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Kampus Sultan Abdul Jalil Shah



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THE IMPACT OF DOMESTIC INVESTMENT ON ECONOMIC GROWTH IN MALAYSIA

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**FACULTY OF MANAGEMENT AND ECONOMICS
SULTAN IDRIS EDUCATION UNIVERSITY**

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DECLARATION

I declare that this project is my own work, except for citations and summaries, each of which I have clearly cited its source.

Date: 20th February 2025

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ABSTRACT

The study examines the impact of domestic investment on economic growth in Malaysia together with the labour force and foreign direct investment. This study has used the autoregressive distributed lag (ARDL) model to analyse the annual data over fifty-three years, testing unit roots of the variables, cointegration, and long- and short-run relationships. The results of this study highlight that there is long run cointegration among variables of domestic investment (DI), labour force (LAB), foreign direct investment (FDI), and economic growth (GDP) in Malaysia. Labour force and foreign direct investment has a positive impact on Malaysia's economic growth in the long run, but domestic investment shows the opposite. Furthermore, all the variables (DI, LAB, FDI) have positive impact on economic growth in the short run. The findings suggest that policies should improve its investment efficiency and productivity, enhance financing access for domestic investment, and provide more tax incentives and subsidies to domestic investors. Moreover, to maintain a positive relationship between labour and economic growth in Malaysia, human capital needs to reinforce and as for FDI, the government should attract high-quality investments such as investing in green technology and automation to increase innovation in the country.

Keywords: ARDL Model, Domestic Investment, Labour Force, Foreign Direct Investment, Malaysia.



ABSTRAK

Kajian ini mengkaji kesan pelaburan domestik terhadap pertumbuhan ekonomi di Malaysia bersama-sama dengan tenaga buruh dan pelaburan langsung asing. Kajian ini telah menggunakan model autoregressive distributed lag (ARDL) untuk menganalisis data tahunan selama lima puluh tiga tahun, menguji punca unit pembolehubah, kointegrasi, dan hubungan jangka panjang dan pendek. Hasil kajian ini menyerlahkan bahawa terdapat kointegrasi jangka panjang antara pembolehubah pelaburan domestik (DI), tenaga buruh (LAB), pelaburan langsung asing (FDI), dan pertumbuhan ekonomi (KDNK) di Malaysia. Tenaga buruh dan pelaburan langsung asing memberi kesan positif kepada pertumbuhan ekonomi Malaysia dalam jangka panjang, tetapi pelaburan domestik menunjukkan sebaliknya. Tambahan pula, semua pembolehubah (DI, LAB, FDI) mempunyai kesan positif terhadap pertumbuhan ekonomi dalam jangka pendek. Penemuan menunjukkan bahawa dasar harus meningkatkan kecekapan dan produktiviti pelaburannya, meningkatkan akses pembiayaan untuk pelaburan domestik, dan menyediakan lebih banyak insentif cukai dan subsidi kepada pelabur domestik. Selain itu, untuk mengekalkan hubungan positif antara buruh dan pertumbuhan ekonomi di Malaysia, modal insan perlu diperkukuh dan bagi pelaburan langsung asing (FDI), kerajaan harus menarik pelaburan berkualiti tinggi seperti melabur dalam teknologi hijau dan automasi untuk meningkatkan inovasi dalam negara.

Kata Kunci: Model ARDL, Pelaburan Dalam Negeri, Tenaga Buruh, Pelaburan Langsung Asing, Malaysia.



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Author	Variable	Methodology	Findings
Dinh, Vo, The Vo, Nguyen - OECD countries	GDP per Capita, FDI, M_2 , PRVT (Domestic Investment), SECP (People with Secondary Education and Above).	Unit root test, Johansen cointegration test, Vector Error Correction Model (VECM), Johansen cointegration tests, fully modified OLS (FMOLS).	Domestic Investment helps economic growth in the long run.
Siddique et al. - Paskitan	GDP per Capita, Physical Capital, Labor Force, Human Capital, FDI, Trade.	ARDL model, Granger causality tests	Positive relationship in the long run.
Sahoo, Sethi – India	GDP, GCF, ODA (Foreign Official Inflows), FDI	VECM, cointegration analysis.	Positive effect in the long and short run and investment leads to further investments.
Sayef Bakari- Malaysia	GDP, Domestic Investment, Exports, Labors.	Vector Error Correction Model and the Granger- Causality tests.	Positive effect of domestic investment on economic growth in the long run term.
Mohamed Kharroubi - Malaysia	GDP, FDI, GFCF, Trade.	Co-configuration test and causality granger.	Domestic investment has a positive impact on economic growth by enhancing the benefits of FDI.

Table 2.2: (Continued)

Author	Variable	Methodology	Findings
Mehedintu, Sterpu, Raduteanu - European Union (EU) countries	GDP per capita, Labour force, GFCF, Personal Remittances	Linear multifactorial regression, Granger causality tests.	Labor force had a significant positive impact economic growth.
Bloom, Canning, Sevilla - Developing countries	GDP, Labour Force, Demographic Transition, Education, Health, Savings	Panel data regression, Fixed effects to control country-specific heterogeneity.	Increased in labour force positively affected GDP.
Timmer, de Vries - Africa and Asia	GDP, Sectoral labor force shares, Employment, Productivity	Growth accounting and productivity decomposition methods.	Labour force growth to GDP but mismatch in skills and the quality limited potential benefits.
Cahyadin, Sarmidi-Malaysia	GDP, FDI, Labour Force, External Debt	Autoregressive Distributed Lag Model (ARDL) and Error Correction Model (ECM)	Positively impact economic growth especially when accompanied by enhanced skills and productivity.
Hamidah Ramlan-Malaysia	GDP, Labour, Unemployment	Multiple Linear Regression (MLR)	Positive impact on Malaysia's GDP.
Idris Jajri, Rahmah Ismail -Malaysia	GDP, Human Capital, Labour Productivity, Effective Labour	Multiple Linear Regression (MLR)	Improving labour quality by education and skill helps economic growth.

