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The Factors Affecting Foreign Direct Investment Intentions of Investors: A Case of Malaysia

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Abstract: Foreign direct investments (FDI) are regarded as one of the most important sources of external financing for all countries in this globalisation era. In recent years, Malaysia has only been successful in attracting a small number of foreign investors. As a result, the primary goal of this paper is to examine the factors that have attracted FDI into Malaysia from 1990 to 2020. The study investigates the relationships between FDI and the proposed explanatory variables, namely market size (GDP), trade openness (OPN), inflation rate (INF), and infrastructure (INFRA). Multiple Linear Regression (OLS) is used to examine the relationships between the variables. The Variance Inflation Factor and the Breusch Pagan Godfrey test are also analysed to discover the data collected from the World Bank Data. Findings indicate GDP and INF have a significant impact on FDI. This study has not brought any evidence of INFRA and OPN influencing FDI inflows in Malaysia. Understanding these factors is crucial for policymakers and investors to promote sustainable economic growth and attract foreign investments.

Keywords: *FDI Inflows, Trade Openness, Inflation Rate, Market Size, Infrastructure*

1. Introduction

Foreign Direct Investment (FDI) has been a vital source of economic development for Malaysia, bringing in the required capital, technology, and knowledge to propel the country's development. According to Yol & Teng (2009), FDI also is seen as a key indicator of a country's economic globalisation and integration into the global economy and is essential for both home and host nations. They claim FDI flows provide substantial opportunities for businesses to avoid increasing domestic production costs and find attractive foreign markets. By fostering innovation, foreign direct investment also lowers the cost of research and development (R & D) in the host country. Besides, it has a positive impact on domestic employment and human capital accumulation, signifying the likelihood of future growth development and faster knowledge transfer over time. As a result, it might be a substantial avenue for knowledge transfer and integration into global production chains, which are critical components of successful export strategies for emerging economies.

According to Manokaran Mottain, chief economist at Alliance Bank Malaysia Bhd., the country is expected to rise from a middle-income economy to a high-income economy between 2024 and 2028. Currently, Malaysia's gross national income (GNI) per capita is expected to reach $11,200 in 2020, falling short of the $12,535 benchmark required to be classified as a high-income economy. Malaysia is predicted to acquire high-income status as a result of the rise of multinational corporations and foreign investments. Given the existing facts, Malaysia's prospects of becoming a high-income country that is heavily reliant on foreign direct FDI may be called into question. Moreover, the Malaysian Investment Development Authority, MIDA (2021), stated that the COVID-19 pandemic has moved investor preferences even further in terms of picking which nations to invest in, making market size a key criterion when choosing where to invest. As a result, in the current globalisation period, the ability to attract FDI is becoming increasingly reliant on the ability to provide a favourable FDI regime as well as competitive factors of production, given that today's investors have a wide choice of developing nations to invest in. For example, investors favour countries that can regulate competition, have stable and clear frameworks or rules for business, and have a high level of local labour quality (Nassor & Ranjanee, 2015). Consequently, the focus of this study will be on figuring out what influences FDI in Malaysia and what steps the government can take to make the climate more favourable to draw in more FDI. In conclusion, the study on the factors affecting FDI intention in Malaysia provides valuable insights for policymakers and investors seeking to enhance the country's attractiveness for foreign investment. By addressing these factors effectively, Malaysia can foster sustainable economic growth, promote good governance practices, and create a conducive environment for FDI inflows.

The next section of the paper includes a literature review and the formulation of the conceptual framework. The method utilised is then discussed, with a discussion of data analysis accompanying it. The conclusion and recommendations are presented in the final section.

