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The Effect of Corruption, Trade Openness and Political Stability on Foreign Direct Investment in Malaysia

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Abstract-- *Foreign Direct Investment (FDI) plays an increasingly important role in the growth and development of Malaysian economy. It brings many benefits such as stable capital inflows, technological know-how, transfer of technology, highly paying jobs, entrepreneurial and workplace skills. FDI sets a significant movement for expanding and strengthening the global business of developing countries. This research aims to investigate the effect of corruption, trade openness and political stability on Foreign Direct Investment inflow collectively. The dependent variable for this research is Foreign Direct Investments (FDIs) and the independent variables are Corruption, Trade Openness and Political Stability. The research has used Panel Fully Modified Ordinary Least Squares (FM-OLS) integrating regression model to analyze the relationships. The findings show that corruption has no effect on the Dependent Variable (Foreign Direct Investment) in Malaysia. The data for corruption has been collected according to Transparency International from 2009 to 2018 and this data is compared to Malaysia's GDP to indicate the impact of corruption on our Nation's Foreign Direct Investment inflow. The other two Independent Variables (Trade Openness and Political Stability) which were tested using primary data place a significant effect on the Foreign Direct Investments in Malaysia based on the respondent's perspective. Moreover, it was found out that the direction of the relationship for both independent variables was positive. In addition, specific Panel Unit Root tests and Integration test were applied to meet confirm the reliability of the FM-OLS for panel data collected. Thus, this research will help the policy makers and research community with the knowledge of new dimensions regarding the topic.*

Key words-- *FDI, Trade Openness, Political Stability and Corruption.*

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I. INTRODUCTION

Foreign Direct Investment (FDI) is an important source of external flow of resources to the developing countries and has become an integral part of capital formation despite of their small share in global distribution of FDI including Malaysia (Shukla, 2013). Many benefits are derived from FDI such as technology know how, capital inflows, highly-paying jobs, entrepreneurial, workplace skills and transfer of knowledge.

Moreover, it sets an important movement for strengthening and expanding the global business of developing countries including Malaysia (Yousop, et al., 2018).

In the past decades, there has been a rising trend of FDI inflows presented in Malaysia since 1970. In 2016, Malaysia FDI recorded a higher net inflow of RM 47.4 billion whilst 2015 was RM39.4 billion and the registered FDI position was RM5546.6 billion. This was supported by net inflow in investment fund shares and equity (Department of statistics Malaysia, 2016). In addition, the increase of net inflow in 2016 was contributed by Asia region in service sector. The service sector particularly in Financial and insurance/takaful, real estate and information and communication activities contributed in FDI flows in 2017.

Recently, Foreign direct investment in Malaysia rose from MYR 12.88 billion in the previous period to MYR 21.73 billion in the March quarter 2019, the largest since the fourth quarter 2012. In 2018, the country's foreign direct investment amounted to MYR 32.65 billion, below MYR 40.42 billion a year ago. From 2008 to 2016, foreign direct investment in Malaysia amounted to an average of MYR 13485,06 million, attaining a record high of MYR 37325 million in the fourth quarter of 2011 and a record low of MYR 2452 million in the fourth quarter of 2017.

II. IMPORTANCE OF FDI IN MALAYSIA

The foreign investor must retain 10% of the total equity in a resident company to invest in Malaysia. There are usually two types of FDIs available; outward-bound FDI and inward-bound FDI. An outward-bound FDI is the reverse of an outward-bound FDI when local capital is invested in national assets while an inward-bound FDI is invested in local funds.

With foreign money being pumped into the economy to pay the employees' wages and wages, a multiplier effect will create a multiple-time injection that will result in a huge influx of foreign money. As more foreign cash is pumped into the local economy (assuming there are no cash outflows) GDP development will soar that goes hand in hand with Vision 2020 where Malaysia will attain a developed nation status with a steady growth pace of 8% each year.

This, in turn, will bring trust to the economy, further creating more FDIs. Development will obviously take place as the economy is doing well to enhance the quality of life.

