

CHAPTER VI

SUMMARY AND CONCLUSION

6.1 Summary of the empirical findings

The main objective of the study is to examine the relationships between FDI, exports, and growth in Malaysia by using quarterly data series over the period of 1980:Q1 to 2000:Q4. From the empirical results obtained, it can be summarized as follows:

- I) Both ADF and PP tests of unit root of the series were utilized to avoid spurious regression which has significant high R^2 and t-statistics, yet it is without any economic meaning. Both tests show all the series are integrated of order one, that is, all series are non-stationary at level form, but stationary at first difference.

- II) Despite J & J method of cointegration test, Granger non-causality test developed by Toda and Yamamoto was used to establish long run causal relationships among FDI, exports and growth in Malaysia. This is due to its simplicity and better performance both in size and power. This test utilizes MWALD method for testing linear restriction on the parameters and was constructed using SUR. Several diagnostic tests were performed to ensure model is correctly specified.

The empirical results reveal several important findings. Firstly, it is supportive of ELG hypothesis in Malaysia. Export accelerates economic growth. As a result, EP industrialization policy is an effective development strategy and should be implemented by the government to achieve favorable growth rates.

In addition, the empirical findings also indicate existence of FLG relation. FDI does stimulate growth through improvement in TFP level as a result of rise in physical capital accumulation and human capital stock. Hence, FDI is viewed as a catalyst for domestic growth and technological progress in Malaysia.

The results also show that there is export-oriented FDI linkage in Malaysia. This means the inflows of capital into the economy is influenced by the growth rate of exports. Although there have been FDI inflows to Malaysia during IS industrialization policy, massive inflows of FDI into the manufacturing industry can be observed during the implementation of EP strategy. Even to this day, this industry still remains major contributor to total exports which in turn helps in the growth of the economy.^{6.1}

Finally, the empirical findings suggest that Malaysia is a small open economy exposed to external dynamics such as exchange rate risk. There is a direct link between exchange rate and export in terms of price competitiveness

^{6.1} Manufactured exports contribute about 70% to total exports, and exports as a percentage of GDP stood at 70%. (Daraisami,1996)

of the goods sold in the international market. If goods are traded at relatively cheaper prices, it could increase the demand for the products which in turn increase export growth rate and subsequently spurs economic growth. Hence, it is important for policy makers and BNM to monitor and to ensure the stability of these external dynamics.

In conclusion, this study again stresses the importance of export in relation to the growth of the country and suggests there is a kind of export-led FDI growth linkage. Export not only accelerates growth, but also influences the inflows of the capital funds into Malaysia, which in turn have impacts on the growth in the economy.

6.2 Summary of Policy Implications

From a policy-making perspective, which policy should be planned and implemented are important in the process of development. Malaysia has specified its economic and socio-economic goals through policies such as NVP (formerly known as NEP and NDP). Generally, these policies have emphasized on exports as a result of impressive growth rate was achieved during the implementation of EP industrialization. Because of its positive spillover effects, government needs to ensure attractiveness of manufacturing industry by introducing incentives to the exporters. However, with the emergence of new markets such as China and vulnerability of export market due to geo-political instability and slowdown of world economy, Malaysia needs to move up in the value chain in term of the quality of its exported products and perhaps explore new potential markets without too heavily dependent on the export sectors. Hence, it is crucial for Malaysia to be independent enough to develop its own technology and human capital bases in face of trade liberalization and globalization. In conclusion, effective planning and implementing of development policies with the corporation of the nation would enable Malaysian to realize its Vision 2020 through the intrinsic relationships among exports, FDI and economic growth.

6.3 Limitations of the Study

The empirical results for this study are essentially based on secondary data gathered from BNM and IMF. Hence, it could subject to measurement errors when data were collected and interpretation of these data should be taken broadly. It is hope that better strides would be made in compiling these data.

Besides that, our study only covers period from 1980:Q1 to 2000:Q2. Perhaps longer period of study shall be included for future research especially with the emergence of China into the world market, recently financial crisis and geopolitical instability in the region.

Finally, although we have incorporated important variables in our analysis, other variables such as labor force, might be useful in the future since the market have started shifting from capital intensive to labor intensive environment. In other words, any factor that influences the structure of the domestic economy need to be taken into account and incorporate into the framework to improve the power of the model.

6.4 Conclusion

In conclusion, this research has analyzed the existence of causality among FDI, exports and domestic performance in Malaysia using time series data cover from period 1980:Q1 to 2000:Q4. Using Toda and Yamamoto's notion of Granger non-causality, we re-confirm ELG and FLG hypotheses are valid in Malaysia. In addition, it also suggests a kind of export-led FDI growth linkage which reveals that export is the main forces determining economic performance in Malaysia.