Table 2.3: (Continued)

Author	Variable	Methodology	Findings
Bibhuti Sarker, Farid Khan - Bangladesh	GDI, FDI Inflows	ARDL model	Found long run and short run relationship between FDI and GDP
Mohammed Ameen Fadhil, Liu Yao, Walaa Ismeal - Qatar	Real GDP, FDI Inflows	Vector Autoregressive (VAR) Impulse Responses and Granger Causality Tests	Long run relationship found between FDI inflows and economic growth.
Alina Mihaela Ciobanu - Romania	GDP, FDI, Trade, Labour Force	ARDL model	Main determinants of economic growth in the long run.
Har Wai Mun, Teo Kai Lin, Yee Kar Man - Malaysia	RGDP, RGNI, FDI	Cointegration analysis, Error Correction Model (ECM), Granger causality tests	Positive impact on economic growth.
Norsilawati Mohd Hassan, Nik Suriati Nik Hassan, Fadhilah Mohd Isyak - Malaysia	GDP per Capita, FDI, Exports, Inflation	Ordinary Least Squares (OLS) regression, Diagnostic tests	FDI has a direct positive effect on economic growth.
Mohammad Sharif Karimi, Yusop, Zulkornain - Malaysia	GDP, FDI	ARDL model	FDI has no long relationship between economic growth (indirect effect).

Table 3.1: The Four Prominent Macroeconomic Variables

Variable	Symbol	Source
Economic Growth - GDP per Capita	GDP	BNM
Domestic Investment - Gross Capital Formation (% of GDP)	DI	World Bank
Labour Force - Total Labour Force	LAB	World Bank
Foreign Direct Investment - Foreign Direct Investment, net inflows (% of GDP)	FDI	World Bank

Table 4.1: Unit Root Test Result

	At Level			At First Difference		
	None	Without Trend	With Trend	None	Without trend	With Trend
GDP	4.32 (0) [1.0000] Stationary	-1.28(0) [0.6320] Stationary	-2.81(0) [0.1997] Stationary	-0.79(11) [0.3660] Stationary	-6.50*** (1) [0.0001] Non-stationary	-6.67*** (1) [0.0001] Non-stationary
DI	1.10(1) [0.9278] Stationary	-2.02(1) [0.2762] Stationary	-2.96(1) [0.1530] Stationary	-4.88*** (0) [0.0000] Non-stationary	-5.05*** (0) [0.0001] Non-stationary	-5.11*** (0) [0.0006] Non-stationary
LAB	1.45(8) [0.9622] Stationary	-1.10(8) [0.7050] Stationary	-0.77(8) [0.9607] Stationary	-1.62* (7) [0.0975] Non-stationary	-2.85** (1) [0.0581] Non-stationary	-3.57** (1) [0.0419] Non-stationary

FDI	0.35(2)	-4.74***(0)	-6.22***(0)	-8.23***(1)	-8.20***(1)	-8.13***(1)
	[0.7836]	[0.0003]	[0.0001]	[0.0001]	[0.0001]	[0.0001]
	Stationary	Non- stationary	Non- stationary	Non- stationary	Non- stationary	Non- stationary

Table 4.2: (Continued)

Test Statistic	Value	Critical Value (5%)
F-statistic	3.540939	I(0) = 2.79 I(1) = 3.67

Table 4.3: (Continued)

Statistic	Value	Critical Value
Augmented Dickey-Fuller Test Statistic	-6.317912	1% level = -3.571310 5% level = -2.922449 10% level = -2.599224
p-value	0.0000	

Table 4.4: (Continued)

Variable	Coefficient	Standard Error	T-statistic	p-value	
DI	-0.167093	0.189984	-0.879508	0.3855	Not Significant
LAB	20.66075	2.139842	9.655269	0.0001	Significant
FDI	0.278540	0.164227	1.696068	0.0993	Not Significant

Table 4.5: (Continued)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(DI)	0.184471	0.040330	4.574056	0.0001
D(LAB)	24.73013	5.851360	4.226390	0.0002
D(LAB(-1))	-5.547571	6.214364	-0.892701	0.3785
D(LAB(-2))	4.030559	5.834442	0.690822	0.4945
D(LAB(-3))	15.57936	5.546084	2.809075	0.0083
D(FDI)	0.033691	0.006459	5.216406	0.0000
D(FDI(-1))	-0.038709	0.011179	-3.462566	0.0015
D(FDI(-2))	-0.015258	0.009138	-1.669619	0.1045
D(FDI(-3))	-0.014396	0.006733	-2.137979	0.0400
ECM(-1)	-0.225156	0.050535	-4.455414	0.0001

Table 4.6: (Continued)

Test Statistic	Value	Probability
F-Statistic	0.163515	0.8499
Obs*R-squared	0.521962	0.7703