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It is estimated that in 2019-23 Malaysia will grow by 4.6%, 50 basis points lower than in 2012-16. Private consumption is likely to remain strong, supported by an absorbing labor market that maintains a low rate of unemployment as labor participation rises and real wages rise.

In addition, knowledge acquisition for technology transfer is a tremendous benefit for the nation. As businesses and factories are being established, heavy machinery and advanced technology are being passed on to local staff to run the company. The local staff will then have to go for training to work on the technology (Hamood et al., 2019).

Why invest in Malaysia?

Malaysia benefits from FDI is such areas like: Infrastructure, knowledge acquisition for technology transfer, highly paying jobs, entrepreneurial, stable capital inflows and workplace skills. Below are some reasons why some nations like China, India and Middle East countries invest in Malaysia.

China's foreign investors may consider entering the renewable energy industry. This is because for such investments, Malaysia has a wide supply of raw material and land accessibility. In addition, a Hong Kong-based firm called Sun Bear Solar Ltd. made the first step to venture into Malaysia's renewable energy industry. This is a step forward for China's future FDI in this industry.

Indian foreign investors may consider entering Malaysia's IT sector. This is because due to Multimedia Super Corridor (MSC), Malaysia is fully equipped with high-speed internet and can therefore facilitate this with the FDI when investing and setting up businesses in Malaysia.

Foreign Middle East investors may consider entering the oil and gas sector. There is an abundance of oil and gas in the Middle East, and so is Malaysia. Investors from there have a high level of field knowledge and are therefore appropriate to venture into this industry.

Yet according to Kana (2018) explained in the star news that IT may not be symptomatic of trade issues, but when trade is hamstrung by tariffs or barriers, real-sector problems appear in various forms. Domestic real estate is a striking example. It may not have direct tariff connections, but reduced investments are an issue until a solution is discovered in the property segment for the mismatch of supply and demand.

III. PROBLEM STATEMENT

Prior research in Malaysia emphasizes on the impact of foreign direct investment on the economic growth rather than the dynamic factors affecting it (Fadhil & Almsafir, 2015; Mohammed, et al., 2017; Tang & Tan, 2018; Nordin & Nordin, 2016; Alzaidy, et al., 2017). The findings of most literature show a positive relationship between FDI and economic growth of Malaysia. In addition, there is a minimal research on the impacts of FDI in Malaysia. Particularly on what peoples perceptive are, hence this study will help to fill this gap and show how Malaysian Foreign Direct Investment is affected by Corruption, Trade Openness and Political Stability.

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Firstly, there is a negative impact of Corruption on FDI in second world countries and developed nations which has increased the significance of developing controls of Corruption to increase FDI inflows (Freckleton, et al., 2012**)**. However, sophisticated regulations countries have experienced positive correlation between FDI and Corruption (Huang, 2016). Secondly, the political issues in an economy give rise in awareness of the effect of Political Stability of FDI of a country (Touny, 2016). Lastly, trade openness considers barriers to trade, which has resulted to a debate whether this Trade Openness increased FDI in Malaysia (Huchet- Bourdon, et al., 2018).

IV. RESEARCH OBJECTIVES

This research was undertaken with the following research objectives:

1. To determine whether Corruption has an impact on Malaysia FDI
2. To examine the effect of Trade Openness on Malaysia FDI
3. To probe whether Malaysia's Political stability impacts their FDI

V. LITERATURE REVIEW

There has been a lot research on whether trade openness have an impact on FDI. Trade openness is associated with exports and imports because it's the measurement of "how open is a country to trade? and how large are trade welfare gains?" were as a percentage of the country's total imports and exports (Waugh & Ravikumar, 2016). Kim et al. (2010**)** agrees stating that such studies generally acknowledge trade openness to also be linked to financial development. International trade has increased rapidly due to development of countries (Mareli & Signorelli, 2011). Consequently, strategies to enable trade through reducing trade barriers to increase competition from cross boarder were recommended by (Alhakimi, 2017). In fact, inward FDI may possibly boost the export volume of the host nation, leading developing countries to boost their foreign exchange earnings. A good example is in Singapore where Trade openness has played a major part in the country's sustainable development since trade openness has led to reduced environmental degradation and has had a direct impact on greater economic growth as an FDI pillar (Ridzuan et al., 2017). In addition, Srinivasan (2011) also said trade openness has a significant positive relationship with FDI inflows.

