Political Stability as a Mediating Factor in Economic Growth:

A Half-Century Analysis of Malaysia

(1970-2021)

By

Noryusmiza Abu Nasir

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DECLARATION

The author hereby declares that this project paper is the original study undertaken by her unless stated otherwise due to acknowledgment has been specified to references quoted in the bibliography. The views and analyses in this study are that of author's based on the reference made; and this does not constitute an individual to use this study as technical tool for investment.

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TABLE OF CONTENTS

UNIRAZAK
UNIVERSITI TUN ABDUL RAZAK
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UNIRAZAK
UNIVERSITI TUN ABDUL RAZAK
Copying, modifying, or reprinting, is not permitted.

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LIST OF FIGURES

LIST OF TABLES

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ABSTRACT

Abstract of the research project paper submitted to the Senate of University Tun Abdul Razak in partial fulfilment of the requirements for the Master of Business Administration

POLITICAL STABILITY AS A MEDIATING FACTOR IN ECONOMIC GROWTH: A HALF-CENTURY ANALYSIS OF MALAYSIA (1970-2021)

By

Noryusmiza Abu Nasir

June 2023

This study explores the intricate relationship between political stability and economic growth in Malaysia, analysing data from 1970 to 2021. Utilizing data from the Suruhanjaya Pilihanraya (SPR), the Department of Statistics in Malaysia (DOSM), and the World Bank Database, the study investigates the impact of political stability on economic growth. The popular vote percentage in national elections serves as an indicator of political stability, while GDP is used to measure economic growth. Additionally, independent variables such as government expenditure, consumption, net imports, and FDI inflow are included. To examine the data comprehensively, the study employs the Autoregressive Distributed Lag (ARDL) model, a powerful time-series analysis method. The ARDL model allows for the incorporation of lagged values of variables, enabling an in-depth exploration of the dynamic relationship between political stability and economic growth. By considering both historical and present-day values, the ARDL model provides valuable insights into the complexities of Malaysia's economic development. The findings of the study reveal significant connections between political stability and economic growth in Malaysia. The coefficient estimates indicate that political stability, as measured by the popular vote percentage, has a positive and statistically significant impact on economic growth. Moreover, the independent variables such as government expenditure, consumption, net imports, and FDI inflow also exhibit significant effects on economic growth. These findings have important implications for policymakers and stakeholders in Malaysia.

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CHAPTER 1: INTRODUCTION

1.1.Background of the Study

Since a long time ago, both academics and politicians have been interested in the possible link between political stability and economic growth. Malaysia, a country in Southeast Asia that has managed to balance political stability with strong economic growth, is a good example of how this works . This study will try to figure out how this relationship works, with a focus on the country's progress since it became independent in 1957 (Hill, 2010).

Since Malaysia got its freedom, the country's politics have been pretty stable, with regular fair elections and peaceful changes of power. The Barisan Nasional (National Front) group has been a big part of keeping the political situation stable, which has been important for bringing in foreign investment and boosting economic growth (Aun, 2004).

Along with this steadiness in politics, Malaysia's economy has grown a lot in the last few decades. Malaysia has successfully changed its economy from being based on agriculture to being more diverse and developed (Rasiah, 1995). Its strong industry sector, abundance of natural resources, strategic position, and well-developed infrastructure have all been key to its economic success. Malaysia's economic growth has also been helped by its success at drawing foreign direct investment (FDI) and making business-friendly policies (Sipalan, 2021).

As shown in Figure 1, the Gross Domestic Product (GDP) will be the major topic of this study because it is the best way to measure the health of an economy. GDP, which is a measure of all of a country's economic activity, is a good way to figure out how well its economy is doing. In the case of Malaysia, the country's GDP went from a small USD 1.9 billion in 1960 to an amazing USD 373 billion in 2022 (World Bank, 2022). This large rise not only shows that the country's economy has been growing steadily, but it also shows how its economy has changed over time. By looking at the complicated link between Malaysia's political structure and its GDP, this study wants to shed light on the country's political economy