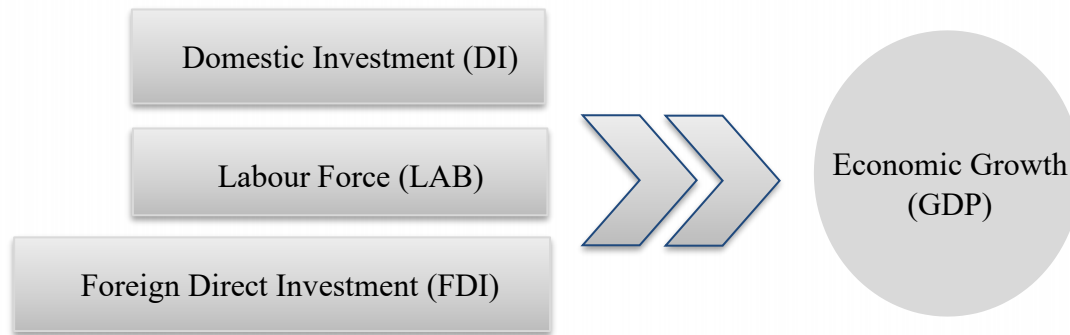
Table 4.7: (Continued)

Test Statistic	Value	Probability
F-Statistic	0.714738	0.4022
Obs*R-squared	0.733990	0.3916

Table 4.8: (Continued)

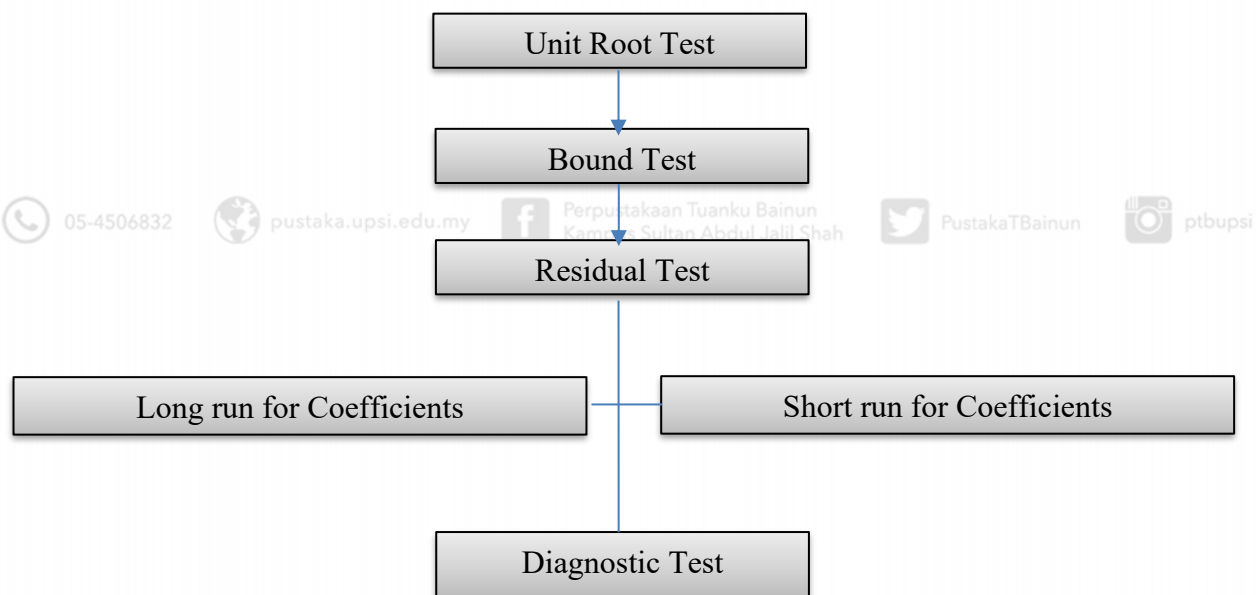
Test	Statistic	Probability
t-Statistic	1.638570	0.1111
F-Statistic	2.684910	0.1111

LIST OF FIGURES



(Source: Author)

Figure 1.1: Conceptual Framework



(Source: Author)