Most investors are interested in investing in a nation with a high level of trade openness, good investment, economic and regulatory policies Rammal (2006) and open financial policies in nations (Ong et al., 2018). These results are consistent with a recent study results conducted in Malaysia by Sazali et al. (2018) to examine the impact between trade openness and FDI in Malaysia using annual time series data (1977 to 2015). The findings confirmed that trade openness has a positive and significant impact on FDI.

In addition, Ken (1999); Ismail & Yussof (2003) discovered that trade openness is expected to have a positive correlation with FDI inflow because total trade is the sum of imports and exports showing economic openness. Xaypanya et al. (2015) also supports this, claiming that the level of trade openness has a beneficial impact on ASEAN 3 FDI inflows.

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Political Stability simply means the continuity characterizing a political regime or system and lack of significant changes (Nir & Kafle, 2013). Political Stability is an important variable in the development of a nation (Radu, 2015). However, political instability has a high impact of shortening policymaker's possibilities which leads to suboptimal short-term macroeconomic policies (Nazeer & Masih, 2017). Developing countries can attract more FDI inflows if, as Shahzad et al. (2012) stated, they are more politically stable. Contrary, an empirical study conducted by Touny (2016) has indicated that an increase of political stability by one unit negatively impacts FDI inflows in Middle East region by 68%. Compared to other variables, in most competitive Asia Pacific nations, political stability had the most effect on FDI inflows (Rashid et al., 2017). Also, most literature has been endorsed by a research covering OECD countries as it was discovered that political instability deters foreign direct investment in the nation (Goswami and Haider, 2014).

In addition, the coefficient of institutional qualities including political stability was found to be positive in a 1996-2007 study covering seven South Asian countries showing a positive relationship between the two variables (Azam et al., 2011). The results are in consistent with Sharmin & Khandaker (2015) who confirmed that FDI inflow is directly linked to Bangladesh's political stability as there is a positive relationship between them, and during the stable political situation, gross capital formation and imports increase.

Lucke & Eichler (2016) however, using panel data from 65 countries over a 29-year period, a total of 1,885 observations, showed a controversial empirical result on the relationship between political stability and FDI. It was discovered that foreign investors, even if they had a score of political instability, would prefer to invest in developed countries. Foreign investors in developed countries were asserted to be able to hedge political risks through insurance companies such as, MIGA, protecting against terrorist acts. Moreover, Stack et al. (2017) recently discovered that political stability has no significant impact on the FDI inflows. However, these results cannot be generalized as the data collected were limited to 10 countries in Eastern Europe covering the period 1996-2007.

Corruption is deemed by investors as an additional cost to investments as higher corruption increases the business cost, thus increasing uncertainty for FDI as well as reducing the returns of investments (Rahim, 2014; Belgibayeva & Plekhanov, 2015).

Corruption has attracted a great deal of attention from researchers who seek to determine the impact of corruption on FDI, which makes it not a new phenomenon. Many FDI researches have focused on the effects of corruption on FDI inflows. Theoretically, corruption can act as a helping hand by greasing the wheels of commerce in the presence of weak regulatory framework which facilitates FDI or a grabbing by raising transaction and uncertainty costs which impedes FDI (Quazi, 2014; Epaphra & Massawe, 2017). Woo (2010) suggests that countries should focus on fighting corruption to facilitate economic growth rather than just political reasons. In addition, Kartikeya (2011) results show that a 1% decrease in the level of corruption may lead to an increase of 9% in FDI inflows in emerging economies. Alemu (2012) claims that corruption is one of the damaging risks that MNCs must take into consideration as the results concluded that corruption weakens economic reform and consequently leads to instability in Asian economies.