Theoretical Background: Eclectic Theory

Foreign direct investment (FDI) has emerged as one of the most essential ways for a country's economy to be integrated. FDI allows an investment firm to use its distinct advantages, such as technology and management knowledge, in a foreign market (Sulong & Agus, 2005). As a result, FDI reaps several benefits, including increased capital stock, employment, and revenue, as well as enhanced skills and technological capabilities (Aziz & Mishra, 2016). Furthermore, Malaysia's economy is growing at a rapid pace, with FDI serving as one of the key drivers of this expansion. Some of the characteristics that have made Malaysia an appealing destination for foreign investors, according to Abdulqader & Hamood (2019), are well-developed infrastructure, sustainable and sound macroeconomic management, and a robust financial framework. However, the rate of growth in FDI in the country remains modest when compared to its counterpart. There has been an enormous quantity of literature published on foreign direct investment to understand why firms engage in FDI, why a particular country is desired as a place for foreign investment, or why a particular location of the entrance is chosen by MNCs (Ta et al., 2021).

According to Nassor & Ranjanee (2015), past research has explored the factors that encourage FDI using a variety of samples and scholars have developed a diverse range of theories on FDI. Dunning's eclectic theory has evolved into a standard analytical framework because it successfully absorbed knowledge of the elements that drive foreign direct investment (Tri et al., 2019). According to Tran et al. (2020), the concept of eclectic theory is referred to as the OLI framework, as it discusses the benefits of ownership (O), geographic location (L), and internalisation (I), as presented by Dunning in 1979. The purpose of this hypothesis was to investigate why, where, and how foreign direct investment occurred in the host country. Three motives can be used to explain the expansion of the theory: market-seeking, resource-seeking, and efficiency-seeking.

The OLI framework, which posits that FDI will be directed to host nations with big market size, rapid market growth, and a high per capita income, may provide insight into the FDI-seeking market (Nassor & Ranjanee, 2015). They claim that resource-seeking FDI, on the other hand, is concerned with the availability of natural resources. This is because the fundamental purpose of resource-seeking FDI is to cut manufacturing costs by utilising the host country's more affordable resources, and as a result, investors may shift their enterprises to take advantage of cheaper labour, raw materials, and energy. According to Ta et al. (2021), efficiency-seeking brings in technology know-how that is well-matched to the host country's level of development, allowing local suppliers and competitors to gain from adaptation and replication. Dunning integrated the microeconomic and macroeconomic perspectives in 1988 to develop the OLI framework, which stipulates that three requirements must be met for FDI to take place in a country (Tri et al., 2019). However, in an eclectic theory introduced in 1993, Dunning claims that taking advantage of the geographical advantages of the host nation, such as market size, infrastructure, and macroeconomic stability, has an impact on the pattern of FDI flows (Yol & Teng, 2009).

2. Literature Review

In general, most of the previous studies have found that the size of a country plays a significant role in attracting foreign investors to invest in that particular country. Abdulqader & Hamood (2019) investigate the factors that influence FDI inflows into Malaysia using annual time series data from 1985 to 2014. They discovered that the volume of FDI flowing into Malaysia is significantly influenced by the size of the country's market. Besides, Nassor & Ranjanee (2015) also discovered the same outcomes in their study. Using panel data from 1990 to 2010, they investigated the determinants of FDI in the Southern African Customs Union (SACU). According to the results, the market size has a positive and considerable impact on FDI in SACU member nations. The findings indicate that a larger market would lead to an increase in foreign investment in the area. As a result, the findings were consistent with Dunning's OLI framework, which asserts that the size of a market draws FDI from MNCs to a specific region or country. These findings are corroborated by the findings of Sasana & Fathoni (2019) that discovered FDI in the ASEAN-6 countries has a favourable and significant impact on market size, which in turn increases FDI.

The openness of the country's trade markets is critical in attracting foreign investment and attracting new investors to the country. A study by Nassor & Ranjanee (2015) looked at the factors affecting FDI in SACU countries. The study revealed that FDI and trade openness have a positive and statistically significant relationship for the time series 1990 to 2010. In other words, the expansion of trade or the adoption of more liberal trade policies would result in an increase in FDI inflows into the SACU countries. That is to say, an expansion of trade or the adoption of more liberal trade policies would result in an increase in FDI inflows into the SACU member states. They claim that trade liberalisation measures as well as a favourable environment for FDI played a role in the upward trend. Moreover, a study conducted by Yol & Teng (2009), which used annual data from 1975 to 2006, revealed similar results. They discovered that a country's trade openness had a short-term impact on attracting FDI. Mudiyanselage et al. (2021) discovered, on the other hand, that trade openness has a negative and statistically significant relationship with both long-run and short-run FDI inflows in Romania for the period 1997 to 2019. They argue that the openness of the country's economy when compared to other countries, may be ineffectual in attracting foreign investment. Because of this, they contend that the greater the degree of openness, the less probable it is that foreign direct investment will be attracted in the long run.