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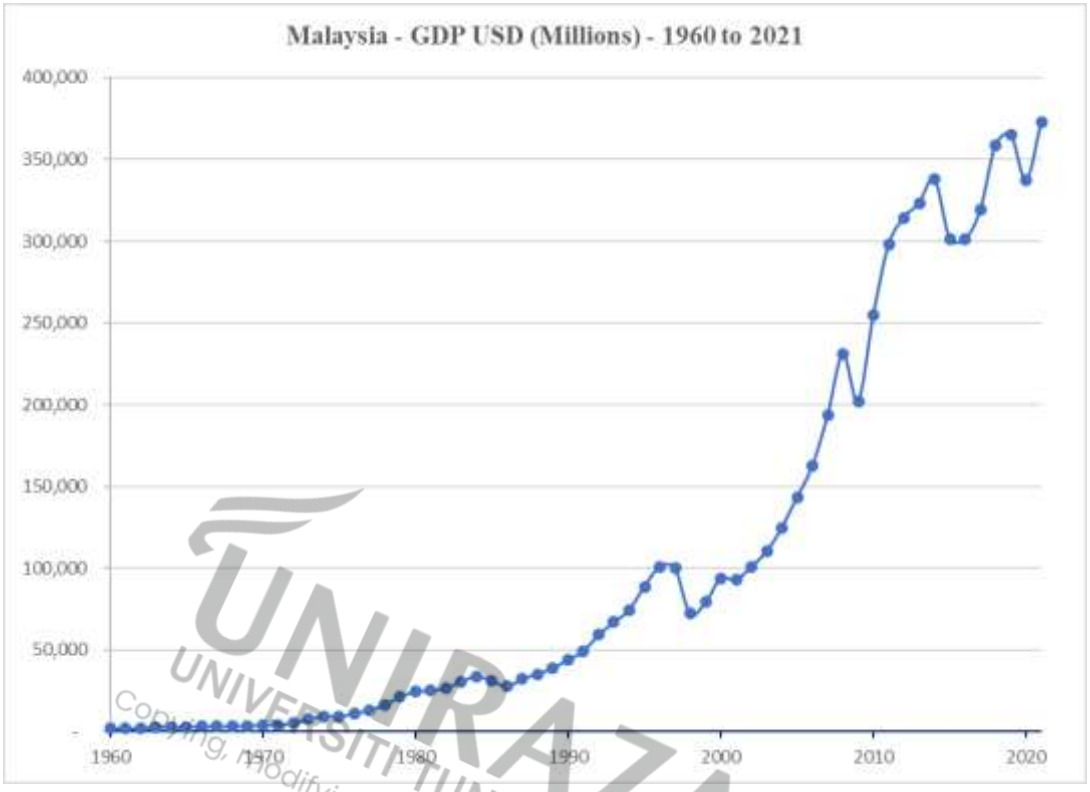
and help us understand how it works. This will help put light on the important relationship between political stability and economic success in Malaysia (Finance, 2021).

Figure 2 - Malaysia GDP – 61Years – (Source: World Bank Data)



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1.2. Measuring Political Stability in Malaysia: A Challenge

The politics of Malaysia, which have been very stable since the country got its freedom in 1957, are the background of this study. Over the years, there have been 15 General Elections (Ahmad, 2000), and each one shows something different about the political situation at the time. But it's hard to judge a country's political stability based on how many parliamentary seats the ruling party wins at each election because the total number of seats changes over time.

In 1959, there were only 104 seats in the Malaysian Parliament. This number grew to 154 in 1974, 192 in 1986, and 222 in 2004 (Ostwald, 2017). Because of this, the number of seats won is not a reliable way to compare things over time. Due to Malaysia's first-past-the-post election method, the number of seats won does not always show how much support the

people have for the party in power. This means that a party can get a majority of seats even though it didn't get a majority of votes (Ostwald, 2020).

In light of these factors, this study measures political stability by how many votes the winning party gets from the general public in each election (McKay, 2021). This method gives a clearer and more accurate picture of how the public feels about the ruling party at any given time. It also makes it possible to compare results from different election years in the same way, even if the total number of parliamentary seats changes.

The picked time series data for this study goes from 1970 to 2021. This time period was chosen mainly because it came after Tun Abdul Razak put in place the Dasar Ekonomi Baru (New Economic Policy) in 1971. He did this in response to the racial riots that happened during the 3rd General Election on May 13, 1969 (Ahmad, 2000). Malaysia's GDP growth changed a lot because of the new economic strategy. By focusing on this time period, this study tries to show how the political stability and economic policies of Malaysia have affected its economic growth over the past 50 years.

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1.3. Problem Statement

The relationship between political stability and economic growth in Malaysia has been a subject of extensive discussion and debate. However, the precise impact of political stability on economic growth remains elusive due to the complex nature of this association and the influence of various other factors on economic performance (Ostwald, 2020). To comprehend this relationship fully and draw conclusive insights, it is crucial to examine the long-term patterns of political stability and economic growth in Malaysia, while considering the broader economic, social, and political contexts. Changes in government policies, population dynamics, and global economic conditions can significantly shape the political environment and consequently impact the rate of economic growth (Ahmad, 2000).

