

UNIVERSITI TEKNOLOGI MARA

**THE MACROECONOMIC
DETERMINANTS OF YOUTH
UNEMPLOYMENT: A DYNAMIC
ANALYSIS OF ASEAN-5**

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ABSTRACT

Understanding the critical factors involved in youth unemployment is essential to the research process. This study investigates the impact of inflation, GDP, population, and foreign direct investment (FDI) as key macroeconomic determinants of youth unemployment within the ASEAN-5 countries from 1990 to 2019. Utilising the Panel Auto-Regressive Distributed Lag (ARDL) model, this research captures both short-term and long-term dynamics, providing a comprehensive analysis of these relationships. The findings reveal that in the long run, inflation and GDP significantly influence youth unemployment. Specifically, inflation exhibits a positive relationship, indicating that higher inflation rates correlate with increased youth unemployment. Conversely, GDP shows a negative relationship, suggesting that economic growth helps reduce youth unemployment. In the short run, the impact of these variables varies across the ASEAN-5 countries, reflecting their diverse economic structures and policies. The research findings advance the knowledge of the macroeconomic factors for youth unemployment by demonstrating the way in which those factors are related to youth unemployment. The study underscores the importance of maintaining economic stability and fostering growth to mitigate youth unemployment. It also highlights the need for targeted policies that address the unique economic conditions of each country. Recommendations include enhancing vocational training programs, strengthening key policies and programs related to youth entrepreneurship, and implementing policies that attract foreign investment while ensuring it translates into job creation. An increased inflation rate can create a negative impact on the youth employment opportunities within a country, further affecting the necessary resources and infrastructural changes essential for increasing the youth employment rate. Future researchers can expand their research area beyond ASEAN-5 countries to improve the quality and acceptability of their research outcomes. Increased emphasis on the national income scheme and international business policies have been mentioned as effective recommendations for mitigating the challenges associated with youth unemployment within ASEAN-5 countries. Government authorities need to focus on increasing the quality of technical and educational infrastructure to create a sustainable environment for youth employment within ASEAN-5 countries. This research contributes to the understanding of youth unemployment dynamics in the ASEAN-5 and provides valuable insights for policymakers aiming to develop effective strategies to combat this persistent issue.

Youth unemployment; Macroeconomics determinant; ASEAN-5, Panel ARDL

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TABLE OF CONTENTS

	Page
CONFIRMATION BY PANEL OF EXAMINERS	ii
AUTHOR’S DECLARATION	iii
ABSTRACT	iv
ACKNOWLEDGEMENT	v
TABLE OF CONTENTS	vi
LIST OF TABLES	ix
LIST OF FIGURES	x
LIST OF ABBREVIATIONS	xi
CHAPTER ONE: INTRODUCTION	1
1.1 Background of Study	1
1.2 The Overview of Youth Unemployment	3
1.3 Youth Unemployment in the Southeast Asian Region	10
1.4 Problem Statement	14
1.5 Research Objectives	16
1.6 Research Questions	17
1.7 Research Hypothesis	17
1.8 Scope of Study	18
1.9 The Overview of ASEAN-5	19
1.9.1 Indonesia	20
1.9.2 Malaysia	20
1.9.3 Philippines	21
1.9.4 Singapore	22
1.9.5 Thailand	23
1.10 Significant of the study	24
1.10.1 The Society	24
1.10.2 The Researcher	24
1.10.3 The Policy Maker	25
1.11 Limitation of The Study	25

CHAPTER ONE

INTRODUCTION

1.1 Background of Study

Youth is definitely one of the most formidable powers and assets a country can have in order to enhance its social and economic growth. The youth are not only numerous but also enthusiastic, brave, and have innovative thinking and ideas. They can influence social and economic development if well-coordinated and incorporated into the nation's economic activities. Regardless of their importance, youth have faced numerous challenges, one of which is the problem of unemployment. Unemployment among youth is challenging in many countries around the world. Youth unemployment is a problem that has persisted for decades. Due to the fact that youth is human capital with tremendous potential for driving an economy, uncontrolled youth unemployment will have an effect on the current economic growth. High youth unemployment and their difficulties both in entering the labour market and in finding steady employment have been the subject of great interest to economists, policymakers, and international agencies. As their high unemployment rate compared to the other age groups has been a persistent fact throughout the world in recent decades.

The problem of youth unemployment is more critical in developing countries. It is due to the high levels of poverty that require everyone to work in order to ensure their survival (International Labour Organization (ILO), 2011). Young people who are just entering the labour market present a high labour turnover, the higher probability of unemployment and more sensitivity to economic fluctuations, as compared to adult workers. Ideally, this issue should be addressed so that it can be addressed through a succession of initiatives that are consistent with the policy and political landscape of the countries involved. If this issue continues to be treated with complete disregard, it will be damaging to the development of society and the economy as a whole.

In the majority of developing countries, the issue of excessive youth unemployment has evolved into a threat to the social systems, economic and political stability. Youth unemployment has led to economic issues such as the instability of the labour market, an increase in the cost of welfare programmes, the erosion of the tax base, and new educational and vocational training investments (International Labour