DO FDI AND FOREIGN REMITTANCES INFLOW AFFECT THE UNEMPLOYMENT RATE IN MALAYSIA AND PHILIPPINES? A NEW INSIGHT

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ABSTRAK

Kajian ini bertujuan untuk melihat impak pelaburan langsung asing (FDI) dan kiriman wang asing terhadap pengangguran di Malaysia dan Filipina. Data yang digunakan merangkumi Malaysia dan Filipina dari tahun 1987 hingga 2022. Kajian ini menggunakan EViews 10 dan pendekatan ARDL untuk mengumpul anggaran jangka panjang dan jangka pendek. Kajian ini menggunakan pengangguran sebagai pemboleh ubah bergantung dan FDI serta kiriman wang asing sebagai pemboleh ubah bebas. Kadar pertukaran sebenar yang berkesan, kadar pertumbuhan KDNK, eksport, dan kadar inflasi adalah pemboleh ubah terkawal. Kajian ini mengkaji hubungan antara pengangguran, pelaburan langsung asing, kiriman wang asing, inflasi, eksport, kadar pertumbuhan KDNK, dan kadar pertukaran di Malaysia dan Filipina. Selain itu, kajian ini juga menyiasat kointegrasi antara pemboleh ubah endogen dan pemboleh ubah eksogen. Oleh itu, mengajikan juga hubungan dinamik jangka pendek antara pembolehubah endogen dan pembolehubah eksogen serta anggarkan hubungan dinamik jangka panjang antara pembolehubah endogen dan pembolehubah eksogen. Kajian ini mencadangkan bahawa kedua-dua negara harus melaksanakan inisiatif pembangunan kemahiran untuk pekerja domestik dan mewujudkan persekitaran yang menarik bagi pelabur antarabangsa untuk meminimumkan pengangguran.

DO FDI AND FOREIGN REMITTANCES INFLOW AFFECT THE UNEMPLOYMENT RATE IN MALAYSIA AND PHILIPPINES? A NEW INSIGHT

ABSTRACT

The goal of this study was to look at the impact of foreign direct investment (FDI) and foreign remittances on unemployment in Malaysia and Philippines. The data covers Malaysia and Philippines from 1987 until 2022. This study employed EViews 10 and the ARDL approach to gather both long-run and short-run estimates. The study used unemployment as a dependent variable and FDI and foreign remittances as independent variables. The real effective exchange rate, GDP growth rate, exports, and inflation rate are controlled variables. This study examines the link between unemployment, foreign direct investment, foreign remittances, inflation, exports, GDP growth rate, and the exchange rate in Malaysia and the Philippines. Besides, this study also investigates the cointegration between the endogenous variable and exogenous variables. Thus, also estimate the short-run dynamic relationship between the endogenous variable and exogenous variables and estimate the long-run dynamic relationship between the endogenous variable and exogenous variables. This study suggests that both countries should put skills development initiatives in place for domestic workers and create an inviting environment for international investors to minimize unemployment.

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CHAPTER 1

INTRODUCTION

1.1 Introduction

In this chapter, this project will be explained relating to the foreign direct investment (FDI) and foreign remittances inflow affect the unemployment rate in Malaysia and Philippines. This chapter will be divided into twelve main sub sections. The first subsection is the introduction and the second subsection explain the research background. The following section is about problem statements and the next subsection is conceptual framework. The fifth part is about this research question and the continue part is about this research objective. The coming up subsection is research hypothesis and the following up subsection is scope of this study. The ninth subsection talks about definition operational and the tenth sub is the limitation of this study. The second last section is about the significance of this study and the last section is the conclusion of this chapter.

Unemployment refers to a situation in which a person actively seeks employment but is unable to find it. Unemployment is commonly seen as a key indication of economic health. The unemployment rate is the most often used measure for unemployment. It is calculated by dividing the number of unemployed individuals by the total labor force. Unemployment is a crucial economic indicator since it might show people' ability (or inability) to obtain meaningful employment and contribute to the economy's overall productivity. More unemployed workers mean lower total economic production. However, the definition of unemployment excludes those who leave the labour force for reasons like retirement, additional study, or infirmity.

According to the World Bank Group (2020), the rise in joblessness caused by the current COVID-19 epidemic is likely to be extremely rapid, with substantial economic, social, and psychological effects. While this is a major concern, appropriate public policy solutions can help reduce the costs of job displacement and assist workers in obtaining new jobs. These job displacements have a major and long-term influence on the employment, salaries, and income prospects of persons who have been laid off. Many displaced workers have lengthy periods of unemployment, and when they do find new positions, they frequently suffer substantial and long-term salary losses.

Furthermore, Foreign Direct Investment (FDI) has a substantial influence on the global economy by boosting economic growth and fostering international business alliances. As economies grow more linked, countries throughout the world are aggressively seeking foreign direct investment (FDI) to attract capital, technology, and expertise. Thus, foreign direct investment (FDI) can assist the country. First, it helps to decrease negative shocks to the poor caused by financial instability, such as the recent Asian crisis. Aside from that, in comparison to other methods of encouraging private sector investment, FDI can help to strengthen corporate governance. However, it is particularly resistant to asset stripping, which might result in an uneven distribution of property rights. Following that, FDI can also assist raise environmental and labour standards because foreign investors are worried about their reputation in markets where high standards are desired; also, FDI can pyuroduce taxes that promote the building of a safety net for the poor. As a result, many international companies make large expenditures in community development in the places where they operate, which helps to strengthen the local safety net. Furthermore, data reveals that foreign-owned enterprises have a favourable impact on employment generation in affiliate firms, validating FDI predictions to create new and higher-paying jobs (World Bank Group, 2020).

Workers' remittances have become a significant source of external development money, giving a simple lens through which to tackle the difficult migration question.

Thus, remittances are said to help alleviate poverty because it is the impoverished that move and give back remittances. Unfortunately, remittances could increase inequality since wealthy individuals may travel and pay back remittances, making recipients even wealthier. According to The Economist (2023), remittances can also have bad effects. For example, one is the risk of "Dutch disease". The notion detailed how the entry of foreign cash into the Netherlands following the discovery of natural gas resources increased the value of the Dutch currency, rendering exports less competitive and harming markets. Remittances may have a similar impact. However, remittances also provide various benefits beyond satisfying the urgent cash demands. Remittances, for example, can be used to purchase basic necessities such as food, shelter, and education and health care for children. Furthermore, they may provide funding for small firms and entrepreneurial ventures. They also assist to pay for imports and foreign debt servicing; in certain countries, banks have raised abroad funding with future remittances as collateral (World Bank Group, n.d.). Apart from that, the World Bank Group (n.d.) noted that remittance flows are steady than capital flows. This is because remittances rise during economic downturns or after a natural disaster, when private money flows often fall. In countries facing political unrest, they are usually an economic lifeline for the impoverished. This chapter provides an overview of unemployment before presenting the study's problem statement. Aside from that, the conceptual framework will be given using material from the previous literature. In addition, the main focus of this investigation, including the research question, objectives, and hypothesis to be evaluated, will be presented in this chapter, followed by the scope of study and study definition. The limitations and importance of the study will also be examined, and the conclusion will be succinct in this chapter.

