



**UNIVERSITI TEKNOLOGI MARA**

**THE DETERMINANTS OF ECONOMIC  
GROWTH IN MALAYSIA**

**NURUL NADIAH BINTI BAHARUDIN  
2019542323**

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## **ABSTRACT**

This study attempts to study the determinants of economic growth in Malaysia for the period of 30 years from 1990 to 2019 using the time series data. Economic growth is important because it can support a country in terms of reduction in poverty, reduced unemployment, improved public services, and reduce debt to GDP ratios. The sets of data used for this study are Economic Growth (GDP) as the dependent variable and Foreign Direct Investment (FDI), Real Effective Exchange Rate (RER), Gross Capital Formation (GCF), and Trade (T) as the independent variables. A thorough comprehension of this topic will be useful not only for investors but also for future study. This study found that only FDI has a significant relationship with the economic growth while the other variables, RER, GCF and Trade has no significant relationship with the economic growth.

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# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Introduction**

Economic growth often refers to an increase in aggregate production in an economy over time. In addition, economic growth is important because it can help various macroeconomic of a country such as reduction in poverty, reduced unemployment, improved public services, and reduce debt to GDP ratios.

According to Cung (2020) there are two main indicators to measure the economic growth which are absolute growth and annual growth rate or average growth rate over a period (in GDP terms). Absolute growth is an increase in the value of asset in percentage terms. Furthermore, the value is not in relation to another asset, and it is on a standalone basis. While annual growth rate is an increase of an individual's portfolio or investment value over period of time. It can be evaluated in any kind of investment except the overall risk in the investment.

The main focus of this chapter is to explain the economic growth as well as the background of this study. This chapter also develops the research questions and research objectives. This is then followed by the significance of study, the scope of study and limitations that may arise in this study.

### **1.2 Background of the study**

Malaysia's economic growth have been affected by the COVID-19 pandemic since 2020. The pandemic does not only affect the Malaysia's economy, but it also affects the whole world economy. According to Department of Statistics Malaysia Official Portal (2021), Malaysia's economic performance growth has declined by 5.6 per cent compared to the positive growth in 2019. Below is the graph of economic growth in Malaysia from the year 1990 to 2019.