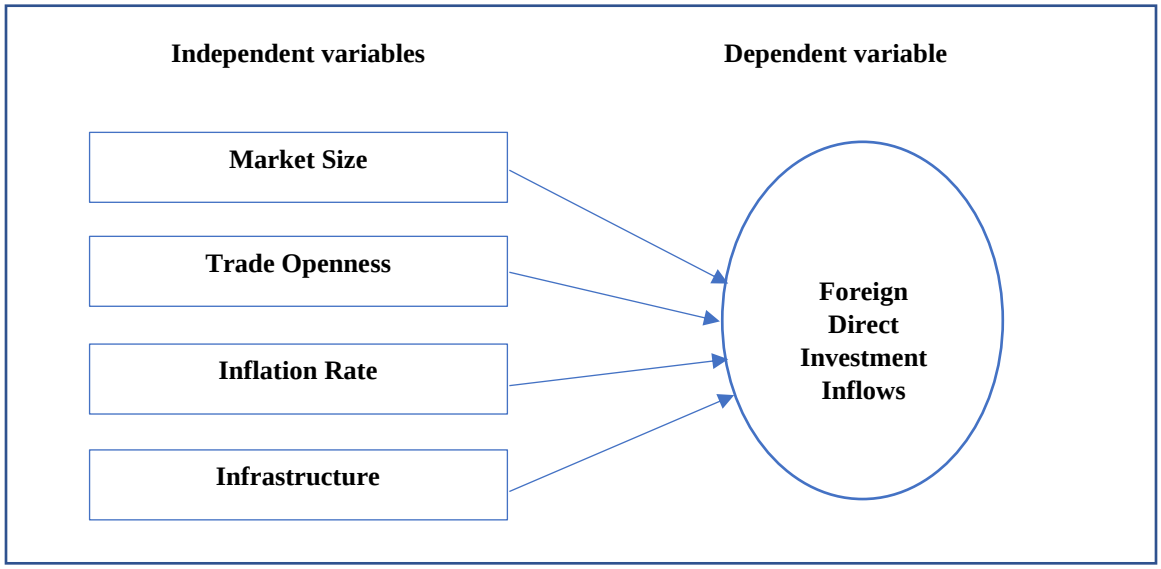
The rate of inflation is one of the macroeconomic elements that influence a country's FDI inflows. Macroeconomic mismanagement has been linked to inflation, which hurts the country's overall financial performance. Aziz & Mishra (2016) conducted a study on the factors that influence foreign direct investment (FDI) in 16 Arab economies from 1984 to 2012, which covered the period from 1984 to 2012. They found that inflation has a positive and significant influence on FDI flows into Arab economies. They assert that random effects can be attributed to their results because a successful and speedy disinflation generally occurs before governments open up the external sector. It should be noted that the findings are consistent with Mudiyanselage et al. (2021) and Abdulqader & Hamood (2019), who discovered the inflation rate was statistically significant and had a positive correlation with FDI inflows. According to Addison & Heshmati (2003), who found a similar pattern in their research, when the host country's inflation rate is high, the price of goods and services will rise as well. As a result, more international investors will be drawn to that particular country as a result of an increase in manufacturing operations.