1.2 Research Background

From the previous section, it has mentioned that unemployment has a crucial role in contributing to economic production of the economy, especially developing nations as

Malaysia and Philippines may alleviate poverty, improve living standards, and elevate the country's position in terms of income. Therefore, this section will briefly explain the unemployment and its impacts in Malaysia and Philippines and also further explain the circumstance of the foreign direct investment in Malaysia and Philippines followed by the selected independent variables.

1.2.1 Unemployment rate in Malaysia and Philippines

This article examines the unemployment rate data annually from 1987 to 2022 in Malaysia and the Philippines.

Figure 1.1

Unemployment Rate in Malaysia and Philippines

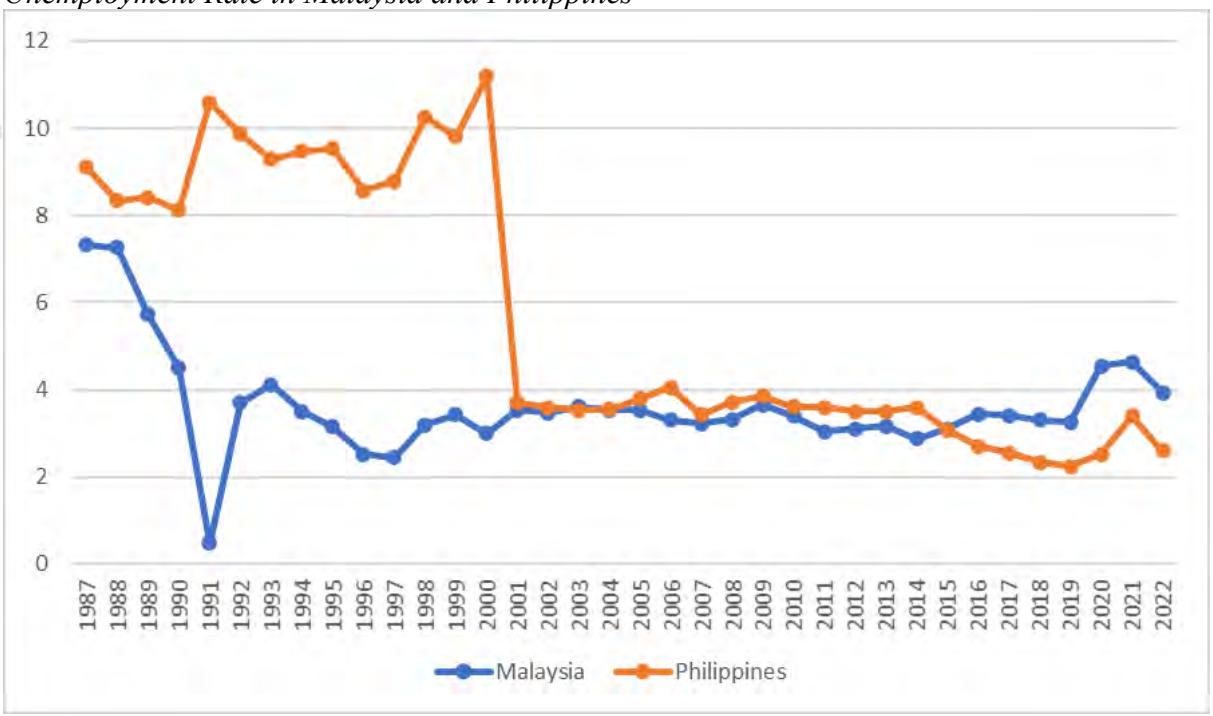


Figure 1.1 shows the flow of the unemployment rate in Malaysia and Philippines. Overall, the trend of unemployment has fluctuated from 1987 to 2022 in Malaysia and the trend of unemployment has decreased and fluctuated from 1987 to 2022 in Philippines.

In Malaysia, its peak value was 8.29% in 1986, and its lowest was 2.45% in 1997. From 1987 to 1991, the unemployment rate dropped from 7.33% to 0.481%. Then, the trend increased from 1991 to 1993 and dropped again to 1998. Thus, the trend of unemployment rate continued to fluctuate until 2022.

In the Philippines, its peak value was 11.19% in 2000, and its low point was 2.24% in 2019. From 1987 to 2000, the unemployment rate increased with fluctuation from 9.1% to 11.19%. Then, the trend decreased from 2000 to 2001 and continued to fluctuate until 2022.

1.2.2 Foreign Direct Investment in Malaysia and Philippines

Foreign Direct Investment is one of the independent factors in this research.

Figure 1.2
Foreign Direct Investment in Malaysia and Philippines

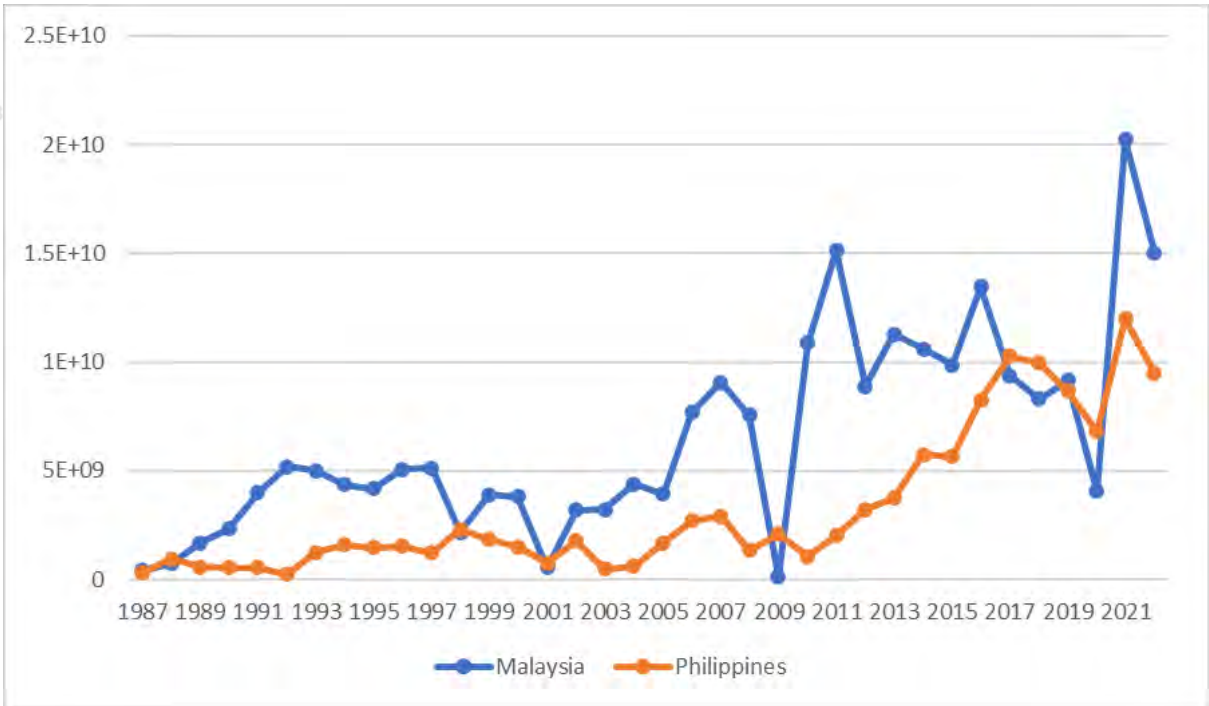


Figure 1.2 shows the flow of the Foreign Direct Investment in Malaysia and Philippines. Overall, the trend of foreign direct investment has increased and fluctuated from 1987 to 2022 in Malaysia whereas the trend of foreign direct investment has fluctuated from 1987 to 2022 in the Philippines.

