

FDI'S country of origin and output growth: The case of Malaysia's manufacturing sector, 1991-2006

[Gee, C.S.^a](#), [Karim, M.Z.A.^b](#)

^a Institute of China Studies, University of Malaya, 50603 Kuala Lumpur, Malaysia

^b College of Arts and Sciences, Universiti Utara Malaysia, 06010, Sintok Kedah, Malaysia

Abstract

Numerous studies ranging from firm-to macro-level have been done on the impact of FDI on the host countries. However, to our knowledge, there are very few attempts to investigate whether the origin of FDI exerts different spillover effects on host countries. Hence, the objective of this paper is to analyze the impact of FDI inflows from countries in European Union, ASEAN, Japan, China, and the United States on growth of the manufacturing sector in Malaysia for period 1991 to 2006 using the Autoregressive Distributed Lag (ARDL) model proposed by Pesaran et al (2001). The results show that there exists both short-and long-run relationship between FDI inflows from European Union countries, ASEAN-4 countries, and the United States with the growth in Malaysia's manufacturing sector. The long-run elasticity shows that FDI inflows from China, US, and the European Union countries have a positive impact on growth in the manufacturing sector. However, FDI inflows from Japan and ASEAN-4 countries are negatively related to the growth of manufacturing sector's output. The results suggest that FDI inflows from developed countries to the R&D intensive sectors create positive impact on the growth of Malaysia's manufacturing sector possibly through transfer of technology.

Author keywords

Country of origin; FDI; Malaysias; Manufacturing sector; Output growth

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