CHUKGDP, CHMF, CHUKF, CHUKIM and CHUKEX from 1984 to 2006.

TABLE 2: DESCRIPTIVE STATISTICS FOR UK (1984-2006)

Variables	N	Minimum	Maximum	Mean	Std. Deviation
FDIM	23	1844.29	23374.04	12732.3417	7137.84125
MUKEX	23	3.12	6.96	4.9635	1.19179
MLR	23	6	11	7.75	1.497
CHMGDP	23	-.0899	.1384	.0666	.0606
CHUKGDP	23	-.0098	.0639	.0266	.0167
CHMF	23	-.9102	7.8275	.4015	1.6990
CHUKF	23	-.5817	.8782	.0663	.4123
CHUKIM	23	-.0417	.1956	.0780	.0541
CHUKEX	23	-.0430	.1473	.0702	.0546

The mean of annual FDI inflow to Malaysia during the period studied is RM 12732.3417 million. The highest annual FDI inflow is RM23374.04 million while the lowest annual inflow is RM1844.29 million. Standard deviation is RM 7137.84125 million.
Average annual Malaysian exchange rate to UK in the sample is 4.9635%. The highest annual Malaysian exchange rate to UK is 6.96%, while the lowest is 3.12%. Standard deviation is 1.19179%.

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Based on the annual data, it is found that average Malaysia lending rate during the period was 7.75%, where the maximum value is 11% and the minimum value is 6%. Standard deviation is 1.497%.

Change in Malaysia GDP records a mean of 0.0666% with the highest value of 0.1384% and the lowest value of -0.0899%. Its standard deviation is 0.0606%.

Change in UK GDP mean in the sample period is 0.0266%. The maximum value is 0.0639%, while the minimum value is -0.0098%. Standard deviation of change in UK GDP is 0.0167%.

Change in Malaysian inflation rate records a mean of 0.4015%. The highest change in Malaysia inflation rate is 7.8275%, while the lowest is -0.9102%, and standard deviation is 1.6990%.

Change in UK inflation rate records a mean of 0.4123%. The highest change in UK inflation rate is 0.8782%, while the lowest is -0.5817%, and standard deviation is 0.4123%. For the change in UK import, the mean reported is 0.0780%; the range is from the lowest value of -0.0417% to the highest value of 0.1956%. Standard deviation for the change in UK import is 0.0541%.

For the change in UK export, the mean reported was 0.0702%, and the range is from a lowest of -0.0430% to a highest value of 0.1473%. Standard deviation for the change in UK import is 0.0546%.

DESCRIPTIVE ANALYSIS FOR JAPAN

Table 3 summarizes the descriptive analysis of a total of 23 time series data for FDIM, MJAPEX, MLR, CHMGDP, CHJAPGDP, CHMF, CHJAPF, CHJAPIM and CHJAPEX for the period 1984 to 2006.

TABLE3: DESCRIPTIVE STATISTICS FOR JAPAN (1984-2006)

Variables	N	Minimum	Maximum	Mean	Std. Deviation
FDIM	23	1844.29	23374.04	12732.3417	7137.84125
MJAPEX	23	.01	.04	.0248	.00790
MLR	23	6	11	7.75	1.497
CHMGDP	23	-.0899	.1384	.0666	.0606
CHJAPGDP	23	-.0246	.0654	.01795	.02322
CHMF	23	-.91025	7.8275	.4015	1.6990
CHJAPF	23	-2.083	26.000	1.5578	6.1115
CHJAPIM	23	-.2991	.2269	.0235	.1234
CHJAPEX	23	-.1808	.1258	.02493	.0767

The mean annual FDI inflow to Malaysia during the period is RM12732.3417 million, with, the highest inflow of RM23374.04 million and the lowest annual inflow of RM 1844.29 million. Standard deviation is about RM 7137.84125 million.

The average annual Malaysia exchange rate to Japan in a sample is 0.0248%. The highest annually Malaysia exchange rate to Japan 0.04%, while the lowest annual 0.01%. The standard deviation was 0.00790%.

Based on the annual data, it is found that the average Malaysia lending rate during the period was 7.75%, where the maximum value was 11% and the minimum value was 6%. The standard deviation was 1.497%.

Change in Malaysian GDP records a mean of 0.0666% with the highest value of 0.1384% and the lowest value of -0.0899%. Its standard deviation is 0.0606%.

Change in Japan GDP average 0.01795%. The maximum value was 0.0654%, while the minimum value is -0.0246%. Standard deviation of change in UK GDP is 0.02322%.