In Malaysia, its peak value was 20,245,157,327 US dollars in 2021, and its lowest was 114,664,434.60 US dollars in 2009. From 1987 to 2007, the foreign direct investment increased with fluctuation from 422,679,710 US dollars to 9,071,369,835 US dollars. Then, the trend decreased dramatically from 2007 to 2009 and increased and fluctuated again to 2021. Thus, the trend of foreign direct investment decreased from 2021 to 2022.

In the Philippines, its peak value was 11,983,363,327 US dollars in 2021, and its low point was 228,000,000 US dollars in 1992. From 1987 to 2017, the foreign direct investment increased with fluctuation from 307,000,000 US dollars to 10,256,442,399 US dollars. Then, the trend decreased from 2017 to 2020 and increased back in 2021 later decreased back in 2022.

1.2.3 Foreign Remittances in Malaysia and Philippines

Foreign remittances is also one of the independent factors in this research.

Figure 1.3
Foreign Remittances in Malaysia and Philippines

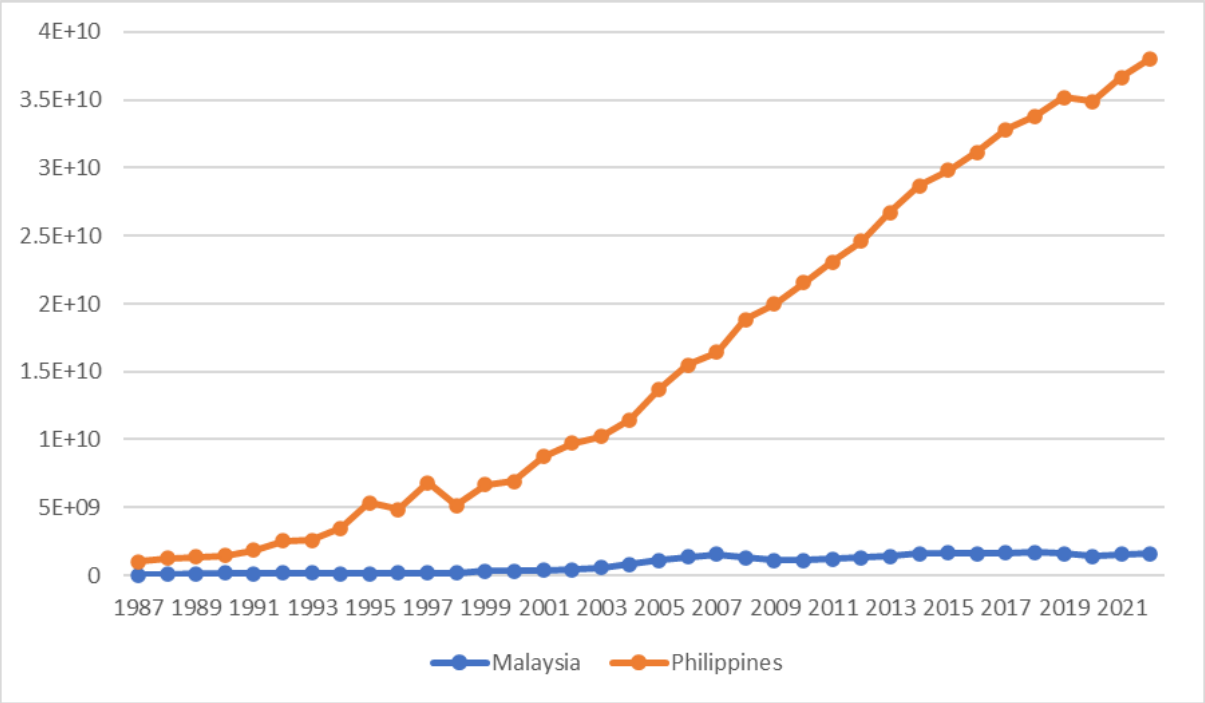


Figure 1.3 shows the flow of the foreign remittances in Malaysia and Philippines. Overall, the trend of foreign remittances has increased slowly and remained unchanged from 1987 to 2022 in Malaysia whereas the trend of foreign remittances has increased rapidly from 1987 to 2022 in the Philippines.

In Malaysia, its peak value was 1,685,578,502 US dollars in 2018, and its lowest was 48,816,528.32 US dollars in 1987. From 1987 to 2007, the foreign remittances increased with a little fluctuation from 48,816,528.32 US dollars to 1,556,236,305 US dollars. Then, the trend decreased a little bit and fluctuated from 2017 to 2022.

In the Philippines, its peak value was 38,048,724,464 US dollars in 2022, and its low point was 1,020,000,000 US dollars in 1987. From 1987 to 1995, the foreign remittances increased with a little fluctuation from 48,816,528.32 US dollars to 1,556,236,305 US dollars. Then, the trend decreased a little bit and fluctuated from 1995 to 1998 and increased back rapidly with fluctuation from 1998 until 2022.

1.2.4 Inflation in Malaysia and Philippines

In this research, there are controlled variables. Inflation is one of the controlled variables in this research.

