

## **US FOREIGN DIRECT INVESTMENT (FDI) AND MANUFACTURING SECTOR IN MALAYSIA**

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### **ABSTRACT**

*Utilising several manufacturing sub-sectors in Malaysia, this study attempts to investigate the spillover effect of US FDI on Malaysian economy. By identifying this issue, it could help in terms of selecting future FDI-related strategies in order to magnify the positive effect of FDI inflows. Applying seemingly unrelated regression (SUR) method, this study observes that there is no guarantee that FDI inflows into various sectors within manufacturing industry will generate positive externalities.*

**Keywords:** spillover effect, US FDI, manufacturing sector

### **INTRODUCTION**

According to World Bank (1996), foreign direct investment (FDI) is defined as an investment made in order to acquire or retain a lasting management interest in a business enterprise operating abroad. A minimum ordinary shares or voting stock requirement is 10%<sup>1</sup>. It can be in the form of greenfield investment or merger and acquisition (M&A). Greenfield investment, or sometimes also called mortar and brick investment, refers to new investment. M&A entails an acquisition of existing business in host country.

FDI is well accepted as contributing to long-term economic development. Regardless of the types, any inflows will induce higher economic growth to host economies. Bwalya (2006) highlighted three channels through which FDI may positively influence economic growth:

1. via providing fund (not debt) to finance investment in the host countries
2. via improving the technical level of host countries
3. via transferring new technology to host countries' domestic firms