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Furthermore, the war on corruption has a positive impact on Malaysia, as fairness and equality in Malaysia will attract a higher level of investment (The Star, 2018). Therefore, in order to prove if this statement is valid for Malaysia, this study will investigate if there is relationship between Corruption and Malaysia Foreign Direct Investments.

VI. RESEARCH METHODOLOGY

This research will use a quantitative research method by applying inferential and descriptive statistics to measure the problem. Quantitative approach is a more structural way to do a research than qualitative approach as it quantifies what has happened (MacDonald & Headlan, 2015). This is suitable for this research to determine whether Trade Openness, Corruption and Political Stability have an impact on FDI in Malaysia.

The research strategy used in this study is a mixed method research which used a survey to collect large amount of quantifiable data of independent variables (Trade openness and Political Stability) i.e. a self-administered questionnaire of distributed and resulting in a response rate of 103 percent. The target populations size used was 10,000 and the target sample size was 265 respondents. In addition, the secondary data from Transparency International was collected for Corruption (CPI).

In this study two independent variables (Political Stability and Trade Openness) of this study were extracted from previous studies which will further be investigated using primary data collected using questionnaires based on what respondents' perception on these variables, whilst the remaining independent variable (Corruption) will only use secondary data from Transparency International.

The panel data set consists of 10 years 2009 - 2018 for Malaysia. Other secondary sources to be applied to assist this research will be, books, online articles, news and journals.

The statistical Package for the Social Sciences (SPSS) software application was used to analyze this data obtained through questionnaire. Reliability analysis, descriptive statistics, Pearson Correlation analysis and regression analysis was used within SPSS as data analysis techniques. Charts and graphs are additional statistical techniques that were used to further interpret the data.

VII. ANALYSIS AND RESULTS

4.1 Reliability Analysis - Cronbach's Alpha

This test refers to the how consistent the results are on a different item in a test. Cronbach's alpha (α) was used in this study to test reliability of the data internal consistent. The value of reliability must be between positive one and negative one (Meyers, 2013). Therefore, the closer the value of reliability is to one, the better the internal consistent among variables. According to Yockey (2011) it is stated that the reliability value must be above 0.7 and not less than 0.7.

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Table 1: Summary of Reliability Test

Variable of the study	No. of Items	Cronbach Alpha	Level of reliability
Trade Openness	7	.894	Good
Political Stability	7	.864	Good
Foreign Direct Investment	6	.863	Good

The Cronbach's Alpha value for the lower questionnaire obtained in this study was 0.863-0.894 as shown in table 1 above. This shows that the questionnaire's internal consistency is good as shown in table 1 above. This also shows that for this study, the questions and the scale used in the questionnaire were appropriate.

4.2 Regression Analysis

Regression analysis was performed to evaluate the relationship between individual independent variables and the dependent variable, Foreign Direct Investment. In this analysis, the independent variables included were Trade Openness and Political Stability.

For each independent variable, t tables will be presented to explain the relationship between each and the dependent variable, Foreign Direct Investment. The Model Summary Table, the Anova Table, and the Table of Coefficients.

4.2.1 Total Trade Openness

Table 2: Model summary

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.846[a]	.716	.713	1.85454

a. Predictors: (Constant), Total Trade Openness
b. Dependent Variable: Total FDI

R is known as the correlation coefficient in table 2 above, showing the relationship between the dependent variable and the independent variable. The R value can vary from -1 to + 1, respectively, which is a negative relationship and a positive relationship. Table 2 shows that the R value is 0.846 which represents a positive relationship between Trade Openness (IV) and the FDI (DV).