Figure 1.4
Inflation in Malaysia and Philippines

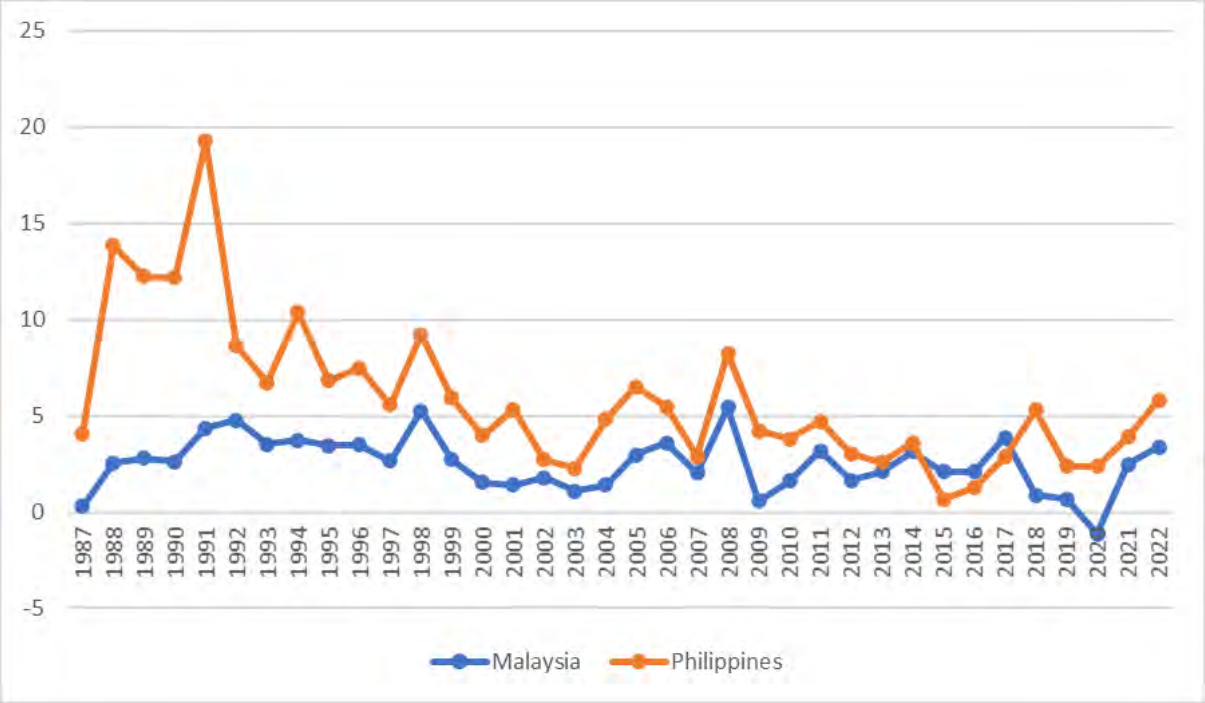


Figure 1.4 shows the flow of the inflation in Malaysia and Philippines. Overall, the trend of inflation has decreased and fluctuated from 1987 to 2022 in Malaysia whereas the trend of inflation has also decreased and fluctuated from 1987 to 2022 in the Philippines.

In Malaysia, its peak value was 5.27% in 1998, and its lowest was -1.14% in 2020. From 1987 to 1998, the inflation increased with fluctuation from 0.29% to 5.27%. Then, the trend decreases and increases again with a fluctuation from 1998 to 2008. From 2008 to 2017, the trend has also decreased back and increased again with the fluctuation. Later, it decreases in 2020 and increases back in 2022.

In the Philippines, its peak value was 19.26% in 1991, and its low point was 0.67% in 2015. From 1987 to 1991, the inflation increased with a small drop from 4.07% to 19.26%. Then, the trend decreased rapidly with a fluctuation from 1991 to 2003 and increased back with fluctuation to 2008. Next, the trend continued to decrease back in 2015 and increase in 2018. Later, the trend decreased in 2019 and continued to increase until 2022.

1.2.5 Export in Malaysia and Philippines

Export is also one of the controlled variables that take in this research.

Figure 1.5
Export in Malaysia and Philippines

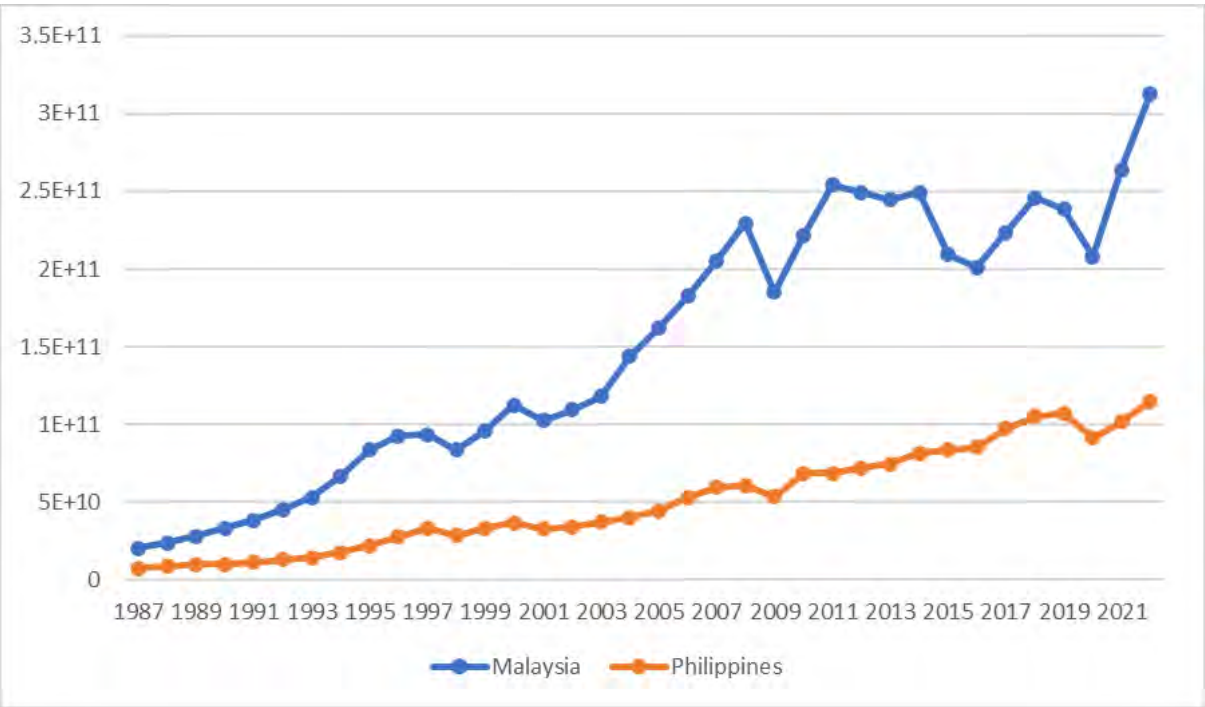


Figure 1.5 shows the flow of the export in Malaysia and Philippines. Overall, the trend of export has increased with the fluctuation from 1987 to 2022 in Malaysia whereas the trend of export has also increased with a small fluctuation from 1987 to 2022 in the Philippines.

In Malaysia, its peak value was 313,208,000,000 US dollars in 2022, and its lowest was 20,240,209,109 US dollars in 1987. From 1987 to 1997, the export increased from 20,240,209,109 US dollars to 93,294,414,082 US dollars. Then, the trend decreases in 1998 and increases again from 1999 to 2000. The trend had a small drop in 2001 and increased again in 2002. This trend continued to increase until 2008. In 2009, it decreased and increased back in 2010. Then, the trend had a small drop in 2011 until 2013 and continued to increase back in 2014 and dropped again in 2015 and in 2016. The following two years the trend had increased. In 2019 and 2020, the trend has drop again and increase again in 2021 and 2022.

In the Philippines, its peak value was 114,785,000,000 US dollars in 2022, and its low point was 7,007,121,197 US dollars in 1987. From 1987 to 1997, the export increased slowly from 7,007,121,197 US dollars to 33,018,279,728 US dollars. Then, the trend decreased smally in 1998 and increased back in 1999 and 2000. Next, the trend decreased back in 2001 and increased again in 2002 until 2008. Later, the trend decreased in 2009 and continued to increase until 2019 but there was a decrease in 2011. In 2020, the export was decrease and increase back in 2021 and 2022.

