

THE IMPACT OF FOREIGN DIRECT INVESTMENT  
ON MANUFACTURING GROWTH IN MALAYSIA

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## Abstract

It is generally perceived that FDI (foreign direct investment) plays an important role in economic development especially in the industrialisation process in Malaysia. The extent of FDI's contribution to manufacturing growth remains uncertain. By using econometric models, this study attempts to analyse the impact of FDI on manufacturing output, manufacturing exports, manufacturing imports and manufacturing employment generation. The empirical results showed that the impact of FDI on manufacturing output growth is not as critical as expected. However, a positive link emerges where an increase in FDI flows will increase the output growth in the next period. The study revealed that FDI significantly contributes to both manufacturing exports and imports with a relatively greater impact on exports. This shows that most of the FDI are export-oriented which help to boost the exports of our country. In contrast, the impact of FDI on manufacturing employment generation is insignificant. The study suggests that this could be due to the relatively high capital intensity of FDI with a higher demand for skilled workers compared to general workers. Policy implications are drawn where it is suggested that the linkages between multinational corporations (MNCs) and local industries be strengthened in order to maximise the benefits of FDI. With closer linkages and a strong supplier network, this may reduce the imports of the intermediate goods of MNCs. A review of current investment incentives is deemed necessary and timely in order to attract the inflows of FDI effectively. Lastly, training of highly skilled human resource is urgently needed in view of the current trend of FDI which focuses on knowledge based industries and also in view of the emerging knowledge economy in the future.

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