The objective of this research is to quantitatively analyse how political stability affects economic growth in Malaysia and propose policy changes that can foster sustained economic success in the long run. By delving deeper into this relationship, policymakers and stakeholders can gain valuable insights into the driving forces of Malaysia's economy and identify areas that require attention to ensure the country's stability and future growth. This study aims to employ a comprehensive approach by utilizing data from multiple sources, including the Suruhanjaya Pilihanraya (SPR), the Department of Statistics in Malaysia (DOSM), and the World Bank Database, to cover a period spanning from 1970 to 2021.

To achieve the research objectives, this study will examine the influence of political stability, measured by the percentage of popular votes, on economic growth as indicated by GDP in Malaysia. Additionally, it will investigate the impact of government spending on economic growth, analysing the interaction between state expenditure and GDP. The role of import activity in Malaysia's economic growth will also be analysed, focusing on how changes in net imports have affected the country's GDP over the specified time frame. Furthermore, the study will evaluate the correlation between domestic consumption levels and economic growth, exploring how shifts in consumption patterns have influenced Malaysia's GDP. Finally, it will assess the impact of foreign direct investment (FDI) on economic growth, specifically examining the contribution of FDI inflows to GDP growth during the study period.

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By addressing these problems, this study aims to provide a comprehensive analysis of the complex relationship between political stability and economic growth in Malaysia, taking into account the unique socio-political and economic dynamics of the country. The findings of this research will serve as a valuable foundation for future economic and political decision-making in Malaysia, facilitating the identification of key areas of connection and guiding the implementation of appropriate policy changes to support sustained economic development.

1.4. Research Objectives

The research objectives for examining the relationship between political stability and economic growth in Malaysia based on the analysis and findings are as follows:

- To quantify the influence of political stability, measured by the percentage of popular votes, on economic growth as indicated by GDP in Malaysia between 1970 and 2021.
- To ascertain the impact of government spending on the economic growth of Malaysia during the same period, examining how state expenditure interacts with and influences the GDP.
- To analyse the role of import activity in Malaysia's economic growth, investigating how net import changes have affected the country's GDP over the specified time frame.
- To determine the correlation between domestic consumption levels and economic growth, exploring how changes in consumption patterns have influenced the GDP in Malaysia.
- To evaluate the impact of foreign direct investment on the economic growth in Malaysia, assessing the contribution of FDI inflows to the GDP growth during this period..

By refining these research objectives, this study aims to provide a comprehensive and focused investigation into the relationship between political stability and economic growth in Malaysia, considering the country's unique socio-political and economic dynamics.

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1.5. Research Questions

The research questions for the study can be framed as follows:

- How does political stability, quantified by the percentage of popular votes, influence economic growth in Malaysia between 1970 and 2021? (McKay, 2021)
- What is the impact of government spending on Malaysia's economic growth within the same period, and how does this expenditure interact with and influence GDP? (Haruna, 2018)
- How has the import activity affected economic growth in Malaysia between 1970 and 2021, specifically, what is the impact of net import changes on the country's GDP? (Hui, 2002)

- How do changes in domestic consumption levels influence economic growth, and what is the specific correlation between these consumption patterns and GDP in Malaysia? (Hui, 2002)
- What is the contribution of foreign direct investment inflows to Malaysia's GDP growth during the 1970-2021 period, and how significant is their impact on economic growth? (Hui, 2002)

These research questions aim to probe deeper into the nature of the relationship between political stability and economic growth in Malaysia, and shed light on potential mechanisms, influences, and policy implications.? (Christoph Hanck, 2023)

1.6.Significance of the Study

In this study paper, the Malaysian situation is used to show how important government stability is for driving economic growth. We look at the complicated link between government security, the vote of the people, and economic growth, as well as how this trio affects different parts of Malaysia.

The first important thing about our study is that it helps policymakers make decisions. As our study finds out more about the relationships between Malaysia's political stability, public support (measured by the popular vote), and economic growth, it could help lawmakers make decisions. This advice can help people come up with and carry out effective strategies that support lasting socioeconomic growth, a point that Rodrik's work (1999) makes clear.

Also, this study has important effects on the business environment. By pointing out the link between government stability and economic growth, it gives investors trust and makes the country a good place for businesses to do well. The study's results show that political stability is a key factor in promoting economic growth and could bring in both domestic and foreign investments, which is something that Levine's research (1997) also found.

In order to make long-term economic plans, it is important to understand the complicated relationship between government stability, public support, and economic growth.

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The results of this study can help stakeholders and lawmakers learn about economic areas that need attention to keep growth and stability going. North (1990) looked into this idea.

