

AN ANALYSIS OF RELATIONSHIP BETWEEN MALAYSIA ECONOMIC GROWTH AND
FOREIGN DIRECT INVESTMENT: REVIEW TO MALAYSIAN POLICIES

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JUN 2012

ACKNOWLEDGMENT

In the name of Allah, Most Gracious, Most Merciful. Firstly, thanks to the God for the blesses and guidance, we attempt to accomplish this thesis with great calm and patience. Also, peace and blessing be upon Prophet Muhammad for all his teachings, we were able to live as a Muslim is more meaningful.

We would like to express our gratitude to the following people who directly or indirectly contributed to the completion of research.

- i. Prof. Dr. Abu Bakar Abdul Majeed
Assistant Vice Chancellor (Research) UiTM.
- ii. Dr. Oskar Hasdinor Hassan
Head of Research (Social Science & Management) UiTM.
- iii. Prof Madya Dr Mazidah Puteh
Deputy Director (Research and Industrial Linkage) UiTM Terengganu.
- iv. Dr Siti Haryati Shaikh Ali
Coordinator RMU UiTM Terengganu.
- v. Puan Aida Mustapha
Lecturer (Language Department) UiTM Terengganu.
- vi. En. Fadli Fizari B Abu Hasan Asari
Lecturer (Economics) UiTM Terengganu.
- vii. Cik Nurhayati Binti Abdul Rahman
Lecturer (Economics) UiTM Terengganu.
- viii. Our fellow colleagues.
- ix. Our beloved family.

ABSTRACT

Sustained Economic Growth is a quantitative indicator to determine Malaysia's performance. In this study economic growth is presented by Gross Domestic Product (GDP). There are many factors that influence economic growth and one of the factors is Foreign Direct Investment (FDI) that is discussed in this study. Past researchers have found that relationship between FDI and GDP is positive in the long run based on the country they studied by using different methodologies such as ordinary least square (OLS) regressions and Artificial Neural Network (ANN). This study shows that FDI has relationship in the long run and no relationship in the short run. Based on the finding FDI and economic growth have unidirectional causality relationship and GDP causes FDI. Unit root, cointegration and granger causality test are conducted by using annual data of FDI and economic growth in Malaysia during the year 1970 to 2011 that are taken from the World Bank and the Ministry of Finance. This studied can be continued by looking at the specific factors of FDI, inward and outward. For the future study, future researcher can add the number of year 10 to 20 years, also can include other independence variables such as import and export, balance of payment or others that can influence economic growth.

Keywords: Growth, FDI inflows, Previous Malaysian Policy, FDI and economic growth relationship, New Economics Model

TABLE OF CONTENT

<u>CONTENT</u>	<u>PAGES</u>
TABLE OF CONTENT	i
LETTER OF APPROVAL (GRANT)	iii
LETTER OF COMPLETION (RESEARCH)	iv
RESEARCHER MEMBERS	v
ACKNOWLEDGEMENT	vi
LIST OF TABLE	vii
LIST OF FIGURES	viii
LIST OF ACRONYM	ix
ABSTRACT	xi
CHAPTER 1: INTRODUCTION	
1.0 Background of study	1
1.1 Problem Statement	3
1.2 Research Objectives	3
1.3 Scope of Study	4
1.4 Significant of study	4
1.5 Organization of Report.....	4
CHAPTER 2: LITERATURE REVIEW	
2.1 Keynesian Theory on Government Spending and Tax.....	6
2.2 Review of Empirical Study.....	6
CHAPTER 3: RESEARCH METHODOLOGY	
3.0 Introduction	10
3.1 Method.....	10
3.2 Data	11
3.3 Research Methodology.....	11

3.3.1 Unit Root Test.....	11
3.3.2 Cointegration Test.....	13
3.3.3 Causality Test.....	13
3.4 Conclusion.....	14

CHAPTER 4: EMPIRICAL RESULTS

4.0 Introduction.....	15
4.1 Variable Trend.....	15
4.1.1 Malaysia Gross Domestic Product.....	15
4.2 Descriptive Statistic.....	17
4.3 Unit Root Test.....	18
4.4 Cointegration Test.....	20
4.4.1 Determination of Lag-Length.....	20
4.4.2 Johansen Cointegration Test.....	21
4.4.3 Vector Error Correction Model (VECM).....	21
4.5 Stability Test.....	22
4.5.1 Autocorrelation Test.....	22
4.5.2 Normality Test.....	23
4.5.3 Stability Condition.....	23
4.6 Granger Causality.....	24

CHAPTER 5 : CONCLUSION

5.0 Conclusion.....	26
5.1 Recommendation.....	27
5.2 Future Study.....	28

BIBLIOGRAPHY.....	29
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APPENDICES

Appendix A.....	32
Appendix B.....	33