1.2.6 Gross Domestic Product Growth Rate in Malaysia and Philippines

Figure 1.6
Gross Domestic Product Growth Rate in Malaysia and Philippines

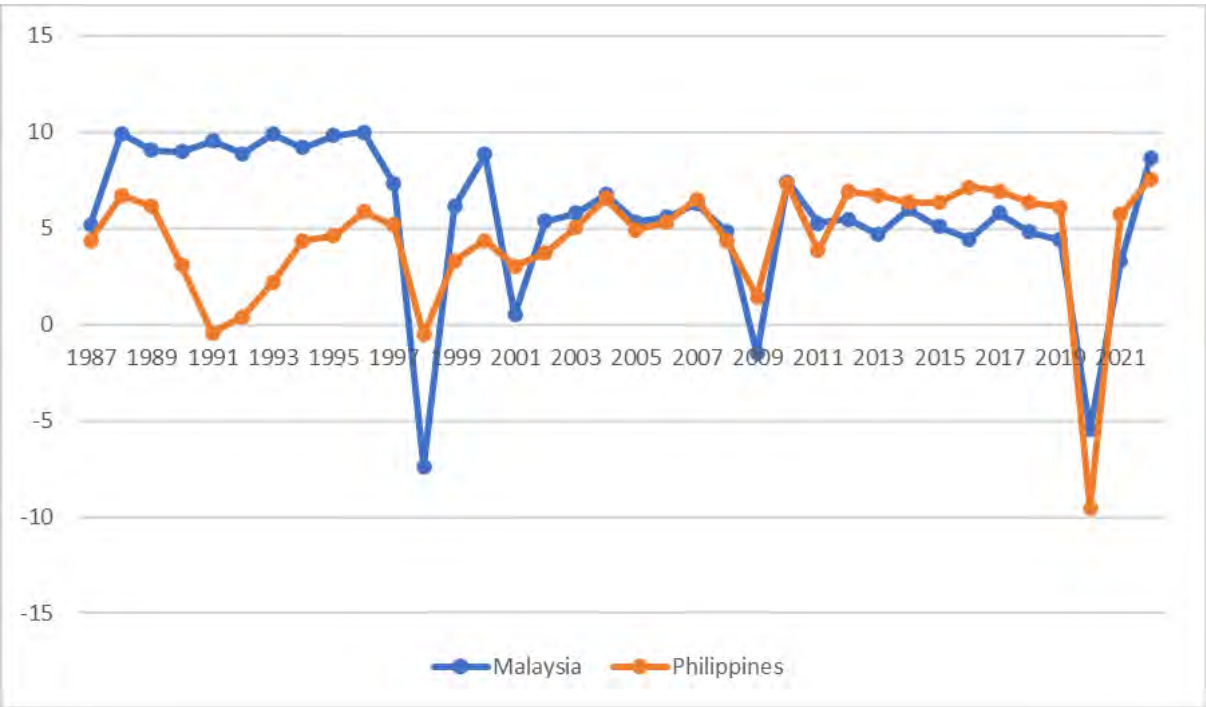


Figure 1.6 shows the flow of the gross domestic product growth rate in Malaysia and Philippines. Overall, the trend of gross domestic product growth rate has fluctuated from 1987 to 2022 in Malaysia whereas the trend of gross domestic product growth rate has also fluctuated from 1987 to 2022 in the Philippines.

In Malaysia, its peak value was 10% in 1996, and its lowest was -7.36% in 1998. From 1987 to 1996, the gross domestic product growth rate increased and fluctuated from 5.19% to 10%. Then, the trend decreases in 1997 and increases again in 1999 and 2000. The trend dropped again in 2001 and increased again in 2002 until 2004. In the

following year, the trend fluctuated until 2007. In 2008, it decreased until 2009 and increased back in 2010. Then, the trend decreased in 2011 and fluctuated until 2017 and continued to decrease again in 2018 until 2020. The following two years, 2021 and 2022 the trend increased.

In the Philippines, its peak value was 7.58% in 2022, and its low point was -9.52% in 2020. From 1987 to 1988, the gross domestic product growth rate increased from 4.36% to 6.70%. Then, the trend decreased in 1989 until 1991 and increased back in 1992 until 1996. Next, the trend decreased back in 1997 and 1998, increased again in 1999 and 2000. Later, the trend decreased in 2001 and continued to increase until 2004. From 2005 to 2007, the trend has increased from 5.32% to 6.52% and decreased in 2008 and 2009 which are 4.34% and 1.45%. Thus, the trend increased in 2010 and dropped back in 2011. From 2012 to 2014, the gross domestic product growth rate has decreased from 6.90% to 6.35%. In the following years, the trend has increased back. From 2017 to 2020, the trend has become downward which means it has decreased from 6.93% to -9.52% and increased back in 2021 and 2022.

1.2.7 Real Effective Exchange Rate in Malaysia and Philippines

Figure 1.7
Real Effective Exchange Rate in Malaysia and Philippines

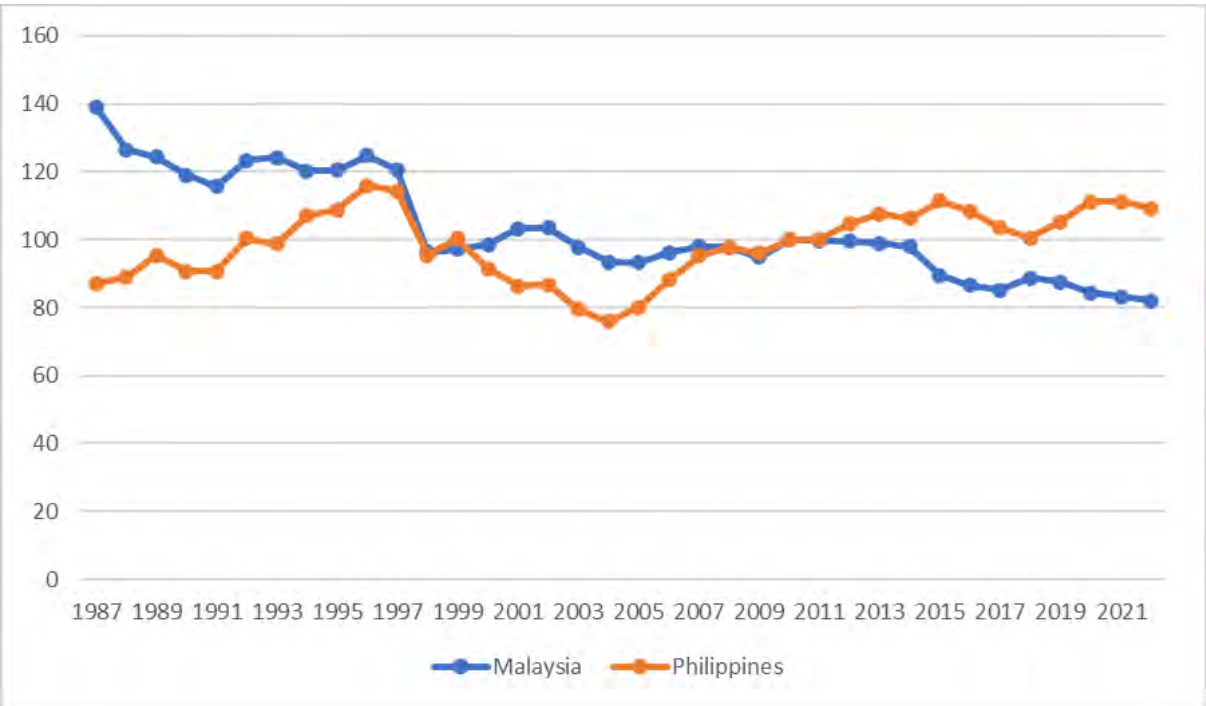


Figure 1.7 shows the flow of the real effective exchange rate in Malaysia and Philippines. Overall, the trend of real effective exchange rate has decreased with the fluctuation from 1987 to 2022 in Malaysia whereas the trend of real effective exchange rate has also increased with fluctuation from 1987 to 2022 in the Philippines.