Table 3: Anova

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	874.551	1	874.551	254.280	.000[b]
	Residual	347.372	101	3.439		
	Total	1221.924	102			

a. Dependent Variable: Total FDI
b. Predictors: (Constant), Total Trade Openness

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Most researchers use ANOVA in statistical analysis. This analysis helps researchers verify if the mean scores of different condition or groups differ. For example, F value must be more than 1 to attain significance. According to rule of thumb of ANOVA, to show significance between two experimental groups, the P value must be lower than 0.05.

Table 3 shows that the p-value is 0.000 (less than 0.05), which indicates a significant relationship between Trade Openness and dependent FDI. Trade Openness can therefore explain the variation in FDI substantially. Trade Openness can also be said to be a good predictor of the dependent variable, FDI.

4.2.2 Political Stability

Table 4: Model Summary

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.770[a]	.593	.589	2.21766

a. Predictors: (Constant), Total Political Stability

b. Dependent Variable: Total FDI

Here the R Square Value is 0.593, as shown in table 4. When converting the R Square Value to a percentage (0.593 X 100%), it can be said that the Independent Variable (Political Stability) can explain 59.3% of the variation in the Dependent Variable (FDI).

Table 5: Anova

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	725.206	1	725.206	147.459	.000[b]
	Residual	496.718	101	4.918		
	Total	1221.924	102			

a. Dependent Variable: Total FDI

b. Predictors: (Constant), Total Political Stability

Table 5 shows that the p-value is 0.000 (less than 0.05), which indicates a significant relationship between Trade Openness and dependent FDI. Trade Openness can therefore explain the variation in FDI substantially. Trade Openness can also be said to be a good predictor of the dependent variable, FDI.

4.2.3 Result on Linear Regression Analysis

A regression analysis was conducted between a set of selected independent variables (i.e. Trade Openness and Political Stability) for Malaysia FDI inflows. The model used for regression is defined as in equation 1. β value of unstandardized coefficients is used to measure the strength of the relationship of between individual independent variables (Trade Openness and Political Stability) and dependent variable (FDI).

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$$Y = \beta + \beta_1 (X_1) + \beta_2 (X_2) + \varepsilon i$$

Where:

Y = Malaysian Foreign Direct Investment

β = Intercept value

X_1 = Trade Openness

X_2 = Political Stability

εí = Error Item

Figure 1: Regression Analysis Equation 1

Source: Self Made

The final estimated model of the linear regression analysis is illustrated in Equation 1 is based on the coefficients estimates (Unstandardized Coefficients β) presented in table 34.

Y= 1.707 + 0.561(X1) + 0.215(X2) + Ɛ *i*

Table 6: Coefficient table from SPSS

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	1.707	1.508		1.132	.261
	TotalTradeOpenness	.561	.079	.670	7.074	.000
	TotalPoliticalStability	.215	.097	.210	2.219	.029

a. Dependent Variable: TotalFDI

Variables	Coefficient	t	p	Correlations
Trade Openness	**.561**	**7.074**	**.000**	**+0.846**
Political Stability	**.215**	**2.219**	**.029**	**+0.770**

Table Summary Results of Regression Model (Eq.1)

Model Fit:		
	Trade Openness	**Political Stability**
R	**0.846**	**0.770**
R^2	**0.716**	**0.593**
Adjusted R^2	**0.713**	**0.589**
Standard error	**1.854**	**2.217**

The findings suggested statistically significant (p=.000) is the overall regression equation formulated in this study. The overall model can be concluded to be adequate and statistically important. While the t-test acknowledged

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the independent variables in this research contribute considerably and uniquely to the regression equation, Trade Openness (t=7.074) and Political Stability (t=2.219) contribute to this equation.

Also, the outcome of the analysis showed a positive relationship between FDI and independent variable Trade Openness as the R2 =7.16. When converting the R Square Value to a percentage (0.716 X 100%), it can be said that the Independent Variable (Trade Openness) can explain 71.6% of the variation in the Dependent Variable (FDI). Moreover, for Political Stability there is also a positive relationship as the R2 =5.53.