Infrastructure development is another important variable for a country to expand the country’s economy. According to Abdulqader & Hamood (2019) infrastructure development is not a determinable factor for FDI as there is no substantial correlation between infrastructure and FDI inflows in Malaysia. However, to get an accurate picture of how infrastructure impacts FDI, they argued that different metrics should be utilised to reach an acceptable conclusion. Previous study by Yol & Teng (2009) identified that FDI flows in Malaysia are significant and positively influenced by infrastructure in the long run. The findings are also consistent with the study conducted by Tran et al. (2020) which revealed that infrastructure has an impact on FDI flows in the region. This is because infrastructure serves as the foundation for both manufacturing and business operations. In this regard, infrastructure development is important since it displays how convenient the operational environment is with well-equipped infrastructure, which in turn attracts more foreign direct investment.

Conceptual Framework

Figure 1 illustrates the relationship between FDI inflows and the independent variables namely, market size, trade openness, inflation rate and infrastructure.

Figure 1: Conceptual framework



3. Methodology

This research article relies on secondary data, which has been gathered from several websites and portals and has been analysed. However, the majority of the data is collected from the World Bank, with a few more recent data sets obtained from the Department of Statistics Malaysia (DSM). The relevant annual data gathered from the websites and portal is a time series data set, with sample periods ranging from 1990 to 2020 and a total of 31 observations. This study's dependent variable is the inflow of foreign direct investment, while the independent factors are the size of the market, trade openness, inflation rate, and infrastructure.

Multicollinearity

The multicollinearity analysis is utilised in this study to examine how well each independent variable may be used to predict the dependent variable with the greatest degree of effectiveness. As a result, when there is a significant intercorrelation between two or more independent variables in a multiple regression model, this is known as multicollinearity. Therefore, this study uses the variance of inflation factor (VIF) to define the degree of the multicollinearity in the model. When the centred VIF number is greater than 10, there is a major multicollinearity problem. There is no major collinearity concern when the centred VIF value is less than 10.

Heteroskedasticity

The purpose of this test is to determine whether there is any correlation between the variances and the error term. The Breusch-Pagan-Godfrey method is employed in this investigation and the null hypothesis can be rejected if the p-value is less than 5% significant. To assess whether or not heteroscedasticity occurs, the following hypotheses will be examined:

H_0 = Error term is Homoscedastic (Homo)

H_1 = Error term is Heteroscedastic (Hetero)

Multiple Linear Regression (OLS)

Regression analysis is a statistical technique that seeks to understand the relationship between a dependent variable with one or more independent variables by analysing the quantitative expression of the variables. The key reason for using multiple linear regression is that the researcher is testing more than one independent variable in this model. It is also being used since it ensures that the estimated findings do not deviate from the actual outcomes (Abdulqader & Hamood, 2019). Four independent variables have been selected for testing to provide more accurate estimates which are market size (GDP) trade openness (OPN), inflation rate (INF) and infrastructure (INFRA). The researcher develops the estimation model by employing foreign direct investment inflows as the dependent variable. The following is the multiple linear regression model that was developed:

$$\mathbf{Y = \beta_0 + \beta_1 X_{1i} + \beta_2 X_2 i + \beta_3 X_{3i} + \beta_4 X_{4i} + \epsilon i}$$

As in a regression model, the partial regression $\beta_0, \beta_1 \ldots \beta_4$ represents the proportion of the regression coefficient that measures the extent to which the independent variables have an impact on the dependent variable while ϵ is the error term. Hence, Y denotes foreign direct investment inflows, X_1= market size, X_2=trade openness, X_3=inflation rate, and X_4= infrastructure.

Explanation for Chosen Independent Variables

Market Size: Market size is the one of crucial determinants that are extensively employed in most empirical investigations. The size of the market is typically measured in terms of Gross Domestic Product (GDP) per capita in the majority of cases (Nassor & Ranjanee, 2015). The GDP can be determined by adding together the amounts of private consumption and government spending, as well as national investment and total net exports. When deciding whether or not to invest in a particular country or region, multinational corporations look at factors such as the size of the market (Tri et al., 2019). In other words, the greater the total income and development potential of the host country, the greater the volume of FDI in that particular nation (Akin, 2010).

