THE EFFECT OF FOREIGN DIRECT INVESTMENT, TOTAL TRADE AND EXTERNAL DEBT ON THE ECONOMIC GROWTH OF MALAYSIA

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ABSTRACT

The objective of this study is to see the relationship and effects between the inflow of foreign direct investment and economic growth, the relationship and effects between total trade and economic growth, and the relationship and effects between external debt and economic growth in Malaysia. The data consists of quarterly data of inflow of foreign direct investment, total trade and external debt from 1997 to 2006. The methods used are Pearson Correlation Matrix, Durbin –Watson statistic, Standard Error or Mean Square, F-value, Coefficient of Variable, R Square or Coefficient of Determination to examine the relationship between the inflow of foreign direct investment, total trade and external debt on the economic growth of Malaysia.

The data has been interpreted and analyze by using Statistical Package for Social Science. From the findings and analysis I am able to identify the relationship between the variables. Hopefully, from the findings of this research can give some benefits to fellow students, the business faculty of UiTM and everybody in Malaysia including the government and they will use it for further reference. The results show that there is a negative relationship between inflow of foreign direct investment on the economic growth of Malaysia, and also a positive relationship between total trade and external debt on the economic growth of Malaysia.

CHAPTER ONE

INTRODUCTION

1.1 Background of Study

Malaysia is generally regarded as one of the most successful non-western countries to have achieved a relatively smooth transition to modern economic growth over the last century or so. Since the late nineteenth century it has been a major supplier of primary products to the industrialized countries; tin, rubber, palm oil, timber, oil, liquefied natural gas, etc.

Between 1970 and 1990, Malaysia's economy was directed under the New Economic Policy (NEP), with GDP growth averaging 6.7% a year. This period also saw it transform itself from a resource-based economy - primarily producing rubber and tin - into a multi-sectoral one. Growth was driven largely by exports, with electronics in particular a major revenue source for Malaysia.

This was followed by the period of the National Development Policy, which was planned to run from 1991 through to the year 2000, with a similar economic growth-oriented approach.

From 1991 to 1997, this approach produced results, as GDP expanded at a rapid 9.2% per annum average. At the same time, there were low rates of inflation and growing per capita incomes.

However, 1997 saw the financial crash, which hit all of South-east Asia. A crisis over the Thai baht spread rapidly to other regional currencies, with huge amounts of short-term capital flowing out of the region overnight. The Malaysian currency, the Ringgit Malaysia, fell in value and the stock market crashed. Yet Malaysia did not suffer as