4.3 Pearson Correlation Analysis

The correlation measure can be expressed as a value between-1 and+ 1, with-1 as a strong negative relationship, and+ 1 as a strong positive relationship between variables (Field, 2018). A correlation matrix table for each independent variable will be provided in this chapter, followed by a table's analysis of the data.

Table 7: Pearson correlation

Correlations

		TotalTrade Openness	TotalPolitical Stability	TotalFDI
TotalTradeOpenness	Pearson Correlation	1	.836**	.846**
	Sig. (2-tailed)		.000	.000
	N	103	103	103
TotalPoliticalStability	Pearson Correlation	.836**	1	.770**
	Sig. (2-tailed)	.000		.000
	N	103	103	103
TotalFDI	Pearson Correlation	.846**	.770**	1
	Sig. (2-tailed)	.000	.000	
	N	103	103	103

**. Correlation is significant at the 0.01 level (2-tailed).

Table 7 above shows a Pearson correlation value of 0.846 where FDI and Trade Openness intercept and a value of 0.770 where FDI and Political Stability intercept. Trade Openness was positively correlated with FDI. A direct relationship between Trade Openness and FDI would indicate that when FDI increased with an increase in Trade Openness. There was a strong positive correlation (r=.846).

Regarding Political Stability, a direct relationship was found between the Political Stability and FDI. This means that higher Political Stability would result in a higher net flow of FDI. The correlation's strength was strong (r=.770).

4.4 Analysis for Secondary data

The CPI index defines corruption as the "private power misuse" and uses survey data to measure the perceived levels of corruption in the public sector in more than 170 countries (Transparency International, 2018). The index scores countries from 0 (highly corrupt) to 100 (very clean), so less corruption is reflected in a higher CPI score. However, from 2009 to 2011 in the tables below, the CPI scores were from 0 (highly corrupt) to 10 (very clean), then changed to 100 from 2012 onwards.

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Table 8: Malaysian FDI net flows and Corruption Perceptions Index (CPI)

Year	Net FDI Flows (RM' billion)	CPI Score
2009	5.1	4.5
2010	29.2	4.4
2011	37.3	4.3
2012	28.5	49
2013	38.2	50
2014	35.6	52
2015	39.4	50
2016	47.2	49
2017	41	47
2018	32.6	47

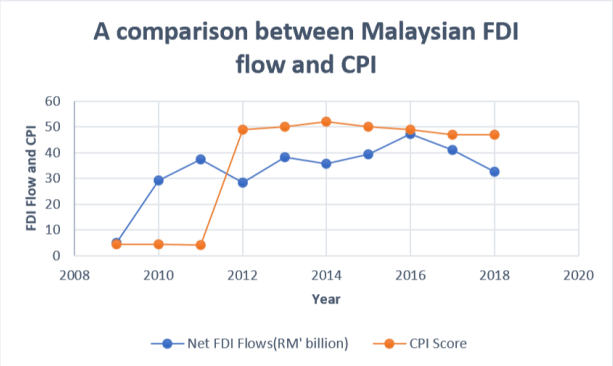

Figure 8

Table 8 and figure 8 above illustrate the comparison between the FDI net flows (RM'billion) and the Corruption Perceptions Index (CPI) in Malaysia. In table 28 it shows that from 2009 to 2011, the CPI score dropped from 4.5/10 to 4.3/10, however, the net FDI flow increased significantly from RM5.1 bil to RM29.2 bil and continued to increase to RM37.3 bill in 2011. It can be concluded that among the three years, there was a negative impact between Corruption and FDI in Malaysia.

In addition, from 2012 until 2016, the FDI net flows constantly increased from RM38.2 bil to RM47.2 bil, even though through the four years, the CPI score changed (2012 to 2013 it increased to 52/100 which was the highest score among the 10 years, then decreased along the years).

Finally, from 2016 until 2018, the CPI score reduced from 50/100 to 47/100 (2017) and maintained 47/100 in 2018, whilst on the other hand, the FDI net flows reduced constantly from RM47.2 bil to RM32.6 bil.