Trade Openness: A country's level of openness is measured by its ability to trade with the rest of the world, as well as its ability to integrate with the global economy (Tri et al., 2019). Trade openness, also known as trade freeing, is the degree to which countries open their borders to foreign trade. As a result, it is calculated as OPN = (EXP + IMP)/GDP, where OPN indicates openness, EXP and IMP represent export and import, respectively, and GDP represents gross domestic product. According to Soo & Kueh (2020), the openness of the country's trade markets is critical in attracting foreign investment and attracting new businesses to the country. FDI inflows are directly affected by trade barriers established by a country. Therefore, they argue that a low import barrier should be created to restrict tariff-jumping by foreign direct investment.

Inflation rate: Inflation is a phenomenon in which prices rise regularly, but the level of income in the population remains relatively constant (Wijaya et al., 2020). Microeconomic stability is crucial when it comes to attracting investment, and this is especially true when it comes to attracting international investors. High inflation is a sign that the country's economy is unstable, reduces the value of the local currency and indicates that the country's leadership has not been able to stabilise it (Wijaya et al., 2020). According to Abdulqader & Hamood (2019), investors are drawn to countries with low inflation rates because of the government's and economy's dependability and stability. A negative indication indicates a weak economy; hence the inflation rate serves as an indicator of macroeconomic stability. In this study, the annual percentage change in the consumer price index (CPI) is used as a proxy for inflation (Ho, 2013).

Infrastructure: Infrastructure is defined as a physical form that enables users to gain access to services and facilities in a short period. Besides, the most important factor in making an investment decision is whether or not the investment environment supports the activities of foreign-invested businesses. The investment decision can be seen as a country that has well-developed infrastructure to support foreign economic activities such as airports, water and power supplies, roads, telephones, and the internet (Nassor & Ranjanee, 2015). According to Haudi et. al, (2020) A well-equipped infrastructure can help ensure that communication is smooth and quick. Generally, the proxy for infrastructure may vary. However, this study chose fixed telephone subscriptions (per 100 people) as a proxy for infrastructure.

4. Data Analysis And Findings

Variance Inflation Factor (VIF)

Table 1: Results of Variance Inflation Factor (VIF) using EViews software.

Variable	Coefficient variable	Uncentered VIF	Centred VIF
GDP	0.003892	3.102420	1.099420
OPN	2.153990	987.6624	1.306029
INF	0.034782	5.190652	1.265538
INFRA	0.074169	987.7724	1.306029

The centred VIF value is used to diagnose whether there is an existing multicollinearity problem. The result from Table 1 shows that all independent variable values are less than 10, including market size (1.099420), trade openness (1.265538), inflation rate (1.247183) and infrastructure (1.306029). A value of less than 10 indicates that there is no multicollinearity present in the regression models. Hence, as the VIF values are below the 10 range, the likelihood of a multicollinearity problem between independent variables is extremely low.

Breusch Pagan Godfrey

Table 2: Results of Breusch Pagan Godfrey using EViews software.

Variable	Coefficient variable	Std error	t-Statistic	Prob
GDP	-0.13944	0.08603	-1.62081	0.1171
OPN	-4.62011	2.02396	-2.28270	0.0309
INF	0.44626	0.25719	1.73512	0.0946
INFRA	-0.03258	0.37551	-0.08867	0.9315
R^2= 0.279816		Prob. F-Statistic= 0.0650		
Adjusted R2= 0.169018		Prob. Chi-Squared= 0.0698		

The Breusch-Pagan test checks for heteroscedasticity in the error term by looking at the squared residuals. Based on the results in Table 2, there is no existence of a heteroskedasticity problem since the chi-squared value is higher than the 0.05 confidence interval. It concludes that there is no heteroskedasticity problem since the NR^2 (8.674296) is greater than chi-squared, thus the null hypothesis of homoskedasticity is rejected.