Change in Malaysian inflation rate recorded a mean of 0.4015%. The highest change in Malaysia inflation rate is 7.8275%, while the lowest is -0.9102%, and the standard deviation is 1.6990%. Change in Japan inflation rate records a mean of 1.5578 %. The highest change in Japan inflation rate is 26.000%, while the lowest was -2.083%, and the standard deviation is 6.1115%. For the change in Japan import, the mean reported is 0.0235%, and the range was from a lower value -0.2991% to higher value 0.2269%. Standard deviation for the change in Japan import was 0.1234%. For the change in Japan export, the mean reported is 0.02493%. The range is from a lowest value -0.1808% to highest value 0.1258%. Standard deviation for the change in Japan import is 0.0767%.

REGRESSION ANALAYSIS
REGRESSION ANALYSIS FOR US
The results of the regression analysis performed on US are summarized in Table 4 which represents model 1.

TABLE 4: COEFFICIENTS OF REGRESSION ANALYSIS FOR US

Variables	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Co linearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	-30922.165	20266.763		-1.526	.149		
MUSEX	7163.509	3015.717	.612	2.375	.032	.357	2.797
MLR	1845.469	1507.491	.387	1.224	.241	.238	4.211
CHMGDP	118502.501	36137.177	1.007	3.279	.005	.252	3.973
CHUSGDP	-71149.750	108226.335	-.151	-.657	.522	.452	2.212
CHMF	-2138.424	849.105	-.509	-2.518	.025	.582	1.720
CHUSF	-18951.032	4862.509	-.925	-3.897	.002	.421	2.373
CHUSIM	16143.968	21507.814	.132	.751	.465	.766	1.306
CHUSEX	16143.968	36577.322	.386	1.346	.200	.288	3.471

Dependent Variable: FDIM
* Significant at 0.05

The values for the weights can be found by observing the "B" column under "Unstandardized Coefficients." They are:

$B_0 = -30922.165$, $B_1 = 7163.509$, $B_2 = 1845.469$, $B_3 = 118502.501$, $B_4 = -71149.750$, $B_5 = -2138.424$, $B_6 = -18951.032$, $B_7 = 16143.968$ and $B_8 = 49215.148$.

The regression equation (model 1) appears as: FDI $_m$ = -30922.165 + 7163.509 MUSER + 1845.469 MLR + 118502.501CHMGDP -71149.750 CHUSGDP - 2138.424 CHMF - 18951.032 CHUSF + 16143.968 CHUSIM + 16143.968 CHUSEXP

FDI $_m$ = -30922.165 + 7163.509 * 1+ 1845.469 * 1 + 118502.501 * 1 -71149.750 * 1 - 2138.424 * 1 - 18951.032 * 1+ 16143.968 * 1+ 16143.968 * 1

t: (-1.526) (2.375)* (1.224) (3.279)* (-0.657) (-2.518)* (-3.897)* (0.751) (1.346)

Interestingly, the results show that one unit increase of Malaysian exchange rate to US will increase FDI inflow to Malaysia by RM7163.509 million. When Malaysian lending rate increases by one unit, the FDI inflow to Malaysia will increase by RM1845.469 million. Additionally, if a change in Malaysian GDP increases by one unit, inflow of FDI will increase by RM118502.501 million. When change in US GDP decreases by one unit, FDI will decrease by RM 71149.750 million. Hence, if change in Malaysian inflation rate decreases by one unit that will decrease FDI by RM2138.424 million. If a change in US inflation rate decreases by one unit FDI will decrease by RM18951.032 million. When change in US import increases by one unit, FDI inflow will increase by RM16143.968 million. Finally, an increase of one unit change in US export will increase FDI by RM 16143.968 million.

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FDI inflow to Malaysia is correlated positively and significantly at 5% level with Malaysian exchange rate to US dollar. Hasan (2004) and Goldberg and Klien (1997) found that a significant linkage exists between real exchange rates to FDI and change in Malaysian GDP. Increasingly, Venkataramany (2004) argued that a significant relationship for a change in GDP with FDI. An encouraging effect of FDI exists for both the host and the source economies. According to Hermsey and Cliff (1984) a strong GDP growth of host country is positively correlated with inward capital flow, and negatively correlated and significant with change in Malaysian inflation rate and change in US inflation rate. Venkataramany (2004) concluded that a high significance and negative sign of the change in inflation. It shows the adverse effect inflation can have on the inflow of direct investment. The present study also accept the hypotheses that there is a significant relationship between Malaysian exchange rate to dollar, change in Malaysian and U.S inflation rates and change in Malaysian GDP with FDI in Malaysia. In addition, FDI inflow to Malaysia has a positive insignificant and weak correlation with Malaysian lending rate, change in US import and change in US export. It is also correlated negatively weak with change in US GDP. The hypotheses that there is a significant relationship between Malaysia lending rate, change in US GDP, change in US import and change in US export with FDI in Malaysia are therefore rejected.