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VIII. RESULTS AND DISCUSSION

5.5.1 Hypothesis 1

$H_1$1: There is a significant relationship between Corruption and Malaysia Foreign Direct Investment

If the estimated CPI index turns out to be positive (above 50), it would imply that higher CPI scores (i.e. less corruption) attract more FDI, supporting the "grabbing hand" hypothesis, and a negative estimated CPI index would imply the opposite (i.e. higher level of corruption attracts more FDI), supporting the hypothesis of "helping hand." Therefore, the descriptive analysis based on the results collected from secondary data for Malaysia clearly shows that, the CPI index has maintained to be below 50 however, the Malaysian FDI net flows from the first 3 years (2009 to 2011) there was a negative effect.

In addition, Hypothesis 1 anticipated no relationship between Corruption and Foreign Direct Investment in Malaysia. It can therefore be concluded that there is no significant relationship between Corruption and FDI. Hypothesis 1 ($H_0$1) is therefore accepted and Null Hypothesis 1 ($H_1$1) is rejected. This is because the regression analysis gave a 0.575 R value and a 0.082 (more than 0.05) Sig value (or p-value). This means increases or decrease in Corruption has no effect on foreign direct investment in Malaysia.

The results found in this study on corruption having no impact on FDI are in consistent with the study based on the Asian context, by Quazi (2014) who used data methodology from the GLS panel to analyze the effect of corruption on FDI inflows during the period 1995-2011 in East Asia and South Asia. The findings showed that corruption has no effect on FDI level.

5.2.2 Hypothesis 2

$H_1$2: There is a significant relationship between Trade Openness and Malaysia Foreign Direct Investment.

Alternative Hypothesis 2 anticipated an important relationship between Trade Openness and Foreign Direct Investment in Malaysia. It can therefore be concluded that there is a significant relationship between trade openness and FDI. Alternative Hypothesis 2 ($H_1$2) is therefore accepted and Null Hypothesis 2 ($H_0$2) is rejected. This is because the regression analysis gave a 0.846 R value and a 0.000 (less than 0.05) Sig value (or p-value). The Pearson correlation analysis has further confirmed these results. In addition, the relationship highlighted by the results was a positive relationship, confirmed again by the analysis of regression and the analysis of Pearson's correlation.

This means increasing trade openness in Malaysia will also increase foreign direct investment.

The objective was to examine the effect of Trade Openness on Malaysia FDI and having the values confirm that there is a relationship between the independent variable (trade openness) and the dependent variable (FDI in Malaysia). These results are consistent with a recent study results conducted in Malaysia by Sazali et al. (2018) to examine the impact between trade openness and FDI in Malaysia using annual time series data (1977 to 2015).

The findings confirmed that trade openness has a positive and significant impact on FDI. Which has also been proved by people’s perceptive in the data collected from primary source. The researchers add on to explain that as

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favorable trade openness policies such as reducing trade barriers to promote more FDI inflows into Malaysia to encourage higher economic growth have been implemented by the Malaysian government.

These findings are also in consistent with the research by Kakar & Khilji (2011) whose empirical results from their study on the growth rate in Pakistan and Malaysia showed that trade openness was the key determinants of economic growth in both countries, as it has a positive relationship with FDI. This study also concluded that a positive combination of independent variables such as economic growth, trade openness and exchange rate will attract more FDI inflows into Malaysia.

5.2.3 Hypothesis 3

$H_1$3: There is a significant relationship between Political Stability and Malaysia Foreign Direct Investment. Alternative Hypothesis 3 anticipated an important relationship between Political Stability and Foreign Direct Investment in Malaysia. It can therefore be concluded that there is a significant relationship between trade openness and FDI. Alternative Hypothesis 3 ($H_1$3) is therefore accepted and Null Hypothesis 3 ($H_0$3) is rejected. The regression analysis gave a 0.770 R value and a 0.000 (less than 0.05) Sig value (or p-value). The Pearson correlation analysis has further confirmed these results. In addition, the relationship highlighted by the results was a positive relationship, confirmed again by the analysis of regression and the analysis of Pearson's correlation. This means increasing trade openness in Malaysia will also increase foreign direct investment.