The effects of this study on society are especially important. Stable politics can help the economy grow, which can be good for society as a whole. The lessons from this study can help lawmakers decide how to use resources and come up with policies for inclusive growth. Sen's work from 1999 (Sen, 1999) backs up the idea that this could lead to less economic inequality and a higher standard of living for everyone in Malaysia.

From an academic point of view, this study adds to the current body of writing, especially by helping us learn more about political economics in Malaysia. It gives future researchers in this area useful information and adds to the knowledge system that Acemoglu (2015) came up with.

Lastly, because our study is focused on Malaysia, it gives us a chance to compare different countries and learn more about government security and economic growth. When the Malaysian experience is compared to that of other countries, important lessons can be learned that can be used in many different situations. This idea is repeated in the work of (Alesina, 1996). In short, this study shows how political stability, the success of elections, and economic growth all affect each other. This has important effects for policymakers, investors, businesses, and the general public in Malaysia. Hill (2010) said that by looking into these factors, we can help Malaysia's long-term economic growth and the well-being of society as a whole.

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1.7.The Organisation of the Study

The structure of this study is meticulously designed to ensure a comprehensive exploration of the relationship between political stability and economic growth in Malaysia. Here's a concise overview of each section:

The Introduction section sets the stage by offering crucial background information about the research problem. It provides a brief overview of why it is essential to examine the

correlation between political stability and economic growth in Malaysia. This section will serve as a guide to the layout of the study and the questions it aims to address.

Next, the Literature Review delves into existing scholarly work on the connection between political stability and economic growth, with a particular emphasis on the unique context of Malaysia. This section forms the theoretical bedrock of the study, drawing upon previous findings to shape the direction of the current research. It also identifies gaps in the literature, highlighting the unique contributions that this study will make to the field.

The Methodology section then offers a detailed account of the research design and methods used in the study. It elaborates on the data sources used, the techniques for data collection, and the analytical tools employed to decipher the intricate relationship between political stability and economic growth in Malaysia.

In the Results and Discussion section, the findings of the study are presented. This includes an examination of trends in political stability and economic growth in Malaysia, the interaction between these two variables, and the larger context in which these trends are unfolding. This section offers a nuanced interpretation of the findings and discusses their implications for various stakeholders, including policy makers.

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Lastly, the Conclusion section ties everything together. It summarises the key findings of the study and their implications for the field. This section also provides policy recommendations based on the results, suggesting strategies for bolstering political stability and fostering economic growth in Malaysia.

1.8. Summary of Chapter 1

In summary, Chapter 1 provides a comprehensive introduction to the study, laying the foundation for the exploration of the relationship between political stability and economic growth in Malaysia. It highlights the importance of this research, discusses the country's stable politics and economic growth, introduces the method of measuring political stability, presents the problem statement, research objectives, and outlines the significance of the study.

CHAPTER 2: LITERATURE REVIEW

2.1.Introduction

Political stability and economic growth have been studied extensively. Policymakers, economists, and other stakeholders must understand this link to promote sustainable economic growth and political stability. Malaysia's fast-growing economy makes political stability-economic growth analysis crucial. Several theories explain how political stability affects economic growth. The well-known institutional theory holds that strong and stable political institutions, such as effective governance, the rule of law, and political accountability, promote economic growth. This theory holds that stable political systems attract foreign investment, foster entrepreneurship, and implement sound economic policies (Aun, 2004).

Political stability is seen to boost economic growth, but other factors also influence it. Fiscal management, commercial openness, and regulatory frameworks can affect political stability and economic growth. Consumption, government expenditure, net imports, and FDI may also mediate the effect of political stability on economic development. Political stability and economic growth have contradictory empirical results in different nations. Political stability boosts economic growth, according to various studies. (Veiga, 2011) discovered that nations with more political stability have higher economic growth. Other studies showed no significant link or found that contextual variables moderated the relationship.

Case Studies The political stability and economic growth in Malaysia have both been examined in these case studies. The authors A Nazeer, Abdul Malik, and Masih, Mansur showed that the empirical data derived from the ARDL limits testing technique unequivocally point to the fact that political instability is cointegrated with FDI and economic growth. (Nazeer, 2017). The effect of political instability on foreign direct investment and economic growth has been experimentally investigated by a number of academics, although the results have been varied based on the data from 1984 to 2013 Theoretical Foundation for this research.

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2.2. Theoretical Foundation

The idea of "political stability" has been the focus of many political discussions and a lot of study. Linz and Stepan (1996) say that a government's security can be measured by how long its policies have stayed the same. Alesina (1996) says that political uncertainty is marked by frequent changes in government that cause social and economic policies to be put on hold for a while. Since it became independent, Malaysia has kept a high level of government security (Crouch, 1996). Even though there have been big changes and difficulties in society, the country's government structures and leaders have been able to keep things stable.

