Export, Imports and Economic Growth in Malaysia: Empirical Evidence Based on Multivariate Time Series

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Introduction

Malaysia pursed an agricultural diversification and industrial promotion programme based on import substitution in the 1960s. The government shifted into export promotion strategy in the early 1970s following the progressed made by newly industrialized countries (NIE) that showed developing economies could catch up with advanced countries by pursuing the export-led growth model. We observed that the export structure of the manufacturing sector has also changed over the decades. The ratio of high technology manufactured goods to total manufacturing exports has increased from 29% in 1975 to 69.2% in 1985. On the import side, the average annual growth rate of imports for 1990-1995 is 15%. Malaysia's import dependence has risen significantly reflecting the openness of the domestic markets. Importation of capital and intermediate goods has been the critical factor for Malaysia's economic development. The purpose of this study is to examine the causal relationship between export and output growth. The focus is on Malaysia since it is often cited as an example of a fast growing outward oriented economy. Malaysia is now joined the top 20 trading nations and has emerged as major export competitor in ASEAN region.

Materials and Methods

This study employs pure time-series analysis to establish the relationship between exports, imports and economic growth.

Results and Discussion

The cointegration results conclusively indicate that GDP, exports, and imports share a common stochastic trend in the long run. We found at least a vector in the long relationship for Malaysia' s manufacturing and agricultural exports. In addition, based on likelihood ratio tests we found that the import variable enters in the cointegrating relationship. The analysis from the vector error correction model (VECM) reveals that growth in exports Granger cause growth in GDP at conventional significance level. The empirical evidence in this paper demonstrates the importance of imports in the development process. There exists feedback causation from exports to imports. In order to provide further insight into the dynamic relationship of the variables in the system, the forecast error variance decompositions are calculated. The innovations in both categories of export (manufacturing and agriculture) lead to economic growth. Thus, the role of the agricultural economy on the performance of the Malaysia's economy cannot be underrated. The point estimates of the effect of innovation in imports on income is higher for the manufacturing sector, more than twice as large as the effect on agriculture, thus implying that imports are more crucial to the manufacturing sector. Our analysis brings out several facts that need to be considered by theorists in the developing models of economic growth. First, empirical evidence suggests that export expansion strategy can contribute to a country's growth. Second, the role of imports cannot be ignored when examining the relationship between export growth and income growth.

Conclusions

Our analysis brings out several facts that need to be considered by theorists in the developing models of economic growth. First empirical evidence suggests that export expansion strategy can contribute to a country's growth. Malaysia is an open economy and is dependent on international trade for a large part of its economic development Second, the role of imports cannot be ignored when examining the relationship between export growth and income growth.

Benefits from the study

This study contributes to the existing literature in two important ways: The empirical findings suggest an important determinants of long run growth is import of foreign technology and economic growth in Malaysia is driven by export, hence supporting the (export-led growth).

Literature cited in the text

None.

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