

**AN EMPIRICAL STUDY ON TRADE OPENNESS AND
ECONOMIC GROWTH: THE MALAYSIAN EXPERIENCE 1970-2002**

**A research paper submitted to the Graduate Studies Unit,
Academic Affairs Department in partial fulfillment of the
requirements for the degree Master of Economics,**

Universiti Utara Malaysia

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ABSTRAK

Kajian ini bertujuan menganalisa kesan keterbukaan perdagangan ke atas pertumbuhan ekonomi Malaysia. Kajian ini menggunakan data siri masa dari tahun 1970 hingga 2002. Dalam menjalankan kajian ini, fungsi pengeluaran umum digunakan dan kemudian ditambahkan dengan petunjuk keterbukaan perdagangan, di mana petunjuk ini terdiri daripada dua kumpulan. Kumpulan pertama ialah jumlah perdagangan dan yang kedua ialah sekatan perdagangan. Keputusan yang diperolehi menunjukkan jumlah perdagangan mempunyai hubungan yang positif dan signifikan dengan pertumbuhan ekonomi manakala sekatan perdagangan mempunyai hubungan yang negatif. Secara umumnya, hasil kajian ini adalah selari dengan sorotan karya dan kajian-kajian empirikal lepas yang menyokong bahawa keterbukaan perdagangan adalah penting dalam menjanakan pertumbuhan ekonomi.

ABSTRACT

This paper examines the effects of trade openness on Malaysia's economic growth. This study is based on annually time series data for year 1970-2002. In doing this study, a general production function is employed and is expanded by adding trade openness indicators. Two groups of openness measures are used. The first group is the volumes of trade while the second is the trade restriction. The estimated results show that volumes of trade is positively and significantly associated with growth while trade barrier has inverse relationship with growth. The findings are generally in line with the literature and previous empirical studies, with the view that openness of trade is favorable in promoting economic growth.

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CHAPTER ONE

INTRODUCTION

1.1 An Economic Overview

The backbone of the Malaysian economy since independence has always been its vast natural resources and agricultural commodities, both of which are legacies from its colonial past. Thus, it is inevitable that the major portion of Malaysia's GDP would come from its agricultural and mining activities. Hence, other newer industries such as light manufacturing, building and construction which contributed less to the GDP are required to play a supporting role in enhancing the effectiveness of the two key sectors. However, as Malaysia progresses to the 21st century, there comes a time when fluctuating world prices negates the comparative advantages of the primary sector commodities. Therefore, in order to achieve the status of industrialized country, Malaysia has to reduce its dependency resources and commodities and instead strive to widen and diversify its manufacturing and industrial base.

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