Politicians and analysts have been thinking about how to boost economic growth for a long time. Robert Solow's seminal work (Solow, 1956) suggested that economic growth is caused by gathering capital and labour and using them more efficiently thanks to technology progress. Malaysia's economic growth is important because it shows a change from a farming economy to one based on industry and services (Rasiah, 1995). Foreign direct investment, technological growth, and a rise in the education and skill level of the population (World Bank, 2018) are some of the things that have helped this shift happen.

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Scholars mostly agree that a safe political situation is important for a country's economy to grow. Alesina and Perotti (1996) say that a country's political situation can have a big effect on its economic situation. Politically safe countries can help their economies grow by making long-term plans, attracting foreign investment, and creating a setting that is good for business (Rodrik, 1999).

Gomez and Jomo (1999) say that most of Malaysia's economic growth can be attributed to its stable government, which makes it attractive to foreign investors because of its stable economic policies. But they agree that there is a tension between political stability and democratic freedoms that has shaped Malaysia's political and economic structure and continues to do so.

The research shows that the link between government security and economic growth is not simple. Economic growth is affected by a number of things, such as government stability, economic policies, investments, technical progress, and social factors. Malaysia is an interesting example of this complicated interaction because it has been able to keep its government stable and boost economic growth despite facing many problems.

In Malaysia, a lot of study has been done on the part that government stability plays in helping the economy grow. Gomez and Jomo (1999) say that the success of Malaysia's economic programmes and its ability to draw foreign investment can be attributed to the country's stable government. This has led to a diverse economic scene with thriving businesses. But scholars like Case (2004) have raised worries about the costs and benefits of keeping political stability, which can sometimes lead to silencing the views of those who disagree. Even with these worries, most experts agree that government security in Malaysia is a key factor in the country's economic growth.

The link between government security and economic growth needs to be looked into more in the future, especially in developing countries like Malaysia. How political stability affects economic growth can be better understood by doing in-depth studies that look at things like government policies, changes in the population, the global economy, and the role of foreign direct investment. This suggested study, which would look at the link between political stability and economic growth in Malaysia, is expected to help us learn more about the political economy of development and give lawmakers useful information.

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2.3.Empirical Research

When empirical study looks at the link between political stability and economic growth, it shows that this link is complicated and has many different parts. Studies done in many different countries show that political stability and economic growth are strongly linked in a good way. For example, Aisen and Veiga found that countries with more political stability tend to have

higher rates of economic growth. This shows how important political stability is for economic development (Veiga, 2011).

But these relationships don't tell a single story, as different studies have found different things. Campos and Nugent (2002) say that this connection is inherently complicated and highly affected by a wide range of context-related factors. This means that there is no simple cause-and-effect link. So, the link between political stability and economic growth isn't easy and depends on many factors at the national and global levels.

When the study is focused on Malaysia, the same story of complexity comes out. Ang thought that the political stability of Malaysia was a big reason for the country's fast economic growth after freedom (Ang, 2008). This means that a safe government situation may help the economy grow.

Lau, on the other hand, tells a different story. He says that political stability is important, but that other important factors like foreign direct investment (FDI), government spending, consumption, net imports, and the development of human capital also play a big role in Malaysia's economic growth (Lau, 2017). This shows again that economic growth is caused by many different things, one of which is government security.

