

FACTORS THAT AFFECT THE FOREIGN DIRECT INVESTMENT (FDI) IN
JOHOR THROUGH THE PERSPECTIVE OF MARKETING

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fulfill the requirements for the award of Bachelor of Technology Management
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The thesis is submitted in partial fulfillment of the requirements for the award of
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DECLARATION

“I admit that this report is the result of my own, except certain explanations and passages where every of it is cited with sources clearly.”

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DEDICATION

This research is dedicated to my parents for their endless love, support and encouragement.

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Without the assistance, cooperation and guidance of several parties, this research project would not be achievable. I would like to take this opportunity to thank everyone who have helped and guided me in completing this research project.

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ABSTRACT

Foreign Direct Investment (FDI) plays a crucial role in speeding up the development and economic growth of a country. In particular, developing countries rely heavily on FDI to promote their economy as they face capital shortage for their development process. FDI not only brings in capitals and technology, but also skills into developing countries. And these ended up helping the countries to grow faster by satisfying the country's needs. The strong growth performances experienced by Johor economy greatly depends on the FDI. FDI generates economic growth by increasing capital formation through the expansion of production capacity, promotion of export growth and creation of employment in Johor. Pearson's correlation and multiple linear regressions model is applied to study the relationship between explanatory variables (political risk, infrastructure, market size, exchange rate, tax policy, labour cost and productivity and trade openness) and explained variable (Johor FDI inflow). Empirical results show that infrastructure, tax and labour cost significantly and positively affect FDI inflows in Johor. Meanwhile, political risk, market size, openness and exchange rate failed to establish a significant relationship with Johor FDI inflows.

Keywords: FDI, Infrastructure, Tax, Labour Cost.

ABSTRAK

Pelaburan Langsung Asing (FDI) memainkan peranan penting dalam mempercepat pembangunan dan pertumbuhan ekonomi dalam sesebuah negara. Khususnya, negara-negara membangun bergantung kepada FDI untuk menggalakkan ekonomi mereka tatkala kekurangan modal untuk proses perkembangan mereka. FDI bukan sahaja membawa masuk modal dan teknologi, tetapi juga kemahiran ke negara-negara membangun. Dan ini akhirnya membantu negara-negara berkembang dengan lebih cepat dengan memenuhi keperluan negara. Persembahan pertumbuhan kukuh yang dialami oleh ekonomi Johor banyak bergantung kepada FDI. FDI menjana pertumbuhan ekonomi dengan meningkatkan pembentukan modal melalui pengembangan kapasiti pengeluaran, menggalakkan pertumbuhan eksport dan mewujudkan peluang pekerjaan di Johor. Model korelasi dan model regresi linear Pearson digunakan untuk mengkaji hubungan antara pembolehubah penerangan (risiko politik, infrastruktur, saiz pasaran, kadar pertukaran, dasar cukai, kos buruh dan produktiviti dan keterbukaan pasaran) dan menjelaskan berubah-ubah (aliran masuk Johor FDI). Hasil kajian menunjukkan bahawa infrastruktur, cukai dan kos buruh dengan ketara dan memberi kesan positif kepada aliran masuk FDI di Johor. Sementara itu, risiko politik, saiz pasaran, keterbukaan dan kadar pertukaran gagal mewujudkan hubungan yang signifikan dengan aliran masuk FDI Johor.

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LIST OF ABBREVIATION AND SYMBOL

ABBREVIATION	SYMBOL
ANOVA	Analysis of Variance
FDI	Foreign Direct Investment
RM	Ringgit Malaysia
UNCTAD	The United Nations Conference on Trade and Development
ODI	The Overseas Development Institute
U.S	United States
UAE	United Arab Emirates
UTeM	Universiti Teknikal Malaysia Melaka

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CHAPTER 1

INTRODUCTION

1.0 Introduction

Since achieved independence in year 1957, Malaysia has stepped one step for one step to become a country that developed and prosperous. In early years after independence, national main product is from the natural resource, like tin ore, rubber and agricultural produce. Malaysian location that strategic in Asian region, supported by the infrastructure that strong, complete with port and airport, play important role in spurring growth.

In 1980s year, industrial sector growing rapidly and spur growth strong economic. During this period, foreign direct investment (FDI) rising because many foreign industrial investor impressed by workforce integrity and infrastructure Malaysia. At the same time, government even invested heavily in development infrastructure, by building highway throughout the country and upgrading facilities transport and other public facility.

According to Caves, 1974; Haddad and Harrison, 1993; Perez, 1997; Markusen and Venables, 1999, FDI enhances the capital, improves work environment and conditions, develops industries, creates jobs, develops new skills, introduces new techniques, brings innovation and etc. The government also offers many tax incentives indirectly, such as providing free zone and bonded warehouse facilities as the Lahre`che-Re´vil (2006) found that high tax rates have negative impact on FDI inflows in a country.

To strengthen Malaysia's position as an economic power to be reckoned with in the region, The Government has taken the bold step of creating a few areas of unique investment, such as the Iskandar Development Region (Iskandar) in Johor, which will provide various fiscal incentives and other incentives to spearhead economic growth Malaysia and attract FDI . The concept inspired to drive an economic growth of Malaysia especially Johor to the new levels.

1.1 Background

Johor is located in the heart of Southeast Asia and on the southern tip of Peninsular Malaysia which is took only a couples minutes to arrive in Singapore. Known as “Southern-Gateway”, its strategic location at the crossroads of East-West trade route such as China and India could also give a high impact on the rapid of economic in Johor as it took only 4 to 8 hours fly from the most rapidly growing city in Asia such as Dubai, Hong Kong and Shanghai.