Figure 1.2: Methodology framework

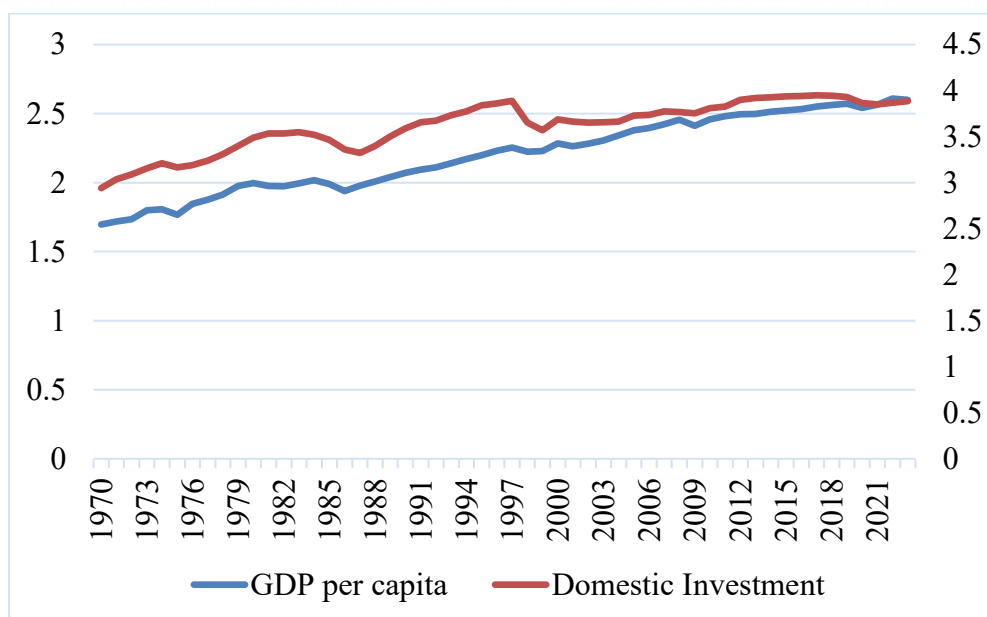


Figure 2.1: Domestic Investment and Economic Growth in Malaysia

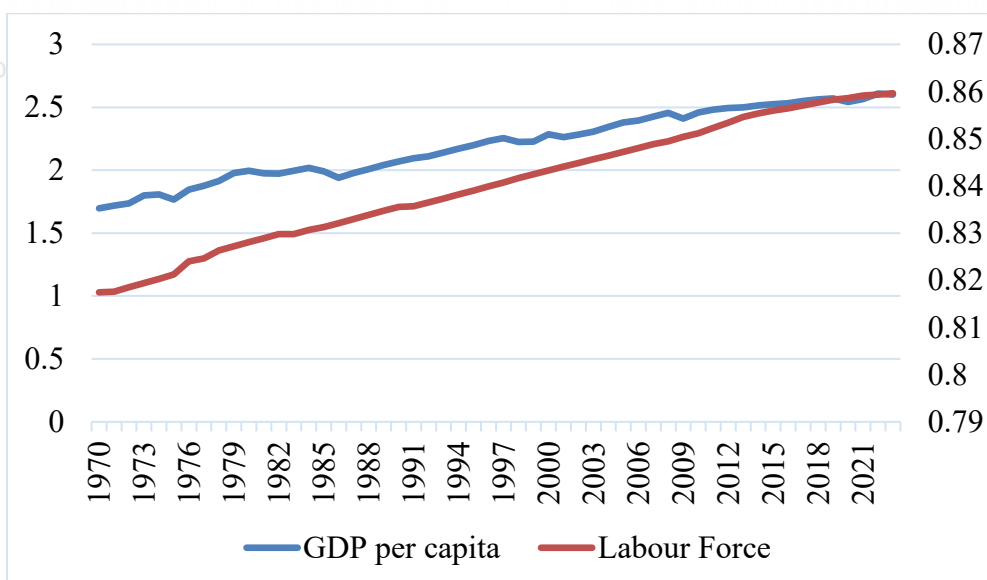


Figure 2.2: Labour Force and Economic Growth in Malaysia



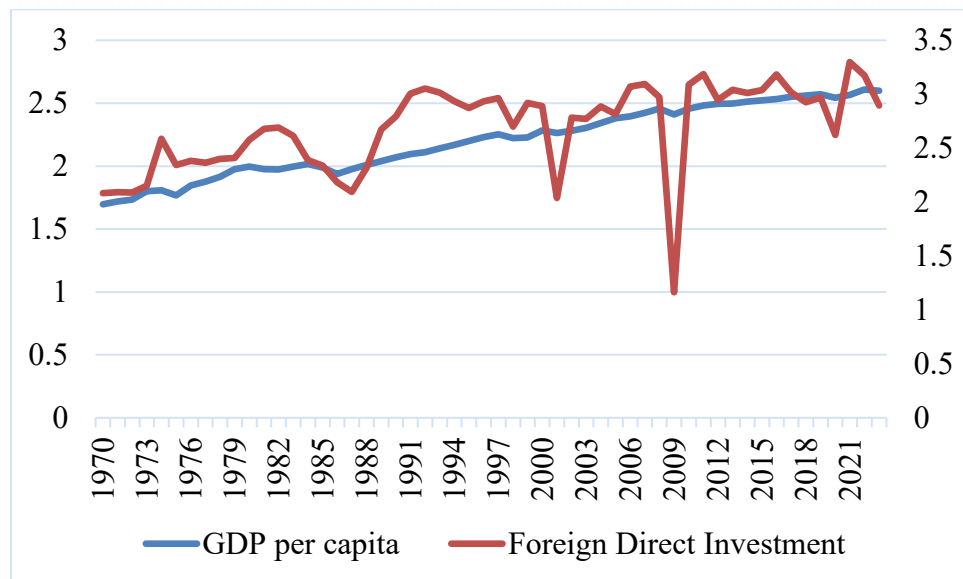


Figure 2.3: Foreign Direct Investment and Economic Growth in Malaysia

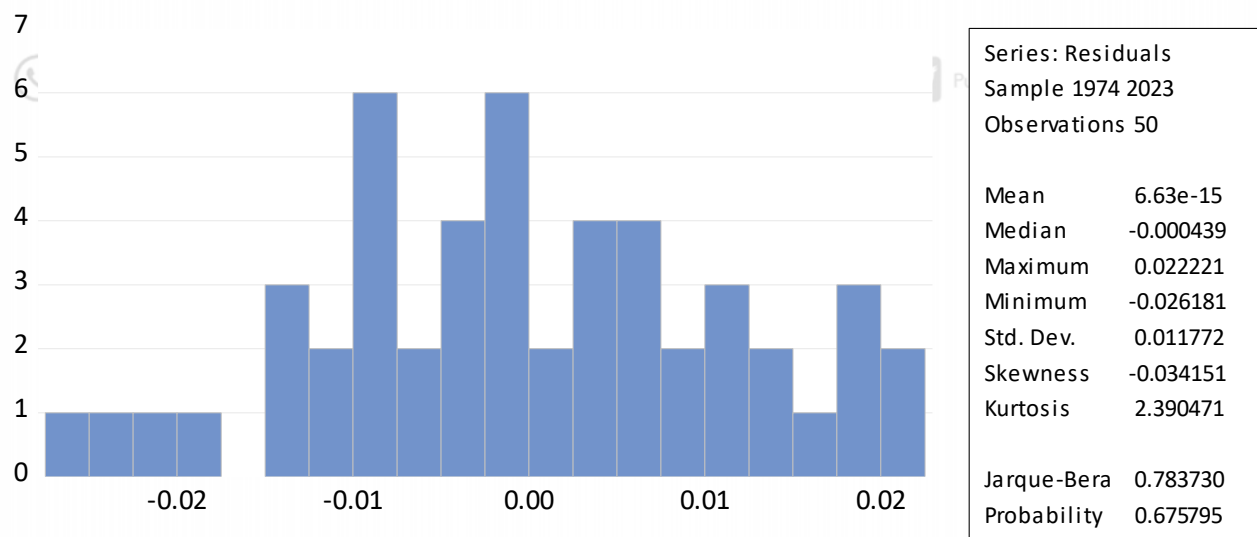


Figure 4.1: Normality Test Result

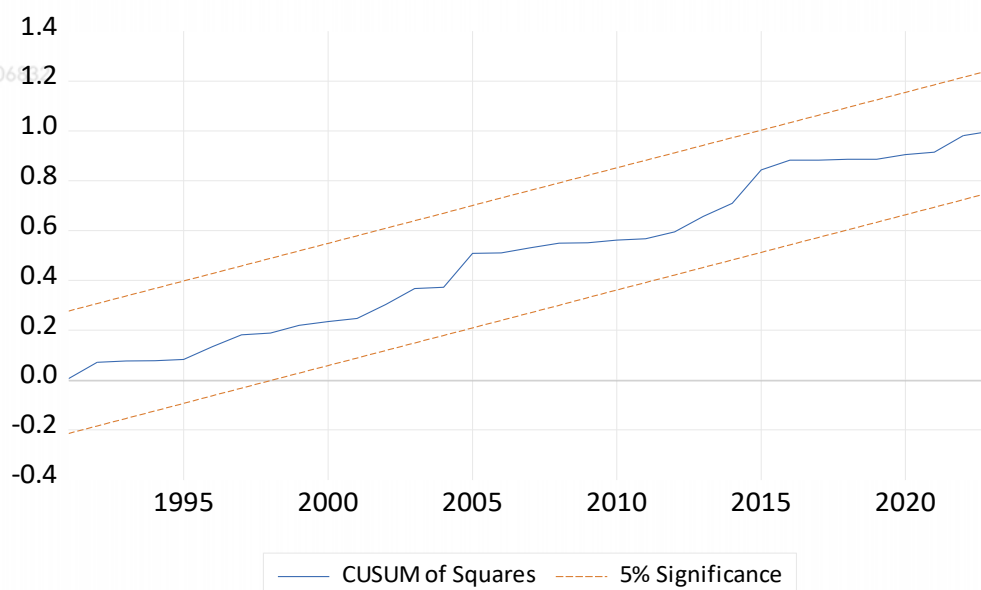
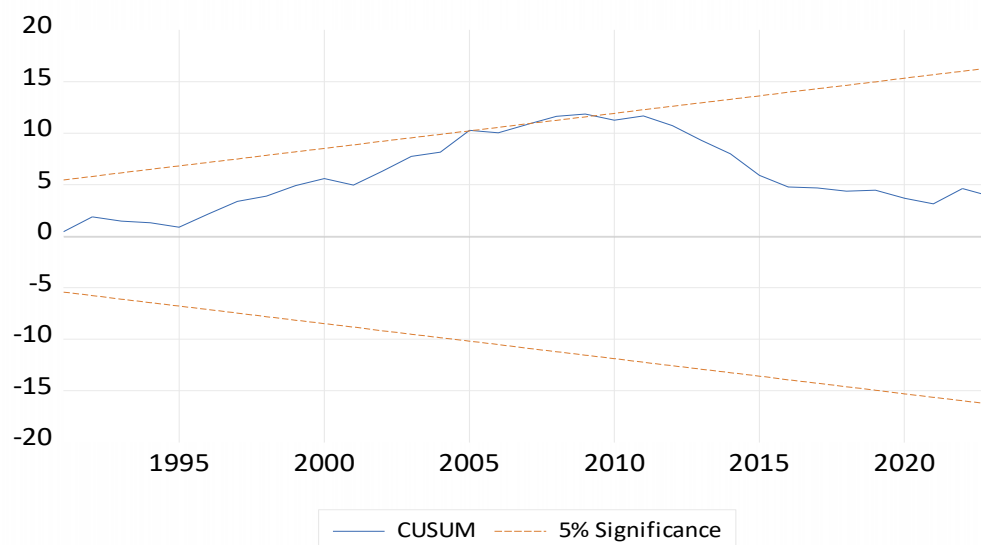


Figure 4.2: CUSUM and CUSUM Square Test Results





CHAPTER 1

INTRODUCTION



1.0 Introduction

Domestic investment is defined as an allocation of resources in the country's economy to increase economic development and prosperity. Investments are often made by households, businesses, and the government in different sectors such as infrastructure, education, and technology. Similarly with foreign direct investment, domestic investment plays an important role in economic growth, and it is also one of the tools to reflect the internal economic health and stability of a nation. The investment, for instance, has contributed to job creation, productivity improvements, and innovation, which drives economic expansion. Thus, Malaysia has exploited domestic investment to drive technological innovation, build infrastructure, and enhance industrial capacity, resulting in more diversified economy, especially in the agricultural and industrialised sectors. In other words, there is always a positive relationship between domestic investment and





economic growth. However, the impact on domestic investment has not been fully explored in Malaysia. This problem occurred because some studies often focus on foreign direct investment (FDI) than domestic investment. So, by focusing on this investment is important for the growth of the economy within the country especially in Malaysia.

