



THE CONTRIBUTIONS OF  
FOREIGN DIRECT INVESTMENT, INFLATION RATE AND  
EXPORT PRODUCTIONS  
TOWARDS THE  
ECONOMIC GROWTH OF MALAYSIA

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## **1.0 Introduction**

The economy of Malaysia is an open economy. If anything happens in global such as financial crisis, it was affected economy of Malaysia. The economic activities involve both domestic community and international community. That means the Malaysia involve in domestic and international activities like export, import and foreign direct investment that also involve the other countries as their partner of trade. The economy of Malaysia is also a state oriented market economy. Every state in Malaysia has their own economy structure by using the budget the government gave every year. So, the most effective usage the budget can influence the state has higher income and then can contribute towards economy of Malaysia. This situation can affect the economic growth in Malaysia.

This study is organized into five chapters. Chapter one includes the background of the study, an overview of theoretical and empirical researches of contributions of various factors towards the economic growth of Malaysia, statement of the problem, the objectives of the study, the significance of the study and also the scope and limitation of the study. Chapter two provides a review of the theoretical framework and the empirical literature. Chapter three describes the objectives of the study and the details of the methodology applied. Chapter four presents the results and the final chapter concludes with a summary of the results, conclusion drawn and some suggestions for future research.

## 1.1 Background of Study

Economy is a backbone of any nation. The paradigm shifts in economies, as they move from static to dynamic and are getting the attention of economists from all over the world these few decades. The development of countries is associated with their economies, as changing in economies directly affect the development of the countries and living standard of their citizens. So, the economic growth and its factors that lead to growth are an area of study for economists.

Central Bank of Malaysia Governor, Tan Sri Dr Zeti Akhtar Aziz in the Star Online (November 23, 2010) said that Malaysia will see moderate growth in first half of 2011 and then the stronger growth in the second half. Malaysia sees that the GDP growth in third quarter of 2010 is 5.3% rather than 8.9% in the second quarter. It also distinguish that there are kind of moderate growths in the next two quarters and then stronger growth in second quarter as well distinguish the outlook for the first of quarter of 2011. The Governor also said that in 2010, Malaysia was likely to have a growth of 6% to 7% by supporting by domestic demand.

The Malaysian economy has made an enormous leap since 1957. The transformation of the country's economy from one based on primary commodities like tin, rubber and palm oil to a dynamic and vibrant industrializing nation is attributed to a variety of pull factors. Malaysia's political and economic stability, prudent and pragmatic investor friendly business policies, cost productive workforce, developed infrastructure comparable to that of any western country and a host of other amenities make this country an enticing place for investors.

Since it became independent in 1957, Malaysia's economic record has been one of Asia's best. Real gross domestic product (GDP) grew by an average of 6.5% per year from 1957 to 2005. Performance peaked in the early 1980s through the mid-1990s, as the economy experienced sustained rapid growth averaging almost 8% annually. High levels of foreign and domestic private investment played a significant role as the economy diversified and modernized. Once heavily dependent on primary

products such as rubber and tin, Malaysia today is a middle-income country with a multi-sector economy based on services and manufacturing. Malaysia is one of the world's largest exporters of semiconductor components and devices, electrical goods, solar panels, and information and communication technology products.

## **1.2 Problem Statement**

The Malaysian economy already faced the financial crisis and financial recovery from 1990 until 2010. We can see today how the economic growth of Malaysia is now become more stable and increase in value over years. There are factors and determinants that stimulate the economic growth either in positive or negative ways. Previous researchers have different views on the factors that contribute to the fluctuation of economic growth of their nations.

So, with the awareness of the issue, the research about the importance of Foreign Direct Investment (FDI), Inflation Rate and Exports and towards Economic Growth of Malaysia is conducted. The researcher wants to know the relationship of the factors that can influence economic growth hence to determine the strongest factor that influence most of the economic growth of Malaysia.

## **1.3 Objective**

- 1.3.1 To examine the factors that influences the fluctuation of Economic Growth of Malaysia.
- 1.3.2 To investigate the relationship between independent variables (Foreign Direct Investment, Inflation, and Export) with the dependent variable (Economic Growth of Malaysia).
- 1.3.3 To study the strongest influence of the economic growth's determinants that affects most of the Economic Growth of Malaysia (GDP).

## **1.4 Research Hypothesis**

### Hypothesis 1

Ho: There is no significant relationship between Foreign Direct Investment (FDI) and Economic Growth.

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