In Malaysia, its peak value was 139.18% in 1987, and its lowest was 82.09% in 2022. From 1987 to 1991, the real effective exchange rate decreased from 139.18% to 115.72%. Then, the trend increased a little bit in 1992 and 1993 later, decreased again in 1994 and increased in 1995 until 1996. The trend had dropped again in 1997 and increased again in 1998. This trend continued to increase until 2002. The following three years the real effective exchange rate has decreased. In 2006 and 2007, it increased and decreased back in 2008 until 2009. Then, the trend increased in 2010 and continued to decrease again in 2011 until 2017. In 2018, it increased and started dropping again in 2019 until 2022.

In the Philippines, its peak value was 116.01% in 1996, and its low point was 76.02% in 2004. From 1987 to 1996, the real effective exchange rate increased with fluctuation from 87.19% to 116.01%. Then, the trend decreased with fluctuation from 1997 until 2004 and increased with fluctuation in 2005 until 2015. Next, the trend decreased back in 2016 until 2018 and increased again in 2019 and 2020. Later, the trend decreased in 2021 and 2022.

1.3 Problem Statement

In Malaysia, over 200,000 graduates have yet to find job in 2020, with the threat of Covid-19 mentioned as one of the key reasons. This is because the majority of graduates need school loans to further their studies. As a result, people expect to have a profession after graduation in order to return the debt, but it is difficult to locate a suitable work because not all positions in the market are designed for higher education certificate holders (Nur Athirah, 2021). In other circumstances, graduates may squander time looking for job that will allow them to utilise their knowledge and skills. Being unemployed suggests that the graduates would be unable to repay the loan, leaving them with unclear finances and debts. According to the most current Labour Force numbers

from the Department of Statistics Malaysia (DOSM), the unemployment rate in November 2023 has reverted to pre-pandemic levels of 3.3%, with 569,000 unemployed, up from 3.4% in October (Bernama, 2024). According to Loshewar (2024), young unemployment in Malaysia remains a worry, despite the fact that the country's total unemployment rate fell marginally to 3.2% in the third quarter of 2024This is because Malaysians aged 15 to 24 constitute the largest age group of unemployed people, with 292,000 young people out of work. Jason and Dayang (2021) claimed that this major situation would result in a big loss for the country. since a result, understanding the fundamental factors influencing unemployment is crucial, since it serves as a major indication of the economy's health. In the Philippines, the Neda director stated that initiatives to attract investment include infrastructure upgrades and growth, as well as regulatory and bureaucratic efficiency improvements (Domingo, 2023). In this study, we will look at the dynamic link between unemployment and many variables that appear to be causative in Malaysia and the Philippines. Inspired by Biplod and Siddieqee (2024), these variables include foreign direct investment (FDI), foreign remittances (REM), inflation (INF), export (X), gross domestic product growth rate (GDP), and real effective exchange rate (REER), in order to analyze the dynamic relationship in the short and long run.

Foreign Direct Investment (FDI) is critical to promoting economic growth and development because it generates new jobs, boosts productivity, and builds favourable relationships between businesses and governments throughout the world. This is because foreign direct investment refers to the investment made by a firm or individual from one country into a business in another. However, foreign direct investment has a significant influence on the economy, job creation, and competitiveness, all of which contribute to a country's growth and development. Investments produce jobs, leading to lower unemployment rates (Aleksandravičienė et al., 2024). Thus, these many arguments demonstrate how the use of FDI may be critical in today's global economic environment. One of the most important functions of FDI is to promote economic stability by increasing capital in a country. This leads to the funding of new businesses, development initiatives, and other key components for economic growth. Next, foreign direct investment (FDI) may be extremely beneficial for emerging or poor countries since it provides the essential resources and facilities from other countries to assist them overcome barriers and improve their economic standing. FDI may also boost

international trade by promoting the import and export of a wide range of corporate products. This increases revenue and fosters ties between the host and source countries. According to Zardoub and Sboui (2021), FDI is currently one of the most important sources of foreign funding for developing nations.

Aside from that, international remittances have been a part of human civilisation for centuries, especially since the advent of global trade and exploration. The remittance concept has evolved to reflect changes in socioeconomic circumstances and technological advancements, going beyond the initial idea of transmitting money. Furthermore, international remittances are a significant source of foreign income for countries, sometimes outpacing foreign direct investment (FDI) and official development aid (ODA). As a result, they play a significant role in economic stability, particularly in emerging markets. Over the previous two decades, the quantity of money transferred by international migrants to poor countries has increased dramatically, surpassing official development assistance (ODA) and, more broadly, foreign aid (Zardoub & Sboui, 2021). While remittances are a lifeline for many developing countries, they may also lead to a dependency on foreign funds rather than enabling emerging countries to create sustainable, local businesses. The more a country's reliance on remittance inflows, the more it is dependent on the global economy's sustained health. To support this claim, Abdulai (2022) argued that the increased flow of remittances into Ghana's economy promotes GDP growth in both the long and short term.

Thus, in response to the connected problem, a number of topics will be addressed, including: 1) What is the impact of foreign direct investment, foreign remittances, and unemployment in Malaysia and the Philippines? 2) How do financial development and other chosen indicators affect unemployment in the short and long run? This research looks at the link between unemployment, foreign direct investment, foreign remittances, inflation, exports, GDP growth rate, and exchange rate. Furthermore, the goal of this study is to: 1) investigate the cointegration between the endogenous variable and exogenous variables; 2) estimate the short-run dynamic relationship between the endogenous variable and exogenous variables; and 3) estimate the long-run dynamic relationship between the endogenous variable and the exogenous variables. To fulfil the above stated aims, this study's procedures involve conducting

