UNIVERSITI TEKNOLOGI MARA

"DETERMINANTS OF IMPORT DEMAND IN MALAYSIA"

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2013183085

SUBMITTED IN PARTIAL FULFILLMENT

OF THE REQUIREMENT FOR THE

BACHELOR OF BUSINESS ADMINISTRATION

(HONS) FINANCE

FACULTY OF BUSINESS MANAGEMENT

UNIVERSITI TEKNOLOGI MARA

PASIR GUDANG

(JUNE 2018)

ACKNOWLEDGEMENT

First, thanks to almighty Allah swt for giving me strength and ability to complete this study. My sincerest thanks are extended to my supervisor, Sir Abdul Razak bin Jambari, for his encouragement and guidance to me in completing this study and report.

I take this opportunity to express gratitude to all of the lecturers for their help and support. A special mention goes to Coordinator iNED, Madam Nor Fazlin binti Uteh for the continuous encouragement.

For my close friends, Noorhaslinda binti Ab Kahar and Siti Zubaidah binti Barook, you should know that your support and encouragement was worth more than I can express on paper.

Finally, I must express my very profound gratitude to my parents and to my spouse for providing me with unfailing support and continuous encouragement throughout my years of study and through the process of researching and writing this thesis. This accomplishment would not have been possible without them.

Thank you.

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ABSTRACT

This paper examines the determinants variables of import demand in Malaysia. Time series data for the period 1980 to 2014 were used and cross refer to the previous researches. Using several test which is descriptive analysis, stationary test by Augmented Dickey-Fuller (ADF) Test, correlation test, regression analysis and test on assumption, the study show that Inflation (INF), Gross Domestic Product (GDP) and Real Exchange Rate (RER) are significant variables that affect import demand. By understanding of this determinant, effective policies can be implemented in order to maintain favourable trade balance.

Key words: Import Demand, Inflation, Gross Domestic Product, Real Exchange Rate

CHAPTER 1

INTRODUCTION

1.1   BACKGROUND OF STUDY

In the past, national economies were relatively self-contained entities, isolated from each other by barriers to cross border trade and investment; by distance, time-zones, and language; and by national differences in government regulations, culture and business system. As this barrier are being minimize by taking different initiatives, the contribution of cross-border trade and the development of national economy is being significant (Md.Mahmudul Alam, 2009). The economics development of Malaysia is also, to a significant extent, affected by the flows with partner countries.

Import is one of the most important factors responsible for trade balance (Md. Mahmudul Alam, 2009). The liberalization of domestic economy results into increase imports of consumer goods, which aggravated its term of trade condition. According to Malaysian External Trade Development Corporation, Malaysia main imports are: electrical and electronic products, chemicals, petroleum products and machinery, appliances and parts. And the main import partners are: China, Singapore, European Union, the United States, Japan and Thailand.