REGRESSION ANALAYSIS FOR UK

The results of the regression analysis performed on US are summarized in Table 5 which represents model 2.

TABLE 5: COEFFICIENTS OF REGRESSION ANALYSIS FOR UK

Variables	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	-4763.611	19380.070		-.246	.809		
MUKEX	2338.232	1757.111	.390	1.331	.205	.447	2.235
MLR	417.774	1423.283	.088	.294	.773	.432	2.315
CHMGDP	54817.704	33481.801	.466	1.637	.124	.475	2.103
CHUKGDP	-8607.656	114911.890	-.020	-.075	.941	.530	1.887
CHMF	-229.259	1292.500	-.055	-.177	.862	.407	2.458
CHUKF	-5930.611	3801.576	-.343	-1.560	.141	.798	1.253
CHUKIM	-66338.727	63779.336	-.503	-1.040	.316	.164	6.083
CHUKEX	69586.135	80650.389	.532	.863	.403	.101	9.886

Dependent Variable: FDIM
* Significant at 0.05

The values for the weights can be found by observing the "B" column under "Unstandardized Coefficients." They are:

$B_0 = -4763.611$, $B_1 = 2338.232$, $B_2 = 417.774$, $B_3 = 54817.704$, $B_4 = -8607.656$, $B_5 = -229.259$, $B_6 = -5930.611$, $B_7 = -66338.727$ and $B_8 = 69586.135$.

The regression equation (model 2) appears as:

FDI $_m$ = - 4763.611+ 2338.232 MUKER + 417.774 MLR + 54817.704 CHMGDP -8607.656 CHUKGDP - 229.259 CHMF -5930.611 CHUKF - 66338.727 CHUKIM + 69586.135 CHUKEXP

FDI $_m$ = -4763.611 + 2338.232 * 1 + 417.774 * 1 + 54817.704 * 1 - 8607.656 * 1 - 229.259 * -5930.611 * - 66338.727 * 1 + 69586.135 * 1

t : (-.246) (1.331) (0.294) (1.637) (-0.75) (-0.177) (-1.560) (-1.040) (0.863)

Based on the above results we find that an increase of 1 unit of Malaysian exchange rate to UK pound will increase FDI inflow to Malaysia by RM2338.232 million. When Malaysian lending rate increases one unit then the FDI inflow to Malaysia will increase by RM417.774 million. In an addition, if change in Malaysian GDP increases by one unit FDI inflow will increase by RM54817.704 million. When change in UK GDP decreases by one unit then FDI will decrease by RM8607.656 million. When change in Malaysian inflation rate decrease by one unit FDI will decrease by RM.229.259 million, if change in UK inflation rate decreases by one unit, FDI will decrease by RM5930.611million. When change in UK import decreases by one unit FDI inflow will decrease by RM66338.727 million; When change in US export increases by one unit FDI inflow will increase by RM69586.135 million.

FDI inflow to Malaysia is found to be correlated positively weak and insignificant with Malaysian exchange rate to pound. Pan (2003) asserted the exchange rate is not a significant determinant for FDI in China; we find that a change in Malaysian GDP and change in UK export to be also correlated positively weak and insignificant, and correlated negatively weak and insignificant with change in UK inflation rate and change in UK import. In addition, it is correlated positively with Malaysian lending rate and correlated negatively strong with change in UK GDP. Bouoiyour (2003) found a negative sign for GDP and is not significant in Morocco. The same finding applies for change in Malaysian inflation rate. Because all of those factors are not significant with FDI inflow to Malaysia, the hypotheses that there is a significant relationship between Malaysian exchange rate to pound, Malaysia lending rate, change in Malaysian and UK GDP, change in Malaysian, UK inflation rates, change in UK import and change in UK export with FDI in Malaysia is rejected.

REGRESSION ANALAYSIS FOR JAPAN

The results of the regression analysis are executed on Japan that summarizes in Table 6 which is represented in model 3.

TABLE 6: COEFFICIENTS OF REGRESSION ANALYSIS FOR JAPAN

Variables	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	7246.163	16072.430		.451	.659		
MJAPEX	-38347.796	243889.366	-.042	-.157	.877	.289	3.464
MLR	593.996	1263.041	.125	.470	.645	.300	3.336
CHMGDP	86530.643	26574.295	.736	3.256	.006	.412	2.424
CHJAPGDP	-218347.986	67314.662	-.711	-3.244	.006	.439	2.280
CHMF	-243.458	705.575	-.058	-.345	.735	.746	1.340
CHJAPF	6.757	189.688	.006	.036	.972	.798	1.253
CHJAPIM	26464.765	12987.678	.458	2.038	.061	.417	2.397
CHJAPEX	-22199.142	21726.815	-.239	-1.022	.324	.386	2.594