Multiple Linear Regression

Table 3: Summary of regression analyses

Variable	Coefficient	Std. Error	t-Statistic	p-value	Significant
GDP	0.24124	0.0623	3.8668	0.0007	√
INF	0.56783	0.1864	3.0447	0.0053	√
INFRA	0.03503	0.2723	0.1286	0.8986	
OPN	1.55181	1.467	-1.0573	0.3001	
R^2= 0.667782			F-statistic= 8.5387		
Adjusted R^2= 0.501287			Prob (F-statistic) = 0.0002		

The ratio of the explained sum of squares to the total sum of squares is denoted by the R^2. As the R^2 value rises, the more accurate it is that the model's predicted regression equation is suited to the data. Table 3 shows that the R^2 value of 0.667782 (66.78%) indicates that the variability of the dependent variable, which is the inflows of foreign direct investment, is explained by the variability of the independent variables; market size, trade openness, inflation rate, and infrastructure, while the remaining 33.22% is explained by other factors that were not taken into consideration in the investigation. It also contains a P-value of 0.0.000154 that may be used to examine the overall significance of the regression model, allowing researchers to reject null hypotheses. To put it another way, the corrected R2 is 0.501287, which is smaller than the R^2 itself. This demonstrates that the regression model's variables are well-fitting and can be used to forecast FDI.

Table 3 shows that the computed coefficient of the market size has the predicted positive sign and is statistically significant at a 95% confidence level. The p-value is 0.0007, and the beta coefficient is 0.241247. In other words, if Malaysia's GDP rises by one per cent, FDI in the country will climb by about 0.241247 points. According to the findings, GDP has a positive and significant link with FDI, which is consistent with previous studies in Malaysia (Abdulqader & Hamood, 2019; Sasana & Fathoni, 2019). Yol & Teng (2009) revealed similar results and argued that larger or rising economies offer better profit opportunities than smaller economies.

Furthermore, the size of the market has also been found to have a positive link with FDI by Nassor & Ranjanee (2015), showing that larger markets attract more FDI. As a result, their findings support Dunning's OLI framework, which states that corporations invest abroad to get access to the host countries and neighbouring nations' markets more effectively (Nassor & Ranjanee, 2015).

In addition, the inflation rate indicates a positive and significant relationship with FDI inflows in Malaysia. It demonstrates that a 1% rise in the inflation rate increases FDI inflows by a factor of 0.567834. Contrary to past research, the results of this study do not support the conclusions of others. Scholars have shown a negative correlation between inflation and FDI (Awad, 2020; Saqib et al., 2013; Sulong & Agus, 2005; Tran et al., 2020). According to Awad (2020), low inflation encourages FDI inflows but high inflation deters FDI from entering the host country since higher prices diminish the real return on investment. Nonetheless, this finding is consistent with the findings of prior studies by Wijaya, Dewi, Zeplin & Natasya (2020) and Soo & Kueh (2020), which revealed that FDI is favourably influenced by the level of inflation. This shows that when inflation rises, so does FDI. Therefore, inflation is positively associated with FDI due to the occurrence of a stimulus in the economy, such as rising interest rates, which has a favourable impact on FDI (Wijaya et. al., 2020). This finding is further corroborated by Abdulqader & Hamood (2019), who discovered that inflation had a beneficial impact on FDI in Malaysia.

The findings also reveal that infrastructure has a positive but insignificant impact on FDI in Malaysia. The results reveal a p-value of 0.8986 and a beta coefficient of 0.035038 with a 95% confidence interval. As a result, this research concludes that infrastructure improvement in Malaysia will have little impact on FDI inflows over the period from 1990 to 2020. This result is consistent with the results of Yol & Teng (2009), who found infrastructure to be lacking support for inclusion in attracting FDI. According to Sin et al. (2017), infrastructural assets include everything from roads, seaports, railroads, and telephones to institutional growth. They emphasised the significance of taking into account the availability and dependability of infrastructure while assessing infrastructure. Many underdeveloped countries, like Malaysia, lack reliable infrastructure data, hence this analysis relies simply on the availability of infrastructure (the number of telephones per 1,000 inhabitants). As a result, the lack of quantitative data for both the availability and dependability of infrastructure development could be a contributing factor to the inability to detect a statistically significant relationship between the variables.

