

FDI-Led-Growth in Malaysia: Autoregressive Distributed Lag (ARDL) Bounds Testing Approach

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Abstract

This study intends to investigate the validity of the foreign direct investment, FDI-led-growth hypothesis in Malaysia in this era. Autoregressive Distributed Lag (ARDL) bounds test approach is adopted to examine the impact of FDI inflow towards growth of Malaysia based on annually data from 1980 to 2016. Empirical results indicate that FDI inflow has significant positive impact on economic growth. This implies that FDI inflow remain important tool for stimulating economic growth of Malaysia. In addition, there is a negative impact of FDI inflow on economic growth during the 1997 Asian Financial crisis and positive impact during the 2008 Global Financial crisis. In terms of policy recommendation, the policy makers should continue to develop strategies to further attract FDI that will contribute to increasing the productivity in the country.

Keywords: foreign direct investment, ARDL bound test, economic growth

1. Introduction

Foreign direct investment (FDI) has been the engine of growth in Association of Southeast Asian Nations (ASEAN) in the 1990s. This can be seen from the influx of FDI into ASEAN-5 countries, namely Indonesia, Malaysia, Philippines, Singapore and Thailand. The spillover effects of FDI can be in the form of human capital development, new technology and management skill transfer, stimulate the international trade activity and ultimately contribute to the economic growth of the countries (Blomstrom and Wolff, 1994; Chuang and Hsu, 2004; Dollar and Kraay, 2004; Hermes and Lensink, 2003; Schneider, 2005; Li and Liu, 2005; Wang and Yu, 2007).

Table 1. Selected Macroeconomics Indicators of Malaysia

	1989-1992	1993-1996	1997-2000	2001-2004	2005-2008	2009-2012	2013-2016
GDP (%)	9.13	9.73	3.69	4.62	5.42	4.20	4.99
FDI	3,364.97	5,858.50	4,179.97	2,713.68	6,473.01	7,987.36	11,010.06
Total Trade (%)	148.38	177.93	208.28	201.82	193.89	155.82	135.81
Domestic Credit (%)	99.65	123.46	153.49	139.38	113.13	127.15	142.21

Source: World Economic Outlook, UNCTAD and World Development Indicator.

Table 1 indicates selected macroeconomics indicators of Malaysia based on 4 years average from 1992 to 2016. Malaysia has experienced tremendous economic growth prior 1997 with average GDP growth at 9.13% and 9.73% in the period of 1989-1992 and 1993-1996, respectively. In terms of FDI inflow, Malaysia recorded US\$3,365 million in the period of 1989-2002 and increased to US\$5,859 in the period of 1993-1996. This increasing