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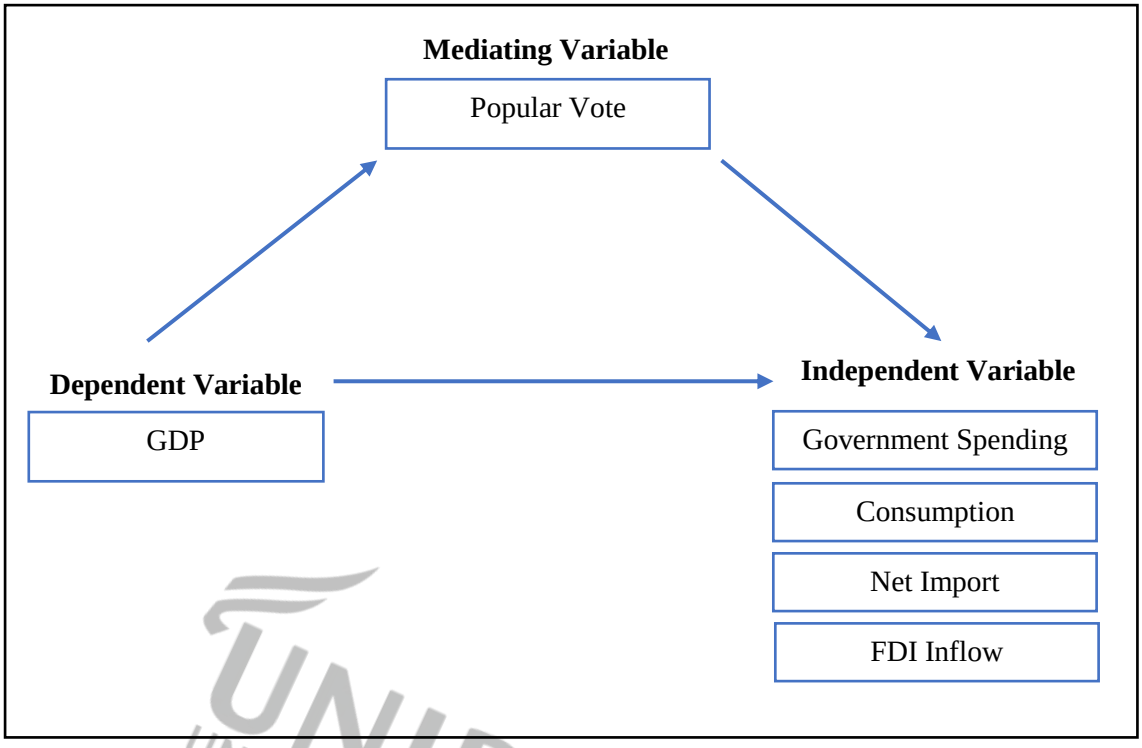
This study focuses on Malaysia and tries to learn more about this complicated connection. It will look at past statistics on political stability, GDP, popular vote, government spending, consumption, net imports, and FDI intake. All of the data will be changed using natural logarithms, which is a common way for economists to deal with a wide range of data and make links between factors more linear.

By doing this, this study hopes to help us learn more about how government stability and economic growth work together. It hopes to add to what is already known and give lawmakers and other important people useful information that will help them deal with the way politics and economy are coming together in the country.

2.4.Proposed Conceptual Framework

Figure 2.0: Conceptual Framework



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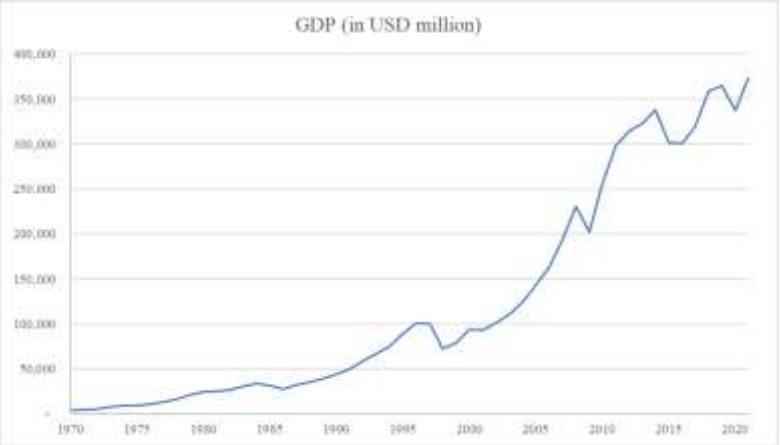
A conceptual framework is a visual representation of the relationships between the key concepts and variables being studied. In the case of the study on the relationship between political stability and economic growth in Malaysia, the conceptual framework could include the following components:

- **Dependent Variable:**

  Gross Domestic Product (GDP) Growth: This variable serves as a significant economic indicator of a country's financial health, representing the annual percentage change in Malaysia's GDP. GDP growth is essentially a comprehensive measure of a country's overall economic performance, capturing the value of all goods and services produced within a nation in a given year. It serves as a gauge of the size and rate of growth of the nation's economy, reflecting the economic progress and prosperity of the country.

Figure 2.1 : Malaysia GDP 1970 – 2021



- **Mediating Variable:**

Political Stability: This variable encapsulates the steadfastness and proficiency of Malaysia's political climate. This includes dimensions such as the functionality of political institutions, the quality of governance, adherence to the rule of law, and the level of political accountability. In the context of Malaysia's political system, where general elections are held every 4 to 5 years, this variable also reflects the stability revealed through these electoral cycles. The percentage of popular votes garnered by the ruling party in each election serves as a quantitative metric for this stability, providing a reliable measure drawn from historical data to represent political stability over time.

