



THE EFFECT OF TRADE LIBERALIZATION ON  
ECONOMIC GROWTH OF MALAYSIA

**THE EFFECT OF TRADE LIBERALIZATION ON ECONOMIC  
GROWTH OF MALAYSIA**

SUBMITTED IN PARTIAL FULFILLMENT  
OF THE REQUIREMENTS OF  
BBA (HONS) BUSINESS ECONOMICS

**IZZAH IZYAN BINTI JAAFARUDIN  
2009531591**

FACULTY OF BUSINESS MANAGEMENT  
UTM, SABAH

**BACHELOR OF BUSINESS ADMINISTRATION  
WITH HONOURS (BUSINESS ECONOMICS)  
FACULTY OF BUSINESS MANAGEMENT  
UNIVERSITI TEKNOLOGI MARA  
KOTA KINABALU, SABAH**

SEPTEMBER 2011

**SEPTEMBER 2011**

## ACKNOWLEDGEMENT

Bismillahirrahmanirrahim,

First and for most Syukur Alhamdulillah, thanks to Allah SWT, the Most Beneficent and Most Gracious, whom with His willingness giving me the opportunity to complete this project paper.

I want to record my big appreciation to my advisor Tuan Haji Sheikh Junaidi Sheikh Mohammad for his guideline, support, comments toward my project paper for the whole semester. I also want to say thank you to my second examiner Dr Imbarine Bujang for his comments to improve my project paper.

Furthermore, I want to give the appreciation to my beloved family especially to my mother, always supportive my study. For my father that always give financial support and motivate me. To all my siblings, wafiy, wafa, wada, wana n wani for the moral support. I also want to thank for my beloved ndy for his challenge and always encourage me to do the best in whatever I do in my life.

To my classmate that share they knowledge. Not forget to Mr Wahi Ismail for checked my method. Last but not least to my happening roommate Dk Roshazianah and Aslizah for they support to complete my project paper.

## TABLE OF CONTENT

	<b>PAGE</b>
<b>ACKNOWLEDGEMENT</b>	iv
<b>LIST OF TABLES</b>	viii
<b>LIST OF FIGURES</b>	ix
<b>ABSTRACT</b>	x
<b>CHAPTERS</b>	
<b>1.0 INTRODUCTION</b>	
1.1 Background of Study	1
1.2 Variables Overview	7
1.2.1 Gross Domestic Product	8
1.2.2 Foreign Direct Investment	9
1.2.3 Export of goods and services	9
1.2.4 Import of goods and services	10
1.2.5 Trade openness	11
1.3 Problem Statement	11
1.4 Research Objectives	12
1.5 Research Questions	12
1.6 Significance of Study	13
1.6.1 Researcher	13
1.6.2 Government	13
1.7 Hypotheses Statements	14
<b>2.0 LITERATURE REVIEW</b>	15
<b>3.0 RESEARCH METHODOLOGY</b>	
3.1 Theoretical Framework	20
3.2 Research Design	22
3.2.1 Variables	22
3.2.2 Regression Analysis	23

3.2.3 Procedures	27
3.3.3.1 Coefficient of Determination, $R^2$	27
3.3.3.2 Adjusted $R^2$	27
3.3.3.3 $t$ -test	28
3.3.3.4 $F$ -test or ANOVA Test	28
3.3 Data Collection	28
3.4 Scope and Limitations of Study	29
3.4.1 Scope of Study	29
3.4.2 Limitations of Study	29
<b>4.0 FINDINGS AND ANALYSIS</b>	<b>31</b>
4.1 Economic growth	30
4.2 Trade openness	32
4.3 Regression Analysis	34
4.3.1 Unit Root test	34
4.3.2 Interpretation of the Coefficients	35
4.3.3 Chow Breakpoint Tests	47
<b>5.0 CONCLUSIONS</b>	<b>52</b>

## ABSTRACT

### CONTRIBUTION

This paper presents the impact of trade liberalization on economic growth of Malaysia. Where the trade policy practices the free trade and removing the tariff and non tariff barriers between countries. By investigate the causal relationship between the variable that are significant towards economic growth of Malaysia. The data collected from 1960 until 2009 to measure the economic performances. This period are divided into pre liberalization (1960-1978) and post liberalization (1979-2009). The method of Ordinary Least Square (OLS), ADF test are use to test to the data. Furthermore, Chow Breakpoint test are use to identify the structural changes of country. Based on the result, there are significant and positive relationship between trade liberalization and economic growth.

Trade liberalization is implement by removed the tariff barriers on exported and imported goods. Where, from the free trade it can increase standard of living according to the theory of comparative advantage (David Ricardo). From the free trade, modern economists believe that can create job, increase economic growth and improve the standard of living. It is refer to the decreasing the government's restriction such as duties, quotas, and regulations towards imported or exported goods and services among nations in international trade.

When each of the country has imposed the free trade, the economic growth will be greatly increased. In the last three decades, most of the country implementing the policies that have positive impact towards the economic performance. Most of developing countries including Malaysia were faced with rapid growth through the international trade.