UNIVERSITI TEKNOLOGI MARA

DETERMINANTS OF EXPORT IN MALAYSIA

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ABSTRACT

The purpose of this research is to investigate the relationship between import, inflation, exchange rate and foreign direct investment towards export in Malaysia. This research presents a study of determination of export in Malaysia over the period 1980 to 2019. Therefore, there are a total of forty (40) number of observations. Hence, the variables as independent variables are import (IM), inflation rate (IR), exchange rate (ER) and foreign direct investment (FDI). Whereas, export (EX) as dependent variables to investigate the statistical relationship and evaluate the hypotheses. The data was examined using E-views. The expected results from this research is that imports and the exchange rate has a positive association with exports in Malaysia. However, the Inflation has a negative link because higher aggregate prices raise manufacturing costs and reduce export price competitiveness. Thus, foreign direct investment has an inverted-U curve relationship, which provides additional insight into the contradictory evidence of a linear link between export and FDI.

Keywords: Exchange Rate, Export, Foreign Direct Investment, Import and Inflation Rate.

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CHAPTER 1

INTRODUCTION

1.1 INTRODUCTION

Export can be defined as the sale of goods or services manufactured in one country to another country as international trade. Typically, sellers of goods and services are referred to as "exporters" and the overseas buyer is referred to as "importer". Concern about export has always been its benefits for international trade and the country, as well as the risk that certain national industries (or workers or cultures) could be harmed by foreign competition. The Malaysian economy has changed rapidly since 1970 and is not only dependent on a few basic raw materials. At the same time, Malaysia has developed rapidly from a raw materials economy to a manufacturing and service sector. As a result, the Malaysian economy has become more outward-looking and is liberalizing in many sectors.

An economic crisis in 1997 brought down many countries and this included Malaysia, where a drastic drop in demand for goods and services from large countries like the United States (USA) and China caused a huge financial crisis. According to the World Bank (2015), Malaysia's export growth fell sharply in 2009, which is 10.9% since the economic crisis and hurt Malaysia's exports and economic growth in 2009 to save the country. The government of Malaysia implemented few policies and many development plans to solve the problem of the economic crisis. Fortunately, the export sector in Malaysia also became stable after a few years and global recovery. On the other hand, imports showed that the growth of total imports decreased and became the weakest growth, which is 18.8% in 1998 (World Bank, 2015). In addition to this, import growth also declined dramatically, reaching 12.7% in 2009 (World Bank, 2015). The export sector is expected to decrease with imports, as imported intermediate goods must be used for export production. From a macroeconomic point of view, it is shown that it could have a significant effect on inflation, foreign direct investment (FDI) and the exchange rate towards the export sector.

In 1980, Malaysia saw the next value attributable to increased costs of oil prices.

Inflation in Malaysia increased from 3.7 percent in 1979 to 6.7% in 1980 and a highest rate 9.7% in 1981. Nevertheless, the inflation rate is low at 2.6% in 1990 when a big growth since growth within the industrial sectors is slower down (World Bank, 2015). Government has reforms policy equivalent to institution of trade zones, Investment Incentives Act in
1968 and export incentives aboard the open economy practices have attracted FDI flow in late 1980 (Ang, 2008).Malaysia FDI web inflows (BoP, current United States of America dollar) is augmented sharply from 2009 to 2010 and achieved 15119371105 US$ in 2010 (World Bank, 2015).In the 1997 till 1998, Malaysia currency visaged the depreciation attributable to economy crisis. During this case, Bank Negara Malaysia (BMN) supported the worth of the Malaysian monetary unit Malaysia (RM) by increasing the short-run interest rates. However, this effort failed, so BNM discontinued to defend RM (Ariff and Yap, 2001).

1.2 BACKGROUND OF THE STUDY

A better understanding of export changes is critical to the continued growth and development of the Malaysian economy. The main objective is to study the relationship between imports, inflation, the exchange rate and FDI to exports in Malaysia for the 2000-2019 period. Import materials to Malaysia from other countries to assemble on site before production for export from Malaysia. Therefore, these local assemblies will directly increase the export to Malaysia. Is there a connection between import and export? Inflation will cause the Malaysian currency to become relatively higher. This would increase the prices for inputs and end products. Therefore, export goods in Malaysia will decline due to the inflationary effect in Malaysia. Is there a connection between inflation? Export? Previous studies have shown that FDI, such as finance, materials and machinery in manufacturing, will directly result in increased exports in Malaysia. Otherwise, would foreign direct investment lead to an increase in Malaysia's exports? According to Marshall Lerner's theory, exports in Malaysia would increase. The Malaysian currency (Malaysian ringgit) is depreciating. Due to the devaluation of the Malaysian currency, the export costs in Malaysia become cheaper.