This study objective on political stability was to probe whether Malaysia's Political Stability impacts their FDI. The findings from this study clearly confirms that there is a positive relationship between the independent variable (Political Stability) and the dependent variable (FDI in Malaysia). The results in this study are in consistent with Sharmin & Khandaker (2015) who confirmed that FDI inflow is directly linked to Bangladesh's political stability as there is a positive relationship between them, and during the stable political situation, gross capital formation and imports increase.

Furthermore, the results are also in consistent with Rashid et al. (2017) who researched the determinants of FDI in the Asia Pacific region's top 15 most competitive regions including Malaysia. There findings showed that GDP, trade openness, and political stability strongly affected FDI inflows. In the presence of other indicators, political stability was the most influential variable. In addition, GDP, openness, and political stability have important long-term relationships with FDI inflows.

Contrary to Jadhav (2012) and Kariuki (2015) whose findings show a negative coefficient, that supports the results of Cuervo (2006) claiming that investors from countries with high levels of corruption and lack of enforcement of anti-corruption laws select similar countries when they internationalize to exploit their familiarity with corrupt environments and also because they face lower operating costs as opposed to other investors. However, this research results and Rashid et al. (2017) show that in the most competitive nations, such as Malaysia, political stability is a vital determinant of FDI inflows. This is because as foreign investors are more attracted to nations with elevated GDP rates, indicating a large consumer market size and a stable economy, nations need to reinforce their economies in order to secure current FDI and attract new foreign investors.

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Therefore, to increase FDI flows, policymakers should focus on building the country's image, possibly the region, by ensuring a stable economic and political environment, protecting property rights, maintaining macroeconomic stability and the rule of law to create a safe environment for foreign investors.

IX. CONCLUSION

In this study, both independent variables (trade openness and political stability) that used primary data were found to have a positive relationship with FDI. Moreover, both variables were also found to be significant. Both the Regression Analysis and the Pearson Correlation Analysis verified these results. In addition, Cronbach's Alpha confirmed the reliability of the questionnaire.

However, based on analysis on the data collected, it shows that corruption has no impact on FDI in Malaysia. Hypothesis 1 anticipated no relationship between Corruption and Foreign Direct Investment in Malaysia. It can therefore be concluded that there is no significant relationship between Corruption and FDI. Hypothesis 1 (H01) is therefore accepted and Null Hypothesis 1 (H11) is rejected. This is because the regression analysis gave a 0.575 R value and a 0.082 (more than 0.05) Sig value (or p-value). This means increases or decrease in Corruption has no effect on foreign direct investment in Malaysia. The results found in this study on corruption having no impact on FDI are in consistent with the study based on the Asian context, by Quazi (2014) whose findings showed that corruption has no effect on FDI level

X. RECOMMENDATIONS

For political stability to attract more FDI in Malaysia, policymakers should develop and implement more effective FDI incentives. In developing countries, tax incentive schemes often suffer from lack of transparency, cumbersome administration and weak design, which reduces the attractiveness of incentives, increasing their indirect costs in terms of corruption and economic distortions. In terms of trade openness, the Malaysian government should re-examine the current regional obstacles to international trade and instead encourage regional economic integration. Lastly, Transparency International Malaysia's (TIM) estimate that Malaysia lost almost RM46.9bil in 2017 alone as a result of public-sector corruption is no less than alarming. Therefore, to resilient the economy, the Malaysian government can promote productivity at all levels to strengthening exports to enhance the balance of payments; guarantee inclusive and sustainable growth; embarking on industry projects to move up the value chain; highlighting a way of fiscal consolidation to guarantee medium-term sustainability and promoting quality investment to drive economic growth.

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