

**MALAYSIAN FOREIGN DIRECT INVESTMENT FLOWS  
UNDER FIXED EXCHANGE RATES SYSTEM (1998 - 2005)  
THE CASE OF FDI INFLOWS FROM  
NORTHEAST ASIA COUNTRIES**

A thesis submitted to the Graduate School in partial fulfillment of the requirements  
for the degree Master of Science (International Business)  
College of Business, Universiti Utara Malaysia

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## ABSTRAK

Disertasi ini bertujuan untuk mengkaji hubungkait di antara rejim kadar pertukaran tetap Malaysia yang telah digunapakai semasa tahun 1998-2005 dan aliran pelaburan langsung asing Malaysia. Ia juga bertujuan untuk mengkaji kesan penurunan nilai kadar matawang (dalam kes Ringgit Malaysia) terhadap kadar aliran pelaburan langsung asing Malaysia dalam tempoh krisis kadar tukaran matawang tersebut. Di mana Malaysia telah menetapkan kadar pertukarannya dengan US dollar iaitu satu US dollar bersamaan dengan 3.80 Ringgit Malaysia.

Focus disertasi ini akan melihat kepada aliran pelaburan langsung asing khususnya dari negara Jepun, Hong Kong, Korea dan Taiwan dari tahun 1998 sehingga 2005. Penekanan utama dalam kajian ini adalah untuk melihat kepada aliran masuk kadar pelaburan langsung asing dari keempat-empat negara tersebut bagi mengkaji samada wujud hubungan atau kesan tertentu berpunca daripada penurunan nilai kadar matawang Malaysia.

Untuk mendapatkan kesan atau hubungkait antara kadar pertukaran dan pelaburan langsung asing tersebut, kaedah "*Multiple Regression Analysis (MRA)*" telah digunakan. Hasil daripada analisis tersebut, didapati bahawa kadar pertukaran tetap Malaysia (1998-2005) tidak mempunyai hubungan yang signifikan dengan aliran masuk kadar pelaburan langsung asing khususnya daripada negara Jepun, Hong Kong, Korea dan Taiwan.

Walau bagaimanapun, keputusan analisis bagi pembolehubah kawalan seperti kos buruh, kadar faedah dan "*gross domestic product*" bagi negara tersebut mempunyai hubungan yang signifikan dengan aliran masuk kadar pelaburan langsung asing ke Malaysia.

## ABSTRACT

The purpose of this dissertation is to investigate the relationship between Malaysian fixed exchange rates regime (1998-2005) and its foreign direct investment inflows. This study attempts to study the impact of a currency depreciation or devaluation (specifically in Malaysia case) and the flows of Malaysia foreign direct investment in the period of currency crisis (1998-2005) which Malaysian Ringgit had been pegged with RM 3.80/USD.

Focus of this study will look at the Malaysia flows of foreign direct investment from Northeast Asian countries especially from Japan, South Korea, Hong Kong, and Taiwan over the pegging period of 1998-2005. This study will look at the inflows of foreign direct investment from those countries to see the effect of currency devaluation to the foreign direct investments inflows to Malaysia.

In order to obtain the relationship between exchange rates and foreign direct investment, the Multiple Regression Analysis (MRA) method has been used. Results from the analysis suggest that Malaysian fixed exchange rates regime for the period of 1998-2005 does not have a significant relationship to its foreign direct investment inflows from Northeast Asian countries.

However, results for control variables such as labor cost, interest rate, and GDP of Northeast Asian countries as well as Malaysia do have a significant impact to the inflows of Malaysian foreign direct investment.

Under the fixed exchange rate policy, Malaysia was able to sustain and attract inward foreign investment due to the lower costs of production compared to others affected countries. Due to this, the policy helped so much to ensure Malaysia competitiveness is lasting even under the crisis pressures.

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## LIST OF ABBREVIATIONS

<b>ASEAN</b>	Association of Southeast Asian Nations
<b>BNM</b>	Bank Negara Malaysia
<b>CPI</b>	Consumer Price Index
<b>DOSM</b>	Department of Statistical Malaysia
<b>FDI</b>	Foreign Direct Investment
<b>GDP</b>	Gross Domestic Product
<b>GNI</b>	Gross National Income
<b>GNP</b>	Gross National Product
<b>HKD</b>	Hong Kong Dollar
<b>IMF</b>	International Monetary Fund
<b>JPY</b>	Japanese Yen
<b>KLSE</b>	Kuala Lumpur Stock Exchange
<b>KRW</b>	Korean Won
<b>LOP</b>	Law of One Price
<b>MIDA</b>	Malaysia Industrial Development Authority
<b>MNC</b>	Multinational Corporations
<b>MRA</b>	Multiple Regression Analysis
<b>NEP</b>	New Economic Program
<b>ODA</b>	Official Development Assistance
<b>RM</b>	Malaysian Ringgit
<b>TNC</b>	Transnational Companies
<b>TWD</b>	Taiwan Dollar
<b>UNCTAD</b>	United Nations Conference of Trade and Development

and effective of the policy has been proved by the survival of the Malaysian economic conditions

#### **6.4 Recommendation for Further Research**

The relationship between exchange rates and foreign direct investment under the fixed exchange rates regime with specific focus to Malaysia (1998-2005) has been explored. Further works need to be done to compare the relationship of exchange rates and foreign direct investment under free float exchange rates which is before and after Malaysia exercised fixed exchange rates regime.

Finding from these studies would be helpful in explaining the absolute role of exchange rates to Malaysian foreign direct investment. Furthermore, studies can also be extended to other countries in the region which is not included in this study.

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