Lastly, the result shows that trade openness has a negative and insignificant relationship with FDI in Malaysia, as the results show that the p-value is 0.3001 and a negative 1.5518 beta coefficient. As a result of the study's finding that Malaysia's economy's trade openness does not affect FDI inflows, the findings are consistent with the findings of Sasana & Fathoni (2019) and Wickramarachchi (2019). Furthermore, the negative correlations discovered in this research are consistent with the findings of the earlier study by Awad (2020). According to the conclusions of his research, the more open a country is to the rest of the world, the less foreign direct investment will flow into that country. He also claims that other countries prefer to export to Malaysia rather than invest in the country because of the country's high openness to trade. On the other hand, increased trade openness, which is generally connected with governments' efforts to maintain economies open to international commerce while fostering competition and innovation, might stifle efficiency-seeking investors' efforts to maximise profits (Hintosova et al., 2018).

5. Conclusion

In conclusion, this study attempts to determine the relationship between market size (GDP), trade openness (OPN), inflation rate (INF), and infrastructure (INFRA) with foreign direct investment inflows towards economic growth in Malaysia using annual data spanning 1990 to 2020. The data used in this study covers 1990 to 2020. It was determined by the study's findings that the size of the market, the inflation rate, and the availability of infrastructure all have a positive link with FDI inflows in Malaysia, but trade openness has a negative relationship.

In addition, the results of this research show that market size and inflation rate played a significant role in attracting FDI flow into the country. In line with past research (Abdulqader & Hamood, 2019; Addison & Heshmati, 2003; Aziz & Mishra, 2016; Nassor & Ranjanee, 2015), has indicated that GDP and INF have a positive

and statistically significant association with FDI inflows, which suggests that a larger market would lead to an increase in foreign investment in the area. As a result, the findings were consistent with Dunning's OLI framework, which asserts that the size of a market draws FDI from multinational corporations to a given country (Nassor & Ranjanee, 2015). Contrary to the widely held assumption that investors prefer to invest in a lower-risk economic environment or a lower inflation rate (Sin et al., 2017), according to Addison & Heshmati (2003), a country's currency or interest rate will rise when its inflation rate is greater than its GDP. The presence of higher interest rates attracts foreign investment, which in turn stimulates demand and elevates the value of the host country's currency. This is because international investors will be drawn to a higher interest rate because they will be able to get a better return on their money than they would in their own country (Wijaya et al., 2020). For example, they could take advantage of rising interest rates by borrowing money locally at a cheaper rate and investing it in overseas markets at a higher rate, thus increasing their profits.

Infrastructural development, on the other hand, does not affect FDI inflows toward economic growth in Malaysia for the period from 1990 to 2020. The result was the finding of Abdulqader & Hamood (2019), who found there was no significant correlation between INFRA and FDI inflows in Malaysia for the period 1995 to 2014. To get a satisfying result, they argued that several indicators should be used because different indications could have an impact on the results of assessing the link between the variables. Moreover, according to Firdaos Rosli (2020), senior economist and head of research at Malaysian Rating Corp Bhd, Malaysia's INFRA has not been able to catch up with economic growth. He argues that Malaysia's mobile Internet speed is lagging behind neighbouring countries such as Laos, Myanmar, and Thailand, which have Internet speeds that are more than three times faster than Malaysia's. Even though Malaysia is ranked higher than those countries in the IMD World Competitiveness Ranking 2020, the lags in infrastructure development may make those countries more appealing than Malaysia. This is because, 5G adoption is important in Industry 4.0 as it improves the efficiency and productivity of the manufacturing industry (ASEAN Investment Report, 2021).