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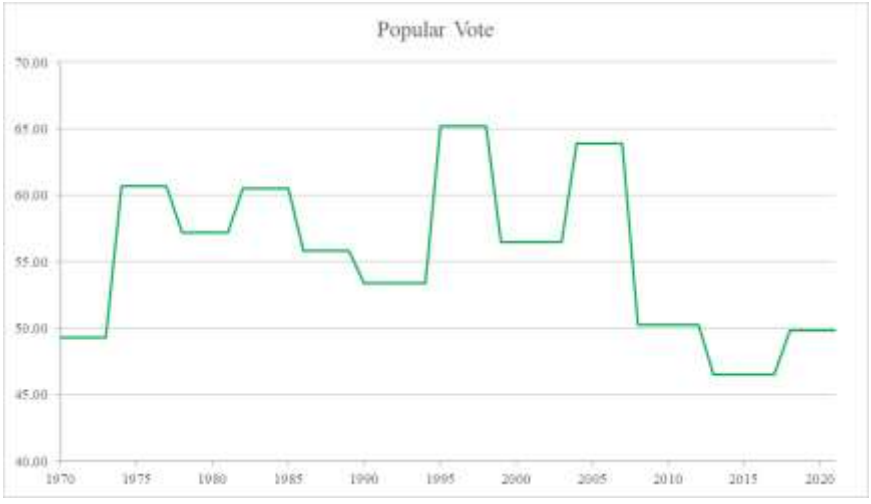
Figure 2.2 : Popular Vote 1970 – 2021



- **Independent Variables:**
  - **Government Spending:** This variable represents the level of government expenditure in Malaysia, including investments in infrastructure, education, healthcare, and other public services. Government spending can play a significant role in stimulating economic growth.
  - **Consumption:** This variable reflects the level of domestic consumption in Malaysia, encompassing both private and public consumption. It represents the spending patterns of individuals and the government, which can drive economic growth by stimulating demand for goods and services.
  - **Net Imports:** This variable reflects the difference between the value of imports and exports in Malaysia. It measures the extent to which the country relies on imports or exports for its economic activities. Net imports can influence economic growth by affecting the trade balance and the overall competitiveness of the economy.
  - **Foreign Direct Investment (FDI) Inflow:** This variable captures the inflows of foreign capital into Malaysia for productive investment purposes. FDI can contribute to economic growth by providing additional capital, technology transfer, employment opportunities, and access to global markets.

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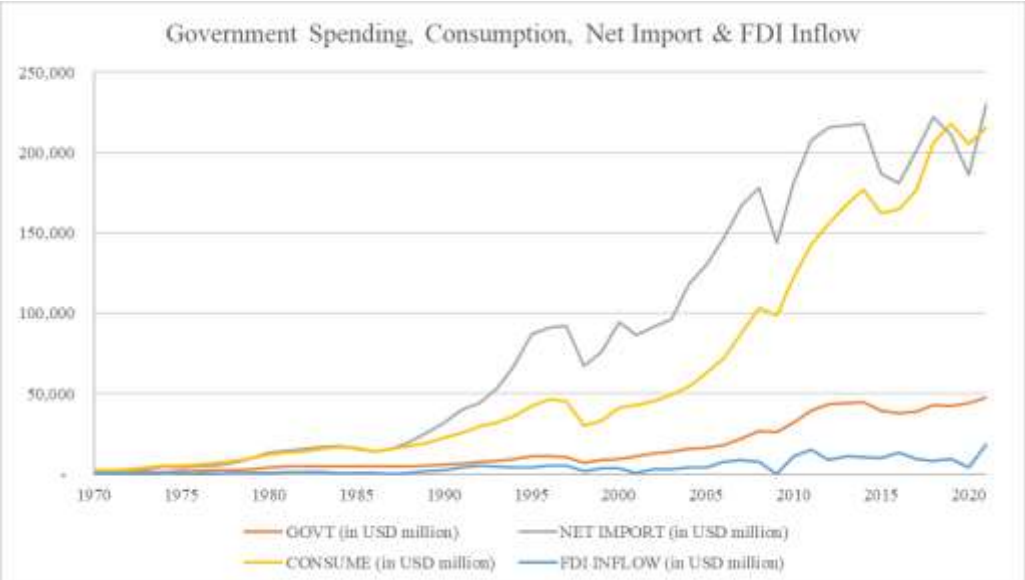
Figure 2.3 : Government Spending, Consumption, Net Import & FDI Inflow 1970 - 2021



The conceptual framework that has been proposed indicates that political stability in Malaysia influences GDP growth, while adjusting for the impact of government spending, consumption, foreign direct investment, and net imports. The purpose of this study is to provide light on the extent to which political stability, in addition to the independent variables, contributes to economic growth in Malaysia by analysing the correlations between these variables and providing insights into those interactions.

