UNIVERSITI TEKNOLOGI MARA

# FACTOR THAT INFLUENCES GROSS DOMESTIC PRODUCT IN MALAYSIA

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**ABSTACT**

Growth of the Gross Domestic Product (GDP) has always been considered as a contemporary subject that many scholars have looked at. Inconsistent GDP per capita growth within a country will result in a larger incidence of poverty, as well as stymie advances in health, education, crime, and, ultimately, economic growth. The elements that contribute to GDP growth are somewhat essential in preventing socio-political instability. In Malaysia, the link between GDP growth and factors such as inflation, foreign direct investment (FDI), and female labour force participation is investigated in this research. The analysis is based on annual time series data from 1991 to 2020, descriptive analysis, correlation analysis, and regression analysis are use in this research. The findings show that FDI and female labour force participation have a beneficial influence on GDP growth. However, FDI is the only factor that has a major impact on Malaysia's GDP growth. Furthermore, while inflation is adversely connected with GDP growth, it is not a substantial component in Malaysia's GDP growth. Furthermore, the levels of GDP, inflation, FDI, and female labour force are shown to be stable. According to the findings, the Malaysian government may reduce inflationary pressure by increasing taxes and cutting government spending while preserving inflationary stability. Identify answers to existing economic challenges as well.

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## CHAPTER 1: INTRODUCTION

### 1.1 Introduction

Malaysia has been a successful Asian emerging country and is now on its way to become a developed country in its own way. The country is shifting from an agriculture-based economy to one that is more diverse. According to the World Bank, the manufacturing sector has increased significantly in recent years, providing 22.31 percent of GDP and more than 65.22 percent of total exports. The service sector has grown to become the biggest sector, accounting about 54.78 percent of GDP. Aside from that, mining and quarrying also contributed about 9 percent of GDP.

Moreover, to achieve rapid and sustainable economic growth, fair, equitable, and inclusive economic distribution, the Malaysian government has implemented various policies such as the New Economic Policy 1970, the New Economic Model (NEM), the Tenth Malaysia Plan (10MP), the Government Transformation Programme (GTP), and the Economic Transformation Programme (ETP).

GDP growth has always been viewed as a current subject that many researchers have examined. Inconsistent GDP per capita growth within a country will increase the prevalence of poverty while also stifling advances in health, education, crime, and, eventually, economic growth (Dorosh & Thurlow, 2018). The variables that contribute to GDP growth are somewhat essential in preventing socio-political instability (Raworth, 2017).

**GDP Growth in Malaysia (Annual %)**

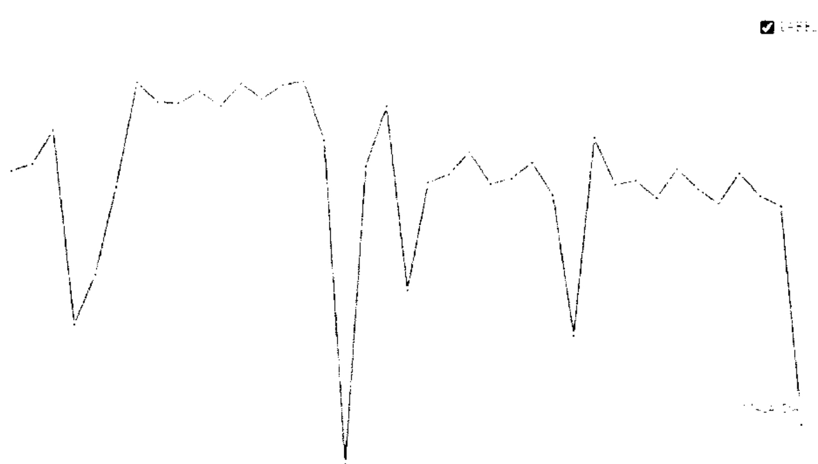

***Figure 1*** *GDP Growth in Malaysia (1982 – 2020)*

Figure 1 illustrates that in late 1998, Malaysia experienced the most severe negative growth rate (-7.35 percent) as a result of the Asian financial crisis. Malaysia was the Asian country with the fastest economic recovery in 1999. The international economies had their most difficult time in 2009 as a result of the global financial crisis that began in the United States. As a result, the global economy faced a liquidity risk in the capital markets, which slowed global economic growth. The risk of market liquidity being used as a measurement of financial stability (Anwar, Shahzidi, & Nasreen, 2017). Despite a severe incidence of negative GDP growth, Malaysia has demonstrated its ability to deal with challenging situations. In 2010, the highest rate of GDP growth was 7%. As a result, the amount of poverty in Malaysia is reduced.

**1.2 Background of The Study**

The gross domestic product (GDP) is a measure of a country's economic activity. It calculates the total value of all newly generated final products and services inside a country's boundaries over the course of a year (Prieto & Dominguez, 2017). The underlying concept was straightforward combined economic production data into a single number that would rise in good times and fall in bad times (Raworth, 2017).

The key problem is that GDP does not differentiate between good and poor economic activity, instead counting all activity equally. When the government invests in education, it boosts the economy. Both of these expenses are likely to be considered favourable. However, if an oil leak occurs and taxpayers are responsible for cleaning it up, this contributes to GDP as well. The money spent on divorce contributes to GDP if more families go through costly divorce proceedings. Our key indicator of national progress is influenced by war, criminality, and environmental degradation. It's a calculator with a huge "plus" button but no "minus" (Prieto et al., 2017).

The main purpose of this research is to investigate the Gross Domestic Product (GDP) of Malaysia. Malaysia has a land border with Thailand, Indonesia, and Brunei Darussalam, as well as sea borders with Singapore, Vietnam, and the Philippines in the South China Sea (Ibrahim, Tan, Hamid, & Ashari, 2018). This country was chosen as the research because Malaysia has one of the world's most open economies, with a trade-to-GDP ratio of more than 130 percent since 2010. With over 40 percent of Malaysia's jobs tied to export operations, the country's openness to trade and investment has played a key role in job creation and income growth. Malaysia's economy has been on an upward trend since the Asian financial crisis of 1997-1998, averaging 5.4 percent growth since 2010, and is predicted to move from an upper middle-income to a high-income country by 2024.