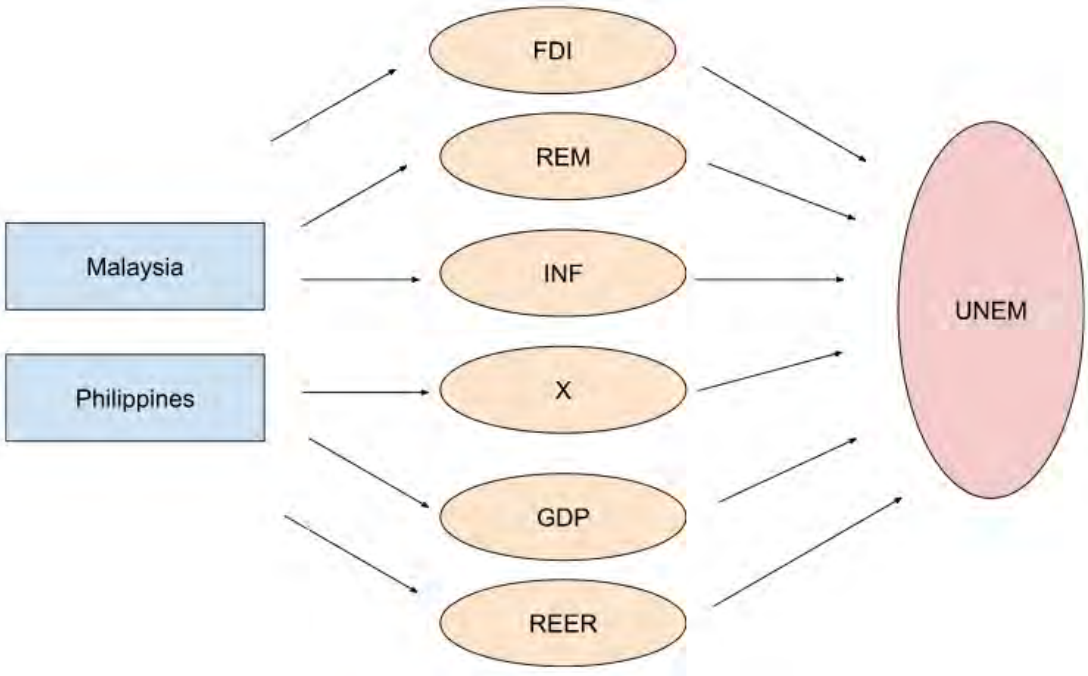
cointegration tests on the integrated variables and employing the ARDL framework. This study's findings have the potential to help policymakers adopt policies that promote economic well-being.

1.4 Conceptual Framework

The focal point of this research is the yearly data of unemployment, foreign direct investment, foreign remittances, inflation, export, gross domestic product growth rate, and exchange rate of Malaysia and Philippines. The framework includes the causality linkage between independent variables and independent variables namely, unemployment (UNEM), foreign direct investment (FDI), foreign remittances (REM), inflation (INF), export (X), gross domestic product growth rate (GDP), exchange rate (REER) and the framework of methodology for this research.

Figure 1.8

Relationship between dependent variable (UNEM) and independent variable from Malaysia and Philippines



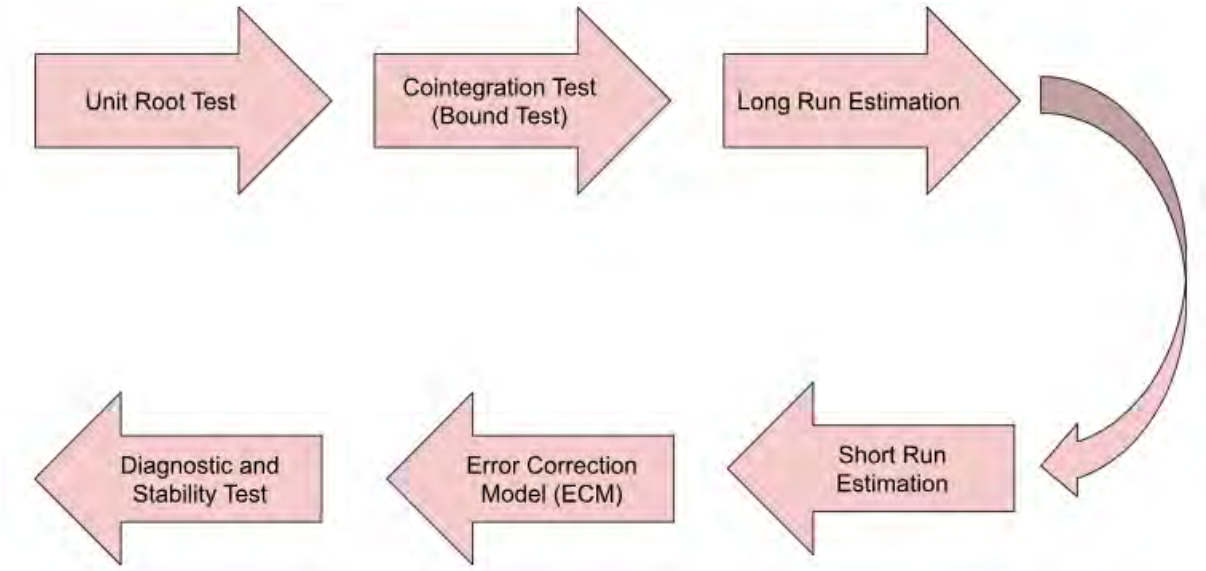
(Source: Author's framework)

The dependent variable in Figure is UNEM, whereas the independent variables are FDI, REM, INF, X, GDP, and REER. UNEM indicates the unemployment rate in Malaysia and the Philippines between 1987 and 2022. Similarly, the independent factors are very effective at influencing unemployment. Certainly, the arrows in Figure show that the independent variable is connected with the dependent variable.

Aside from that, the findings of this study may be classified into three categories: unilateral relationship, feedback relationship, and no link between chosen variables. To discover the link between the specified variables in the analysis, Autoregressive Distributed Lag (ARDL) is used in this study. As shown in Figure 1.9, prior to the ARDL technique, each data set must undergo a unit root test to guarantee that none of the variables are in I(2), as I(2) data will render this methodology incorrect. To proceed with the next analyses, the data must be in I(0) or I(1), such as the cointegration or bound test in the long-run and short-run, the residual test, coefficient diagnostic, build error correction model (ECM), and the diagnostic test to examine the study's hypothesis.

Figure 1.9

Methodology Framework



1.5 Research Question

To meet the study's aims, a number of research issues must be answered. The research questions are stated below:

1. Is there cointegration between the endogenous and exogenous variables?
2. What is the short-term dynamic connection between the endogenous and exogenous variables?
3. What is the long-term dynamic connection between the endogenous and exogenous variables?

1.6 Research Objectives

This research aims to analyse the impact of exogenous factors on economic growth through cointegration testing using the Autoregressive Distributed Lag technique (ARDL). Specific objectives include:

1. To explore the cointegration of the endogenous and exogenous variables.
2. To determine the short-run dynamic connection between the endogenous and exogenous variables.
3. To evaluate the long-term dynamic connection between the endogenous and exogenous factors.

1.7 Research Hypothesis

Based on the research questions related, the hypothesis of whether the government expenditure on education and unemployment variables will be tested. The hypothesis developed as below:

1. H_0: There is no cointegration between unemployment, foreign direct investment, foreign remittances, inflation, exports, GDP growth rate, and currency rates.

H_1: Unemployment, foreign direct investment, remittances, inflation, exports, GDP growth rate, and exchange rate are all cointegrated.

2. H_0: There is no short-term dynamic link between unemployment, foreign direct investment, foreign remittances, inflation, exports, GDP growth rate, and exchange rate.
   H_1: There exists a short-run dynamic link between unemployment, foreign direct investment, foreign remittances, inflation, exports, GDP growth rate, and exchange rate.

3. H_0: There is no long-term dynamic link between unemployment, foreign direct investment, foreign remittances, inflation, exports, GDP growth rate, and exchange rate.
   H_1: There is no long-run dynamic link between unemployment, foreign direct investment, foreign remittances, inflation, exports, GDP growth rate, or exchange rate.

1.8 Scope of Study

The part to be covered in this study is yearly unemployment from 1987 to 2022, prior to the study's objectives, which are to investigate the patterns or trends of the selected exogenous variables as well as to identify relationships between the unemployment rate. Malaysia and Philippines, as an upper-middle-income and developing country, both are founding members of the Association of Southeast Asian Nations (ASEAN) and also engage in regional cooperation in areas like trade, security, and cultural exchange.

