UNIVERSITI TEKNOLOGI MARA

A STUDY ON THE RELATIONSHIP BETWEEN DOMESTIC AND EXTERNAL DEBT ON THE ECONOMIC GROWTH OF SELECTED DEVELOPING COUNTRIES

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Thesis submitted in fulfillment

of the requirements for the degree of

Bachelor of Business Administration

(Hons) (Finance)

FACULTY OF BUSINESS MANAGEMENT

July 2017

ABSTRACT

For a country to be developed, the needs for an amount of capital are crucial to generate production and investment (Lee & Ng, 2015). In a situation where government deals with budget deficit where its expenditure exceeds its revenue, the issuance of debt is important to finance government's expenditure and investment. The issuance of debt or capital borrowed can be classified in the form of domestic and external debt. Domestic and external debt also can be known as public debt (Abd Rahman, 2012). From the available studies, the results have shown consistency with the existing literature that found debt and economic growth have negative association with each other which means an increasing of the amount of debt will give severe impact on the economic growth. Others studies have found that in the short period, the issuance of debt will affect the economic growth in a positive way. The issue arises on whether debt issuance can enhance economic growth or will give negative impact on the economic growth.

Keywords: budget deficit, government expenditure, domestic debt, external debt

ACKNOWLEDGEMENT

First and foremost, Alhamdulillah and all praise to Allah Almighty for giving me the opportunity, chance, strength and patience to fulfill and finished this Academic Project requirement for the Bachelor of Business Administration (Hons) (Finance). I thank Allah for His utmost blessings that have made this entire final semester research possible within the allocated timeframe.

I would like to take this opportunity to convey my utmost gratitude to my Thesis Project's advisor, Miss Sharazad binti Haris for her massive inputs, guidelines and continuous support throughout the completion of this research. I would also like to express my deepest appreciation towards my Thesis Project's co advisor, Sir Wan Mohd Farid bin Wan Zakaria for his immense guidance in completion of this final research. In addition, my heartfelt thanks are also extended to both my loving parents, family members and classmates for their unwavering contribution and invaluable counsel in helping me finishing this research to greater heights.

Last but not least, I would like to thank everyone who have supported, helped and worked together directly or indirectly in assisting me realizing this research on time, the cooperation given is well appreciated and will always be remembered. Thank you.

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CHAPTER 1
INTRODUCTION

1.1 Introduction

Developing country is known as a country with lower income that seeks to improve its economy or can be called as undeveloped countries. According to United Nation (UN), what is meant by developing country is country that experienced low standard of living, primitive industrial base, and confront with moderate to low Human Development Index (HDI). With a low standard of living, it represents that economic condition in developing countries still in average level compared to developed countries. As fiscal imbalances getting higher, it is hard for most developing countries to generate investment opportunities that can help boost their economy (Shabbir, 2013). In the history of developing countries, it has shown that developing countries have been prone to several type of shocks such as tremendous increase in oil prices, shocks in global financial market, interest rate fluctuation and natural disaster such as earthquake, typhoon, and flood in which cut government revenue (Kimm Gnangnon, 2014). Supported by Akram (2016) where in his study has shown that it has been a failure for most developing countries in collecting the revenue to finance the budget in these past years. Failure to collect the revenue from tax collections has caused the deficits in the economy for most developing countries. In hoping to escape these situations, they have to rely on additional financing such as issuance of debt which consists of external or domestic debt in order to finance their development activities which will help gain revenue thus servicing their debts.

According to World Bank, economic growth in developing East Asia and Pacific (EAP) continues to be volatile and the UN also has stated that economic condition in developing East Asia are expected to decrease as an impact of the deceleration of economy in China partly due to the rest of the region that have shown improvement in their economy. Moreover, investment opportunities remain weak for Malaysia and Vietnam although they supposed to be at advantage from the Trans-Pacific Partnership Agreement (TPPA) which is expected to escalate the investment in regards from the trade agreement. As compare with East Asia, South Asia's