Hence, understanding the domestic investment that drives economic growth in Malaysia has significant policy effects. By using the autoregressive distributed lag (ARDL) approach, the author aims to investigate the impact of domestic investment on economic growth in Malaysia. The variables of the study include domestic investment (DI), labour force (LAB), foreign direct investment, and economic growth (GDP), and there are several objectives for this research; First, it is to investigate the co-integration between the selected variables (GDP, DI, LAB, FDI). Second, to analyse the relationship between endogenous (GDP) and exogenous (DI, LAB, FDI) variables in the long run. Third, to analyse the relationship between endogenous (GDP) and exogenous (DI, LAB, FDI) variables in the short run. Besides contributing to the economic literature, these objectives will offer a better practical insight into how to improve economic development in Malaysia.

1.1 Research Background

Domestic investment is important to national development since it provides resources for various sectors that have led to the creation of jobs, increased productivity, and overall economic growth. Investments especially in infrastructure, education, and technology, are the basis for sustainable growth (Aqeela Nadhira et al., 2023). According to Pang et al., (2022), domestic investment is one of the effective strategies in increasing economic growth. Domestic investment is an investment that can help to reflect the stability and health of the internal economy.





While foreign direct investment (FDI) has brought in capital investment, technology and management knowledge needed in Malaysia, making it an important source of economic growth (Har Wai Mun et al., 2024), domestic investment has proven that it also can help in increasing economic dependence and not solely rely on growth based on foreign sources. Domestic investment has contributed significantly to economic diversification, supporting the rapid growth of industry and reducing dependence on only one sector. The relationship between domestic investment and economic growth has shown that a well-managed internal investment strategy can increase gross domestic product and can form a more flexible economic structure. During the past periods, Malaysia experienced uncertainty, such as economic depression and the Asian financial crisis, which led to economic growth declining (Masoud et al., 2013). Hence, this is important where building a resilient economic system in the country can protect against uncertain external economic.



In the Malaysian context, not only domestic investment but also factors such as the labour force are also important for the country's economic growth. Study by Norimah Ramli et al. (2016) shows that labour force positively influences economic growth in the long run. By increasing labour inflows and accessing international markets, which strengthens the country's economic competitiveness, these factors can influence economic productivity and stability. Using the autoregressive distributed lag (ARDL) model, this study proposes to examine the relationship between domestic investment, labour force, foreign direct investment, and economic growth in Malaysia in the long and short run.

1.2 Problem Statement

In economic theory, the role of domestic investment has long been acknowledged in driving economic growth. However, in Malaysia, its influence on economic development has yet to be fully explored. This is because foreign direct investment has been the choice





of most developing countries as the main driver of growth, which has resulted in domestic investment not receiving equal attention, especially in the Malaysian context. It is concerning to not be fully aware of the importance of this factor for the growth of a nation's economy since domestic investment also played a crucial part in Malaysia's internal economy, driving technological innovation and helping to expand industrial and agricultural capacity for long-term economic sustainability. Over the past periods, domestic investment has made a significant contribution, especially in infrastructure development, industrial capacity expansion, and the improvement of the technology sector. According to Hooi Hooi Lean et al. (2011), domestic investment has proven that it is the most critical source of economic growth and effectively helps to create more jobs. The results have caused the Malaysian economy to shift from being solely dependent on natural resources to a diversified industrial base. Nevertheless, compared to the foreign direct investment, the relationship between domestic investment and economic growth in Malaysia has not been studied widely despite its importance is acknowledged and considered to have a positive impact on national growth.

Besides domestic investment, there is other factors such as labour force and education that driving economic growth in Malaysia. As a result, the impact of domestic investment shows different results, whether it has a positive or negative impact on economic growth, depending on the factors chosen in the study. For example, the study by Adila Haidari et al. (2024) stated that expenditure, tax revenue, inflation, unemployment and economic growth have strong relationship in the long run. Therefore, the lack of understanding of the interaction of factors makes it difficult for policymakers to develop strategies that can optimise domestic investment for more sustainable economic development. Moreover, this also could lead to government efforts to stimulate domestic investment, such as the Economic Transformation Program (ETP) and other investment incentives are not fully understood.





Amidst global economic uncertainty, improving domestic economic resilience is of utmost importance for a country like Malaysia. Thus, it is better for this study to focus on the impact of domestic investment, the labour force, and foreign direct investment on economic growth in Malaysia in the long run. This study arises to help further clarify the unclear empirical understanding of these dynamics, which shows a critical gap in the present literature. By examining a study of the impact of domestic investment on economic growth in Malaysia, this study is hoping to provide significant insights to policymakers and stakeholders in effectively increasing domestic investment and the stability of the economy.

1.3 Research Questions

There are several research questions to meet the objectives of this study. The research questions that will be carried out are as follows:



- a. Is there a long-run co-integration between among the variables of domestic investment (DI), labour force (LAB), foreign direct investment (FDI), and economic growth (GDP) in Malaysia?
- b. Is there a sign long-run relationship between the endogenous (economic growth) and the exogenous variables (domestic investment, labour force, foreign direct investment)?
- c. Is there a sign short-run relationship between the endogenous (economic growth) and the exogenous variables (domestic investment, labour force, foreign direct investment)?



1.4 Research Objectives

There are three objectives of this research:

- a. To investigate whether a long-run co-integration relationship exist among domestic investment, labour force, foreign direct investment, and economic growth in Malaysia.
- b. To analyse the long-run relationship between the endogenous (economic growth) and the exogenous variables (domestic investment, labour force, foreign direct investment).
- c. To analyse the short-run relationship between the endogenous (economic growth) and the exogenous variables (domestic investment, labour force, foreign direct investment).

1.5 Research Hypothesis

The following hypothesis are proposed to guide this study's empirical investigation:

Hypothesis for co-integration:

H_0 : There is no co-integration among variables of domestic investment, labour force, foreign direct investment, and economic growth.

