THE EMPIRICAL STUDY OF RELATIONSHIPS OF EXPORT, IMPORT, TOTAL EMPLOYMENT, AND TOTAL INVESTMENT WITH ECONOMIC GROWTH IN MALAYSIA

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ABSTRACT

This study focuses on the significant relationships of export, import, total employment, and total investment towards economic growth in Malaysia as being represented by the GDP. The dependent variable used in this study is GDP at constant price (in billion) as a proxy for economic growth. Meanwhile the independent variables are export, import, total employment, and total investment. The data covers a sample of yearly data of GDP growth at constant price, export, import, total employment and total investment from 1975-2005. Total employment and total investment are represented by the number of total employment and gross fixed capital formation respectively. For this purpose of analyzing data, the SPSS software was used to run the multiple regressions. In order to test the regressions results, the Coefficient of Determination denoted by R^2, t-statistics, F-statistics, Pearson correlation, and Durbin Watson (*d*) test had been used. However, the final model had excluded the export variable as to overcome the problem of multicollinearity and autocorrelation and as to improve the model. The results show that the variables of total employment, total investment, and import are significant. The results show that there exist significant relationships between, total employment, total investment and import over the period under consideration. Total employment has a positive relationship with economic growth but import and total investment show results that do not conform to the theory. Surprisingly, both of import and total investment variables have positive and negative relationship with the economic growth respectively. These results can be explained by the effects of recession in early 1980s, the sudden economic crisis in 1997 that rocked Malaysian economic growth negatively and also the global economic downturn in 2001.

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INTRODUCTION

1.1 BACKGROUND OF STUDY

Economic growth means that people are better off and generate higher standard of living. The economic growth is widely measured by using the Gross Domestic Product (GDP), as an indicator of an economy's ability to produce goods and services with the given resources. Therefore, there have been a vast number of studies about what an examination of national output statistics truly reveals about an economic condition. Moreover the studies also explored the factors that promote economic growth of a particular country. It is quite an important topic to be discussed for a long-term goal of a particular country especially to the developing countries.

Since Independence in 1951, Malaysia has moved from a largely agricultural-based economy to a well-diversified economy, exporting manufactured goods such as telecommunications equipment, electrical machinery, and electronic components and commodities like rubber, tin, oil, liquefied natural gas, palm oil, and timber. It is why Malaysia has been classified as a middle-income country and transformed itself from a producer of raw materials into an emerging multi-sector economy. This remarkable changes lead to an outstanding economic growth for a developing country like Malaysia.