

## ABSTRACT

Recent trends indicated that private capital flows, particularly foreign direct investment (FDI) have outpaced official flows to developing countries. The majority of FDI estimated at 65 percent of total FDI inflows in 1996 went to the developed countries with the remaining 35 percent going to the developing countries. Even among developing countries, the pie was unevenly distributed, with China getting the largest share of FDI inflow since 1992. Why is it that some nations are more able than others to get large inflows of FDI?

The focus of the study is in examining the reasons why some nations are able to attract more FDI than others. The assumption is that more competitive economies with higher rankings are able to attract larger FDI. This is evident in the case of countries like the United States, Singapore and Malaysia. However in the case of China, which does not rank as favourably, it is the sheer market size that is pulling in the FDI. The study will also run a regression analysis to identify the significant factors which influence FDI inflow.

The Malaysian economy can be considered to be competitive in attracting FDI, and has been a major FDI recipient among the developing economies. The nation ranks high on the physical measures, such as investment incentives and corporate taxes, but ranks less favourably on issues like "control" (regarding freedom in acquiring domestic companies). Recent trends however indicate that issues like "control", improper practices and transparency are assuming increasing importance. This will have a bearing on the nation's ability in attracting FDI, which has been more oriented towards physical measures.

In the light of the regional slowdown and the anticipated shrinkage in FDI inflow due to the lack of investor confidence, it is envisaged that the country will face intensified competition for FDI, not only among Asean countries but other emerging economies. The paper will analyse whether the Malaysian economy has instituted a conducive environment to attract FDI, and to suggest recommendations on improving its competitiveness in attracting FDI, based on recent developments and the findings of the regression analysis.