Lastly, the findings of the study revealed that trade openness has a negative insignificant relationship with FDI. Preliminary studies indicate that the vast majority of investigations have revealed a significant positive correlation between factors such as (Bakar et al., 2012; Nassor & Ranjanee, 2015; Soo & Kueh, 2020; Yol & Teng, 2009). However, this research paper uses a much smaller sample size and a different style of analysis than the previous studies. For example, (Nassor & Ranjanee, 2015; Soo & Kueh, 2020) adopted a panel analysis, whereas Bakar et al. (2012) covered a sample size of 40 years. Because this research study relied on a time series analysis that spanned 31 years, the results were insufficient to address the hypothesis that was being investigated. Nonetheless, there have been a few studies that have found a negative non-significant association between the two variables. This result follows the prior study by Mudiyanselage et al. (2021) that found a negative link between the variables. It was discovered that the greater the degree of an economy's trade openness, the less likely it is that FDI will be attracted in the long run. Furthermore, (Ho, 2013; Sasana & Fathoni, 2019; Wickramarachchi, 2019) discovered that a country's trade openness has little effect on the amount of FDI that flows into the country. According to Wickramarachchi (2019), when making investment decisions, foreign investors pay more attention to the size of the market and the cost of production than they do to the country's trade openness or trade policy as a significant issue.

Recommendations

Malaysia's macroeconomic performance must first be improved to attract additional FDI flows. As reported by Juita Ahmad (2020), Head of the Economics, Trade and Regional Integration Program at the Institute of Strategic and International Studies (ISIS) Malaysia, the country has seen a decline over the past five years in its competitiveness in attracting FDI. Moreover, she asserted that, as compared to our neighbouring countries, Malaysia's market size is rather modest, and investors prefer a larger market since it is more tempting to contemplate investing in. In light of the findings that market size has a major impact on foreign direct investment (FDI) flows into the country, the government should make additional efforts to increase the size of the country's local and international markets (Sulong & Agus, 2005). Additionally, the relationship between FDI and economic growth is well-documented. Studies indicate that FDI not only contributes to capital formation but also enhances employment opportunities and technological transfer.

According to Nassor & Ranjanee (2015), the quickest way to expand its market size is to open up the country. They asserted that it is possible to achieve this by expanding trade agreements (at the moment, Malaysia has

seven bilateral free trade agreements (FTAs), with the following countries: Australia, Chile, India, Japan, New Zealand, Pakistan, and Turkey), allowing commodities and services to freely flow. As a result, transportation costs would be reduced, and the free movement of goods and services would be permitted, making the country more attractive to foreign investors.

Furthermore, strengthening infrastructure development in Malaysia should be prioritised as a means of increasing economic output in the country. According to Bakar et al. (2012), a country's physical infrastructure is a significant determinant in determining FDI inflows. They claim that a high-quality physical infrastructure would improve the investment climate for FDI by subsidising the total investment cost, hence boosting the return on investment. Specifically, the adoption of digital infrastructure, such as 5G networks and data centres, serves as the foundation for the Fourth Industrial Revolution (IR 4.0), according to the ASEAN Investment Report 2021. To address this issue, the government must upgrade the country's infrastructure (telecommunications) because IR4.0 would open up new digital capabilities and opportunities, as well as make Malaysia a more attractive destination for foreign investors and businesses.

In addition, other types of infrastructure indicators may be incorporated in future research because this study largely focused on telecommunications infrastructure. Past literature has mentioned that infrastructure encompasses a wide range of measures, ranging from physical assets such as roads, seaports, trains, and telephones to institutional development (Sin et al., 2017). According to Abdulqader & Hamood (2019), the majority of estimations indicate that institutions (as a proxy for education) are extremely essential and must be taken into consideration when evaluating these variables. Since there is a good chance that institutions will affect FDI, future research should look at the subject from many angles, including the development of infrastructure institutions and other types of infrastructure, to determine the reliability of a significant link between infrastructure and FDI.

To conclude, to gain a more comprehensive understanding of FDI determinants and their effects, researchers should incorporate more independent factors into the study, such as political risk, business facilities, government incentives, regional integration, exchange rate, interest rate, and natural resources (Tocar, 2018). Furthermore, according to Haudi et al. (2020), researchers should widen the scope of their analysis to include other ASEAN countries to acquire a better understanding of the disparities in competitiveness between Malaysia and other ASEAN nations. If researchers want to investigate this further, they should concentrate on the proportion of FDI inflows rather than the total amount of FDI to obtain interesting and effective results in future research (Matderus, 2000).

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