

The determinants of foreign direct investment in manufacturing industry of Malaysia

Abstract

Malaysia received, over the past decades, substantial amounts of foreign direct investment (FDI) in its manufacturing industry which is an important engine of its economic growth. The main aim of this study is to investigate the long-run relationship between FDI and its location-related determinants in the manufacturing industry of Malaysia over the period 1980-2002. The results of the Johansen (1988) co-integration method show that there is one co-integrating vector in each of the estimated models. Moreover, the results of the Phillips and Hansen (1990) fully-modified least squares (FMLS) estimator show that an increase in education, infrastructure, market size or current account balance leads to an increase in FDI whereas an increase in inflation or exchange rate leads to a decrease. The experience of Malaysia in attracting FDI could be an example for other developing countries.