H_1 : There is a co-integration relationship among variables of domestic investment, labour force, foreign direct investment, and economic growth.

Hypothesis for long-run relationship:

H_0 : There is no long-run relationship among variables of domestic investment, labour force, foreign direct investment, and economic growth.

H_1 : There is a long-run relationship among variables of domestic investment, labour force, foreign direct investment, and economic growth.

Hypothesis for short-run relationship:

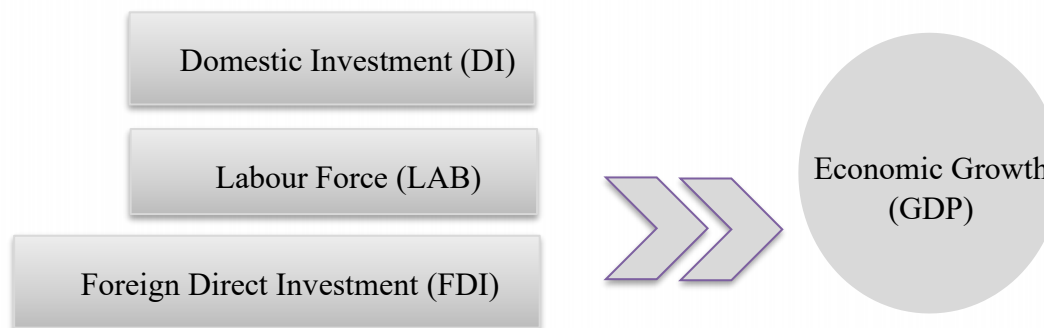
H_0 : There is no short-run relationship among variables of domestic investment, labour force, foreign direct investment, and economic growth.

H_1 : There is a short-run relationship among variables of domestic investment, labour force, foreign direct investment, and economic growth.

1.6 Conceptual Framework

This research will be using annual data of economic growth, domestic investment, labour force, and foreign direct investment of Malaysia. The conceptual framework includes the relationship between three exogenous variables: domestic investment (DI), labour force (LAB), and foreign direct investment (FDI) with economic growth (GDP), as an endogenous variable.

Based on figure 4, the conceptual framework can be investigated through the autoregressive distributed lag (ARDL) approach. GDP per Capita is the main indicator of a country's economic performance, reviewing the total value of goods and services produced within a nation. The ARDL model is suitable for this analysis because it can estimate both short-term and long-term relationships between variables, even when the analysis is combined at different orders (I(0) or I(1)). This resilience is significant for analysing data with non-stationarity or mixed integration features.



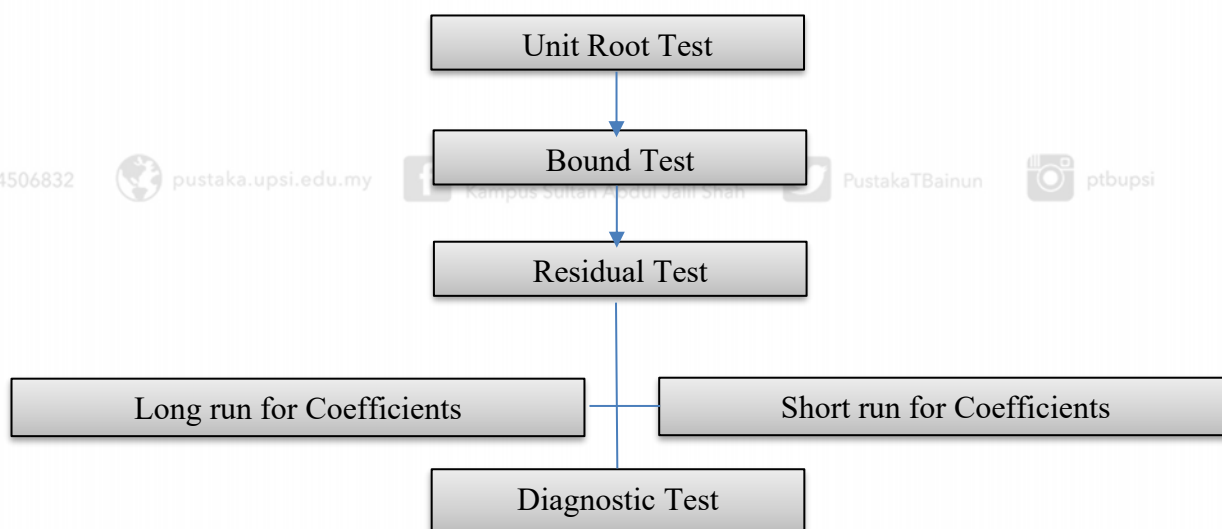
(Source: Author)

Figure 1.1: Conceptual Framework

Domestic investment, the labour force, and foreign direct investment are some of the factors that drive economic growth. Domestic investment encourages capital formation, uplifts productive capacity, and leads to economic growth. Human capital, known as the labour force, is for production, influencing output levels by its size and productivity. Meanwhile, foreign direct investment is calculated by net inflows by gross domestic product (% of GDP), reflecting the extent to which economic growth is due to investment made by foreign companies or individuals, which leads to effective gains, technology transfer, and entrance to big markets. By applying these variables to the ARDL model, one may assess the dynamics of economic growth over time, differentiated immediate effects, and those that develop in the longer term. Ben Yedder et al. (2023), for instance, revealed that imports are positively correlated with economic growth, whereas the labour force is negative in the long term, in North Africa. However, exports and domestic investments have no major impact on short- or long-term growth, indicating the necessity for focused policy interventions.