This study examines the relationship between the unemployment, foreign direct investment, foreign remittances, inflation, export, gross domestic product growth rate and exchange rate in Malaysia and Philippines. The Autoregressive Distribution Lag (ARDL) technique will be used to investigate the dynamic nexus and fulfil the study aim.

1.9 Definition Operational

The variables observed in this study can be explained as:

1.9.1 Unemployment (UNEM)

According to the World Bank Group (n.d.), jobless people are those who have been out of work in the recent past and are presently looking for work, including those who have lost their jobs or who have willingly quit their positions. Aside from that, those who did not seek employment but planned to do so in the future are considered unemployed. Some unemployment is unavoidable. This is because some workers are always unemployed between jobs as employers look for qualified applicants and employees seek better chances. This indicator is based on the labor force or economically active segment of the population, not the overall population.

1.9.2 Foreign Direct Investment (FDI)

According to the World Bank Group (n.d.), foreign direct investment is a type of cross-border investment in which a resident of one economy has control or a considerable degree of influence over the management of a business based in another. According to the Organisation for Economic Cooperation and Development (OECD), any foreign investor who owns 10% or more of a corporation in another nation is said to have a "lasting interest" in the company. Thus, foreign direct investment rules seek to acquire a controlling position in foreign enterprises.

1.9.3 Foreign Remittances (REM)

According to Dilip Ratha (n.d.), workers' or migrant remittances occur when migrants return home a portion of their earnings in the form of cash or products in order to assist their family. Aside from that, remittances include payments for goods or services, as well as gifts, and are frequently performed via wire transfers, in which a person from one area sends money to another. That is, people in "developed" countries routinely send money to those in "developing" nations. As a result, that money is frequently used to help recipients pay for basic necessities like food, shelter, and clothes. As a result, recent expansion has made them the principal source of foreign currency for many developing countries.

1.9.4 Inflation (INF)

Inflation is the gradual loss of purchasing power that causes a large increase in the cost of goods and services over time. The inflation rate is calculated by averaging the price rises of a certain basket of goods and services over a year. High inflation indicates that prices are rising rapidly, whilst low inflation suggests that prices are rising more slowly. Inflation differs from deflation, which occurs when prices fall while purchasing power grows. For example, investors with fixed incomes may become comparatively worse off, borrowers are likely to find it easier to repay their debts, more business uncertainty leads to less investments, and the currency rate may decline.

1.9.5 Export (X)

Exports are goods and services produced in one country but sold to buyers in another. International trade includes both exports and imports. Instead of restricting themselves to their physical borders, governments usually seek out external marketplaces throughout the world for commerce, leading in more income and transactional opportunities. Thus, they include the value of merchandise, goods, insurance, transportation, travel, royalties, licence fees, and **other services such as**

communication, construction, financial, information, business, personal, and government services, but exclude employee compensation, investment income (formerly known as factor services), and transfer payments (World Bank Group, n.d.).

1.9.6 Gross Domestic Product Growth Rate (GDP)

Gross Domestic Product (GDP) is the total monetary or market value of all completed goods and services produced within a country's borders during a certain time period. As a broad measure of total domestic production, it provides a comprehensive assessment of a country's economic health. The GDP growth rate looks at the year-over-year (or quarterly) change in a country's economic output to see how rapidly it is increasing. This statistic, which is commonly presented as a percentage rate, is popular among economic policymakers since GDP growth is seen to be closely tied to critical policy goals such as inflation and unemployment rates. According to Alexandravičienė et al. (2024), a rise in GDP should lead to a decrease in unemployment rates.

1.9.7 Real Effective Exchange Rate (REEER)

The real effective exchange rate (REER) is the weighted average of a country's currency against an index or basket of other major currencies. The weights are calculated by comparing a country's currency's relative trade balance to that of all other countries in the index. This indicates that the real effective exchange rate equals the nominal effective exchange rate, which is a measure of a currency's value against a weighted average of many foreign currencies split by a cost deflator or index (World Bank Group, n.d.). An increase in a country's REER indicates that its exports are getting more expensive while its imports are becoming cheaper, lowering its trade competitiveness.

1.10 Limitation of Study

This study examines the relationship between unemployment, foreign direct investment, foreign remittances, inflation, export, gross domestic product growth rate and exchange rate in Malaysia and Philippines. The study included constraints that might affect its accuracy, practicality, and robustness.

Primarily, in terms of sample size, this study may contribute to inaccurate or biased results as the data collection is only taken from the period 1987 to 2022 which only involves 36 observations since the data is collected in terms of annually. These circumstances may result in undesirable outcome of this study compared to the larger sample size such as monthly data or quarterly data. Hence, the future research is advisable to include larger and more diverse samples to provide more accurate and comprehensive results.

Furthermore, the limitations in this study is that data availability in Malaysia and Philippines may be less complete or accessible. This is because of differences in economic development, institutional capacity, technological infrastructure, and historical background. Malaysia has more resources to allocate to data collection and statistical analysis. Besides that, the impact of FDI and remittances on unemployment may not be immediate, and measuring this lag can be difficult. Both Malaysia and the Philippines have major informal industries, therefore unemployment numbers may not accurately reflect the reality.

1.11 Significance of Study

This research provides the resulting relationship between unemployment, foreign direct investment, foreign remittances, inflation, export, gross domestic product growth rate and exchange rate in Malaysia and Philippines. A healthy level of unemployment within a country is critical to improving the population's quality of life by raising income levels and creating enough work possibilities. Besides, this is also critical for emerging nations such as Malaysia and the Philippines to transition their position to a developed and high-income nation as well.

According to previous studies, foreign direct investment and foreign remittances have a crucial influence in determining unemployment, with a considerable positive association between the two (Biplob & Siddiqee, 2024; Mamoon & Rahman, 2016). According to Rapoport and Docquier (2005), remittances are concerned, however, it is clear that promoting saving accounts in foreign currency and cross-national banking would contribute to a substantial reduction in the level of transaction costs. Thus, worker remittances make the most substantial and vital contribution to economic growth (Meyer & Shera, 2017).

Furthermore, FDI may help a target country's economic development, provide a more conducive environment for entrepreneurs and investors, and revitalise the local population and economy. Countries frequently impose their own import tariffs, complicating international trade. However, many economic sectors require a presence in foreign marketplaces to accomplish sales and objectives. Thus, FDI has the potential to make all of these international business challenges easier. Furthermore, FDI will create new jobs and opportunities when investors start new enterprises in other countries. This can enhance residents' income and spending power, boosting target economies overall.

1.12 Conclusion

In conclusion, Chapter 1 is an introduction to the study topic. This chapter outlines the fundamental components of the research on the impact of foreign direct investment and foreign remittances on unemployment rates in Malaysia and Philippines. It produces an overview in research such as background, problem, questions, objectives, significance, scope and key terms. Next, the following chapter shows the literature review for the research. Chapter 2 will conduct a comprehensive evaluation of the existing literature on the subject, analyzing theoretical frameworks and past empirical research that have studied the relationship between unemployment, foreign direct investment, foreign remittances, inflation, export, gross domestic product growth rate and exchange rate.