

**AN EVALUATION ON THE IMPACT OF FDI, HUMAN CAPITAL
FORMATION, PHYSICAL CAPITAL FORMATION AND FOREIGN
EXCHANGE RATE FLUCTUTATIONS ON THE ECONOMIC
GROWTH OF MALAYSIA FROM 1970 -2000**



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ABSTRACT

This paper investigates the impact of growth channels on Malaysian economy namely foreign direct investment (FDI), human capital formation (HCF), gross fixed capital formation (GFCF), extent of technological transmission (ETT) and foreign exchange rate (FER) between 1970 through 2000. In our study we employed multiple regression analysis and mediator models, to understand the impact of GFCF, HCF, FER, FDI, ETT and EXPEDU on economic growth rate. This analysis has yielded some interesting results that warrant further research and exploration. Both methodologies used in our study indicate that GFCF, HCF and EXPEDU are of important in influencing economic growth rates of Malaysia. The Granger Causality Study indicates that, in almost all cases, GDP rates seem to have a profound impact on GFCF, HCF and EXPED. Based on this causality study, it is our view that any deceleration in GDP can adversely affect the level of GFCF, GGS and EXPEDU which we consider important in affecting the economic growth rates of Malaysia.

TABLE OF CONTENTS

	Page
ACKNOWLEDGEMENT	vii
ABSTRACT	viii
TABLE OF CONTENTS	ix
LIST OF TABLES	xi
LIST OF FIGURE	xi
LIST OF MODELS	xii
CHAPTER ONE: INTRODUCTION	
1.0 Introduction	1
1.1 The Structure of Malaysian Economy	3
1.2 The Trade Direction of Malaysia	6
1.3 Objective of the Study	9
1.4 Significance of Study	10
1.5 Definition of Terms	11
1.6 Problem Statement	12
1.7 Organization of the Study	13
CHAPTER TWO: REVIEW OF LITERATURE	
2.0 Introduction	14
2.1 The Impact of Foreign Direct Investment on Economic Growth	15
2.2 The Impact of Human Capital Formation on Economic Growth	18
2.3 The Extent of Technological Transmission on Economic Growth	19
2.4 The Impact of Foreign Exchange Rate Fluctuation on Economic Growth	21

CHAPTER ONE: INTRODUCTION

1.0 INTRODUCTION

Debate still rages on whether or not there is a significant relationship between trade policy and economic growth. The debate is essentially on the methodology and its inherent weakness to capture the relationship between trade policy and economic growth (Baldwin, 2000). Most of the cross-national econometric research that was available up to the point focused on the relationship between exports and growth, and not on trade policy and growth (Rodriguez and Rodri, 2000; Wacziarg, 1998). For Malaysia, little or no empirical studies abound on the impact of trade regimes via channels on economic growth. Only superficial analysis on trade regimes and trade policy through channels affecting Malaysian economic growth was mentioned by Ataul Haque (1994), Mohamed Ariff (1999) and Rokiah Alavi (1996).

The nature of trade policies and channels affecting trade policies that prevailed over the last four decades affecting Malaysian growth rates was not explored sufficiently. While export growth is vital for economic growth, the nature of trade policy and evolution of trade regimes (expressed in terms of the degree of trade openness) affecting export growth warrants greater exploration. Since it has been established that trade policy is an