



**THE IMPACT OF EXTERNAL DEBT ON  
ECONOMIC GROWTH IN  
MALAYSIA**

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## ABSTRACT ONE: INTRODUCTION

This study investigates the relationship between external debt and economic growth based on a sample of Malaysia from 1988 to 2017 which is thirty years. The study used time series data with different methods of estimations. The results of this study indicate that the coefficients of debt variables were strongly significant and negatively related to economic growth.

Before the middle of 1970s, many developing countries took advantage of abundant availability of international loans resulting from oil booms which is asserted by Amin and Andu (2006) (James, 1996). To augment domestic resources, the main reasons why developing countries have been importing capital are because of lack of domestic saving, current account deficit which led, sharp losses in the terms of trade, 1973 to 1974 and 1978 to 1979 happened the oil price shocks, a growth of a tre in public expenditure by African governments following rise in commodity price during the early 1970s, recession in the industrialized nation and collapse in real interest rate.

In their first steps of built, external debt is as like a common phenomenon for all developing countries. To bridge the domestic resource and achieve high sustained economic growth since they had a limited resources, they can borrow from developed nations.

Based on the Harrod-Domar growth model (Tolaro and Smith, 2009; Adegbite et al., 2008; Hamad, Ashraf & Choudhary, 2009), this is the financing gap problem. Invest more is the key to enhance economic growth because economic growth rate depends solely on investment according to this model (Mortin and Arsan, 2002). To finance the desired level of investment, developing countries may not be able to save enough (Hunt, 2007). The desired level of investment and domestic saving will be a gap in between (Hwa, 1996; Amin and Andu, 2006; Oduor, 2008). Assuming, the cost of borrowing the foreign fund will be smaller than the rate of return on investment, many countries seek to borrow (Ajayi and Khan, 2005). Economic growth in the recipient country can be boost by rest up in investment financed by external resources (Kiliza, 2007).