UNIVERSITI TEKNOLOGI MARA

# MACROECONOMIC FACTORS INFLUENCING ECONOMIC GROWTH IN MALAYSIA

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# ABSTRACT

Economic growth is defined as an increase or improvement in the inflation-adjusted market value of an economy's goods and services over time. Statisticians often use the percent rate of rising in the real gross domestic product, or real GDP, to measure such growth. Foreign direct investment, export, labour, and market capitalization are the tools that are being used to study the relationship with the dependent variable. To eliminate the distorting influence of inflation on the prices of products produced, growth is frequently assessed in real terms inflation-adjusted terms. This study aims to investigate what is the macroeconomic factors influencing economic growth in Malaysia and the data from The World Bank and Department of Statistics Malaysia Official Portal that cover the period from 1999 – 2020. This research used the Ordinary Least Square (OLS) regression method to determine the significance of the independent variables that are foreign direct investment (FDI), export, labour, and market capitalization that used real gross domestic product (GDP) as the dependent variable. Foreign direct investment, export, and labour have a significant relationship with real gross domestic product. Meanwhile, market capitalization has an insignificant relationship.



**Keywords**: Economic Growth, Real GDP, FDI, Export, Labour, Market Capitalization

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## 1.1 INTRODUCTION

Economic growth is defined as an increase or improvement in the inflation-adjusted market value of an economy's goods and services over time. Statisticians often use the percent rate of rising in the real gross domestic product, or real GDP, to measure such growth. To eliminate the distorting influence of inflation on the prices of products produced, growth is frequently assessed in real terms inflation-adjusted terms. The real GDP of a country is a measure of its gross domestic product adjusted for inflation. Real GDP gives a more accurate depiction of a country's economic growth rate. When calculating real GDP, a base year is chosen to account for inflation, real GDP data record the quantities of goods produced in different years using prices from the same base year. Volume changes, not value changes, are reflected in the fluctuating real GDP estimates from different years. Based on the official data from the World Bank, the highest amount of GDP was worth 364.68 billion US Dollars for 2019 and the lowest was for the year 1999 which was valued at 79.15 billion dollars.

There are a few research that points out foreign direct investment (FDI) has some impact on economic growth. Foreign direct investment (FDI) is defined by Mun et al., (2008) as international capital flows in which a company in one jurisdiction establishes or expands a subsidiary in another. It entails not only a resource transfer but also the acquisition of power. FDI has been a source of economic growth for Malaysia since the 1990s, with the belief that, in addition to needed capital, FDI brings in many of the other advantages. According to Murari, (2017), the findings show that stock market capitalization plays an important role in the growth and that economic growth causes stock market capitalization to rise (size). Bakari, (2018) found that in the long run, exports and labours have a positive significant effect on economic growth. These findings show that exports and labour are viewed as sources of economic growth in Malaysia. The findings of Haseeb et al., (2014) research revealed that Malaysia has an export-oriented FDI linkage. This essentially indicates that the rate of growth of exports