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## ACKNOWLEDGEMENT

I would like to extend my warmest thanks to my project supervisor, **Dr Yap Su Fei**, for her endless patience, highly valuable and much appreciated help and guidance – without which this paper would not have been in its present form. I am also very grateful to her as she agreed to supervise my work despite being aware of my language problem and difficulties in expressing my views.

My thanks also go to all my lecturers (especially **Associate Professor Dr Goh Kim Leng**) who were always ready to help and made remarkable comments and suggestions which have greatly helped towards making this project realisable.

I would also like to show my deepest gratitude to **Lulu** for her constant encouragement and support throughout the duration of this course.

This paper is the result of my own work and I accept all responsibilities for any misprint errors which could have occurred in its preparation.

*Rosida*

## ABSTRACT

This paper examines the export-led growth hypothesis in Malaysia over the last 30 years using current techniques in econometric analysis of non-stationary time series. In order to avoid model misspecification, this study employs a multivariate framework. The basic objective of this study is to provide further empirical evidence on the merits of export-oriented strategies.

The principal results emerging from our research are: Firstly, all the data series exhibit an autoregressive scheme of order one, that is they are  $I(1)$  series and that exports, investment to output ratio, terms of trade and GDP in real terms are cointegrated. This implies that there exists a long run steady state among these four variables and that they cannot move independently of each other. Secondly and of greater importance is the finding that there exists a strong bi-causal relationship between exports and GDP. This bi-causality result has very important policy implications especially in the wake of trade liberalization and World Trade Organisation. These results suggest that Malaysia can adopt free trade policies to boost up its level of economic activity since it is also found that the growth of exports has made a significant contribution to the growth of the Malaysian economy. Last but not least, it is also found that exports exert considerable externality effects on the non-trade sector, implying that it acts as a propulsive leading sector in the economy.

In short, the findings of the present analysis strongly support the export-led growth hypothesis and suggest that export promotion strategies have the potential of bearing

growth in Malaysia. Moreover, this paper, by lending support to the existence of feedback causality between exports and GDP, has been able to address the shortage in the field of trade and development analysis in the case of Malaysia. In fact, Malaysian data has been used by few researchers and perhaps by only **Afxentiou and Serletis (2000)**, **Ahmed and Harnhirun (1995)** and **Rana (1986)** in examining the export-led growth hypothesis. By concentrating uniquely on Malaysian data, this study has examined the issue of causality and the impact of exports on the Malaysian economy.

Also, by employing the modern techniques of cointegration and error-correction modeling-based causality tests, this paper has provided an updated analysis on what is construed as an important growth strategy.

## ABBREVIATIONS

<b>ADF</b>	Augmented Dickey-Fuller
<b>DF</b>	Dickey-Fuller
<b>DW STAT</b>	Durbin-Watson Statistic
<b>ECM</b>	Error-Correction Model
<b>ELG</b>	Export-Led Growth
<b>GDP</b>	Gross Domestic Product
<b>GNP</b>	Gross National Product
<b>HICOM</b>	Heavy Industries Corporation of Malaysia
<b>LDCs</b>	Less Developed Countries
<b>LM</b>	Lagrange Multiplier
<b>NICs</b>	Newly Industrialised Countries
<b>OLS</b>	Ordinary Least Squares
<b>RM</b>	Ringgit Malaysia