When using the ARDL approach, its model specification is usually the lagged values of the variables chosen. This helps to understand short-term dependence and its accommodation processes. For example, the impact of domestic investment growth on economic growth could take several years, showing the time needed for new investments

to be efficient. Likewise, changes in the labour force or foreign direct investment might have slowing effects on economic output. This ARDL bounds testing procedure is used to estimate whether long-term and short-term relationships between domestic investment, labour force, foreign direct investment and economic growth exist and how the domestic investment, labour force, and foreign direct investment influence economic growth in Malaysia. Figure 5 shows the steps for the ARDL model. All the data need to run the unit root test to determine the order of integration ($I(0)$ or $I(1)$). Then proceed to determine bound test, residual test, long-run for coefficients, and short run coefficients. Lastly, the step is diagnostic test. In this test, the study needs to do its normality, serial correlation LM, heteroskedasticity, Ramsey, and CUSUM and CUSUMSQ tests to check its stability.



(Source: Author)

Figure 1.2: Methodology framework

1.7 Definition Operational

Economic growth (GDP):

Economic growth refers to an increase in the production of products and services in an economy over time. According to the International Monetary Fund, the economic growth (GDP) can be referred to as the monetary value of all completed goods and services made within a country over a specific period. Economic growth is typically assessed as gains in GDP per Capita. Economic growth is computed in this study as the annual growth of Malaysia's GDP per Capita, using data from official sources such as the World Bank and the Department of Statistics Malaysia.

Domestic Investment (DI):

Domestic model assets, such as infrastructure, machinery, and other equipment that would contribute to productivity and hence promote Malaysia's economic growth, are allocated resources through domestic investment. Marc Lautier et al. (2012) stated that domestic investment is the expenditure on capital goods by local investors within a country. It involves investments that are important to economic growth and development. For example, investments in machinery, buildings, and infrastructure. It is quantified as gross capital formation (% of GDP). Data will be acquired from national statistics bodies as well as international databases such as the World Bank.

Labour Force (LAB):

The labour force is measured by the total number of people of working age who are employed or actively finding jobs. Cahuc et al. (2004) defined labour force as those who are currently working or actively looking for work. In other words, this includes individuals who interact with any paid work and unemployed individuals who actively find jobs; it excludes students, homemakers, and retirees. The data is taken from government reports, national labour surveys, and the International Labour Organisation (ILO).



Foreign Direct Investment (FDI):

Foreign direct investment is investment in assets, properties, or businesses made by foreign companies or individuals in another country. According to the Corporate Finance Institute, foreign direct (FDI) investment defines an investment made by a party in one country as a business in another country for the purpose of creating a lasting interest. FDI means corporations or individuals that are from other countries can invest in another country to gain lasting profit. Data will be collected from the World Bank.

1.8 Scope of Study

This study investigates how domestic investment, labour force participation, and foreign direct investment affect Malaysian economic growth. The autoregressive distributed lag (ARDL) approach will be used in this study to analyse the dynamic relationship between economic growth, domestic investment, labour force, and foreign direct investment. Furthermore, this research will use time series data from 1970 until 2023 to collect the findings. Hence, to get accurate research, this study will be using data from Malaysian government sources, international databases, and other trusted references. Besides investigating the impact of domestic investment on economic growth, this study will also study the impact of other macroeconomic variables such as labour force and foreign direct investment to clarify the reason for dynamic of each variable. By examining their influence on economic growth in Malaysia, the study hopes to give a clear empirical understanding of these dynamics. Furthermore, the findings are supposed to provide significant insights into policymakers and help the stakeholders effectively increase domestic investment and the stability of the economy.





1.9 Limitation of Study

To ensure the accuracy and reliability of empirical research, this study relies on the data from trusted websites. However, there are several challenges in obtaining data for this study, especially in 1970 until 1989, there was unavailable data for the labour force variable. The data needs to be obtained from relevant studies and manual calculations to get the information. This leads to a lot of time spent figuring out which good article has the data and whether the calculation is true or wrong. The data is critical to support the influence of domestic investment on Malaysia's economic growth.

1.10 Significance of Study

This finding will explain the important role of domestic investment in economic growth in Malaysia. Policymakers can improve their investment policies by reviewing this study, which investigates how domestic investment can influence economic growth in the long and short run. As a developing country like Malaysia, it is better to focus on this finding because all the decisions of investment can affect economic stability and growth. This research is essential because it provides a clear view of the relationship between exogenous variables such as domestic investment, the labour force, and foreign direct investment with economic growth.

By using the ARDL approach, this research offers a deep understanding of the influence of these macroeconomic variables on economic growth in the short and long run. This could lead to better economic policies. Besides, this research could help prevent exposure to global economic fluctuations and balance the benefits of technology transfer and market access. Hence, it is critical for stimulating integrated policies by considering the interaction between variables. Moreover, this research helps the academic literature by improving the existing research, especially in Malaysia. Using the ARDL approach, the





study may provide better methodological insights that can help to do similar research. Focusing on the direct effects could help future research on economic growth factors. Lastly, the findings of this study are not only for policymakers but also for investors, businesses, and governments. Businesses, for example, can make better decisions about investment opportunities and market strategies in Malaysia by understanding the key factors of economic growth.

1.12 Conclusion

This study investigates whether a long-run co-integration relationship exists among domestic investment, labour force, foreign direct investment, and economic growth in Malaysia. This study also analyses the long-run and short-run relationship between the endogenous (economic growth) and the exogenous variables (domestic investment, labour force, foreign direct investment). Thus, the research is needed as it provides empirical evidence that can drive policymakers into formulating strategies for maintaining economic growth, estimating resources, and understanding the dynamic relationship between these economic variables (GDP, DI, LAB, FDI). Using the ARDL approach, this study proposes to improve the lack of existing literature and offers a better practical insight to improve economic development in Malaysia.