Dependent Variable: FDIM
* Significant at 0.05

The values for the weights can be found by observing the "B" column under "Unstandardized Coefficients." They are: $B_0 = 7246.163$, $B_1 = -38347.796$, $B_2 = 593.996$, $B_3 = 86530.643$, $B_4 = -218347.986$, $B_5 = -243.458$, $B_6 = 6.757$, $B_7 = 26464.765$ and $B_8 = -22199.142$ and the regression equation (model 3) appears as:

FDI $_m$ = B_0 + 7246.163 MJPER - 38347.796 MLR + 86530.643 CHMGDP - 218347.986 CHJPGDP -243.458 CHMF + 6.757 CHJPF + 26464.765 CHJPIM - 22199.142 CHJPEXP

FDI $_m$ = B_0 + 7246.163 * 1 - 38347.796 * 1 + 86530.643 * 1 - 218347.986 * 1 -243.458* 1 + 6.757 * 1 + 26464.765 * 1 - 22199.142 * 1

t: (0.451) (-0.157) (0.470) (3.256)* (-3.244)* (-0.345) (0.036) (2.038) (-1.022)

According to above results show an increase of one unit of Malaysian exchange rate to yen FDI inflow to Malaysia will decrease by RM7246.163 million. When Malaysian lending rate increases one unit, FDI inflow to Malaysia will increase by RM38347.796 million. In an addition, if change in Malaysian GDP increases by one unit FDI will increase by RM86530.643 million. When change in Japan GDP decreases by one unit FDI will decrease by RM218347.986 million. When change in Malaysian inflation rate decreases by one unit FDI will decrease by RM243.458 million. In an addition, when change in US inflation rate increases by one unit,

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FDI will increase by RM6.757 million. Moreover, when change in US import increases by one unit, FDI inflow will increase by RM26464.765 million. If change in US export decreases by one unit, FDI will decrease by RM22199.142 million

FDI inflow to Malaysia is correlated positively and significant at 5% level with change in Malaysian GDP and correlated negatively but significantly at 5% with change in Japan GDP. Abd Ghani (2007) asserted that GDP is significant in influencing FDI to Malaysia, Indonesia and Thailand. The hypotheses that there is a significant relationship between change in Malaysian and Japan GDP with FDI in Malaysia is accepted. In addition, FDI inflow to Malaysia is correlated negatively strong and insignificantly with Malaysian exchange to yen, and positively strong and insignificantly with change in Japan inflation rate. Moreover, the relationship is found to be positively moderate with Malaysia lending rate and more than negatively moderate and insignificant with change in Malaysian inflation rate. It also is correlated positively weak and insignificantly with change in Japan import and correlated negatively weak with change in Japan export. The hypotheses that there is a significant relationship between Malaysian exchange rate to yen, Malaysian lending rate, change in Malaysian and Japan inflation rats, change in Japan import and change in Japan export with FDI in Malaysia is rejected.

CONCLUSION

The first regression analysis found that FDI inflow to Malaysia is correlated positively and significantly at 5% level with Malaysian exchange rate to US dollar and, change in Malaysian GDP, but negatively correlated and significantly at 5% level with change in Malaysian inflation rate and change in US inflation rate. In addition, FDI inflow to Malaysia is correlated positively weak and insignificantly with Malaysian lending rate, change in US import and change in US export; and negatively weak and insignificantly with change in US GDP.

The next regression analysis showed that FDI inflow to Malaysia is found to be positively weak and insignificantly correlated with Malaysian exchange rate to pound, change in Malaysian GDP and change in UK export, and very negatively weak and insignificantly with change in UK inflation rate and change in UK import. In addition, the relationship is positively strong with Malaysian lending rate and very negatively strong with change in UK GDP and change in Malaysian inflation rate.

The last regression analysis showed that FDI inflow to Malaysia is correlated positively and significantly at 5% level with change in Malaysian GDP and correlated negatively and also significantly at 5% with change in Japan GDP. In addition, FDI inflow to Malaysia is correlated negatively strong and insignificantly with Malaysian exchange rate to yen, and correlated positively strong and insignificantly with change in Japan inflation rate. Moreover, the relationship is found to be positively moderate with Malaysian lending rate and more than moderately negative and insignificantly with change in Malaysian inflation rate. The correlation between FDI with change in Japan import is insignificant and positively weak and is negative and weak with change in Japan export.

FUTURE RESEARCH

Like any other research, this research has its own limitation. It has covered only the total FDI, we advise the future researchers to analyze these variables with different types of FDI, such as: Market orientation, resource orientation, the efficiency orientation, and strategic assets seeking orientation.

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