Due to the strategic location that is in close proximity to some of the world’s most rapidly growing and important economies, Johor is aimed to attract an exciting influx of foreign and high-level corporate investments as discerning investors look to benefit from its many advantages, high growth potential and a range of attractive fiscal incentives.

In 2010, Johor recorded a total investment of RM47.177 billion. The total Foreign Direct Investments (FDI) received amounted to RM29.057 billion which represents 8.96% of the total FDI in Malaysia. FDI contributed 80.2% compared to the domestic investment which is 19.8% in Johor with the largest contributor as December 2008 are from Spain followed by Japan, Singapore, Switzerland and Netherlands.

This paper will investigates the relationship and significance of the potential factors that could determinants of FDI in Johor. Through this study, variables that have strong relationship on FDI are identified. Similar strategies may be adopted by emerging and developing to the countries in order to boost up their FDI, so that they can also enjoy the benefits of FDI in the short and long-run.

1.2 Problem Statement

FDI has been a remarkable source to Johor in generating economic and non economic growth. In fact, many states are practicing the same thing to enhance productivity and lift up their country's reputation. The Johor Government cooperation with The Malaysia Government is continuing its effort to boost foreign direct investment into the states. Various incentives and policy implemented to encourage more foreign investors to come in.

However, to always lead and encourage the FDI are not an easy task for the Johor Government as all of the state in Malaysia such as Wilayah Persekutuan Kuala Lumpur and Pulau Pinang also showed the high number of foreign direct investment in the present time. One of the matters concern is the endurance level of Johor to survive in the long term competitive to attract the foreign market as to boost the investment without knowing which determinants of FDI that might give the biggest impact. Thus, in this research I would like to examine which determinants of FDI that close-related to Johor.

1.3 Research Question

In relation to the determination of foreign direct investment in Johor, this study addresses the following research question:

- i. What is factor of FDI in Johor?
- ii. What is the most significant factor of FDI in Johor?
- iii. Which are the biggest sectors of FDI in Johor?

1.4 Research Objective

The primary objectives of this study are:

- i. To identify the factor of FDI in Johor.
- ii. To identify the most significant factor of FDI in Johor.
- iii. To identify the biggest sector of FDI in Johor.

1.5 Limitations of Study

This research paper is limited by many reasons. Due to data constraints and therefore inability to find essential information regarding the most recent events, researcher cannot investigate the whole foreign companies that invest in Johor. For this reason, the researcher is only able to conduct simple regression analysis and make descriptive statistics as the investigated sample is too small for more sophisticated statistical tools.

Therefore, only determinants that have been found important by the researcher are examined. What is more, the researcher is unable to present comparison analysis between Johor and another state in Malaysia with similar background, which would give a better understanding of the topic. Finally, this research is presented from the perspective of marketing; hence sophisticated economic statistics tools are undesirable in this case.

This research paper follows the ethical procedures imposed. The data collection and writing process are conducted with respect to other people and are not sensitive nor cause harm to other people. The research is consistent with any form of guidelines which have been indicated by the subject of the research.

1.6 Key Assumption

This research conducted by assuming that the independent variables such as the political risk, exchange rates, openness and market size which affect the inflow of FDI are similar all over states in Malaysia including Johor. Factors such as infrastructures development and labour cost are considered and valid to the state of Johor only since these factors may vary to each state of Malaysia.

1.7 Significant of Study

Determinant of FDI is a famous topic among the researcher. Even though there have been many previous study done on the determinants of FDI in Malaysia, there have been not many researcher that use Johor as the dependent variables for their research. Thus, researcher comes up with new theoretical frameworks that use FDI in Johor as a dependent variable.

This study will contribute to the Johor government to give them more clearly picture about the variables that most significant affecting the inflow of FDI in Johor. Researcher have include a few main important factors such as the development of the infrastructure including road, port, railways and telecommunication system, tax and policy implied and the incentives given by the government.

On top of that, this research may be useful for another researcher as a guideline to develop another further research related with the topic. In short, by conducting this research may help the researcher to understand more about the variable thus providing more info about the FDI through the perspective of marketing.

1.8 Summary

This research paper introduce FDI in details with its definition, types of FDI, motives of FDI, advantages and disadvantages of FDI and also how FDI works. Moreover, this study discuss on the seven determinants of FDI that researchers are interested in, including political risk, openness, infrastructure, market size, exchange rate, tax and labour cost. Researchers also explained on this research's objectives - to identify the determinants of FDI inflow in Johor in order to improve the future performance of FDI inflow in Johor.

In terms of the contribution, researcher hope this research will provide policymakers with a better understanding of the factors affecting FDI so that an appropriate policy can be developed. After clearing up on what need to do in this research, researchers proceed to the next chapter which is the literature review. This research paper will also study on the past researcher's work on the relationship between FDI inflows and the seven determinants and summaries it under the next chapter.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

A wide range of literatures are available on the issue of the determinants of FDI. Empirical and non empirical studies have shown that economic, social and political factors are important determinants of FDI inflows. It might could not be very much different in the case of Johor. One other factor that does matter a lot to foreign direct investors when making location choices is the quality of the domestic institutional environment. Smooth and efficient functioning of the economy, issues like economic freedom, good governance, judicial credibility and effectiveness and transparency are also important.