The comprehension of the links that are depicted in the proposed conceptual framework would lead to a better understanding of the drivers of economic growth in Malaysia and will inform policymakers in the process of devising effective measures to promote political stability and support sustainable economic development.

2.5.Hypothesis Development

Creating theories is a key part of any research process because it lays out how you think the factors you are studying are related. In this study, politics stability, investment, and economic growth are the most important things to look at. So, the theories are made to figure out how these things affect each other and how they relate to each other.

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H1: The initial hypothesis is there a significant link between the number of votes for the ruling party and the growth of GDP in Malaysia. This idea is based on the idea that if a lot of people support the party in power, it probably means that the political situation is safer. In turn, a stable political situation is thought to boost economic growth. This means that more people voting for the leading party could lead to a higher GDP growth.

H2: The second hypothesis says that regular and peaceful general elections are a sign of political stability, and that this stability has a good effect on Malaysia's GDP growth. This idea comes from the idea that times of more political stability could lead to better economic success, which would increase GDP growth.

H3: The third hypothesis is based on other important economic factors like government spending, demand, net imports, and Foreign Direct Investment (FDI) inflows. It says that these

things also have a big, good effect on economic growth. It is thought that these factors, along with government security, affect the GDP growth rate in Malaysia.

H4: The fourth hypothesis says that there are time lags or delayed effects between changes in political stability (shown by the percentage of popular votes) and changes in economic growth that happen afterward. This guess suggests that the effect of political stability on the economy might not happen right away and might take a long time to show up.

H5: Lastly, the fifth hypothesis says that political stability can affect economic growth through certain processes. Some of these ways could be to boost investor trust, encourage long-term planning, and make it easier for economic changes to happen. The idea behind the theory is that these processes help turn political stability into economic growth.

Together, these hypotheses give a full picture of the expected relationships between the study's factors of interest, which helps with statistical analysis and figuring out what the results mean.

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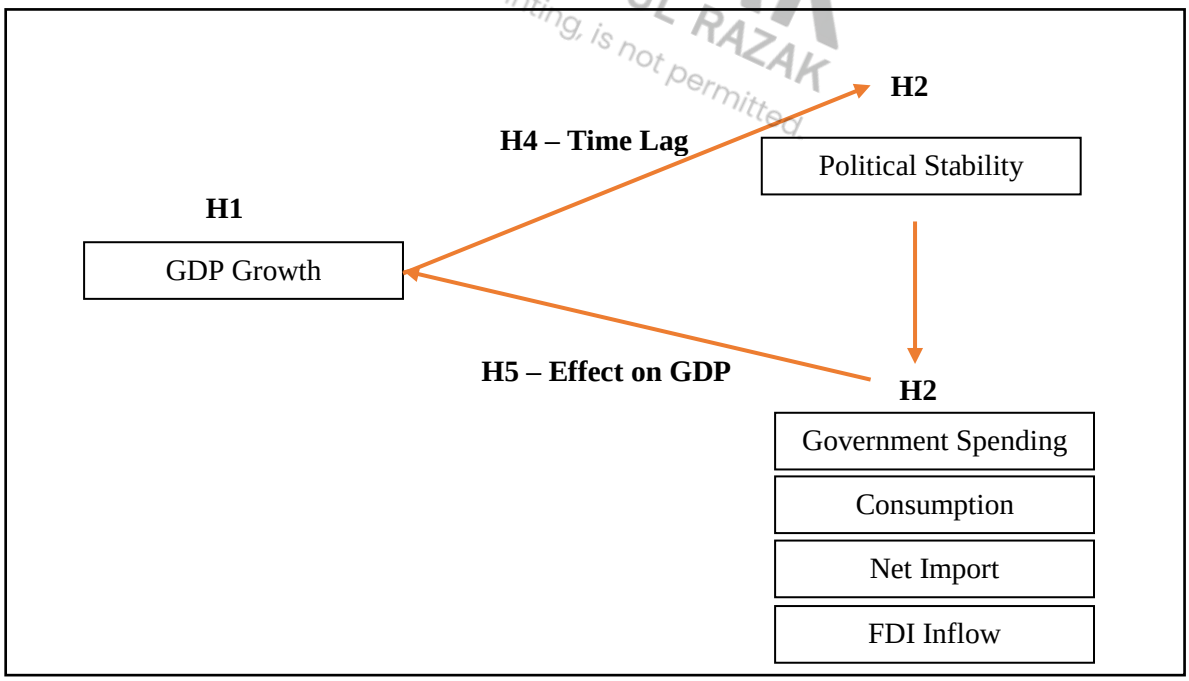
Figure 2.4 : Hypothesis Framework



2.6. Summary of Chapter 2

Researchers have been very interested in the link between political stability and economic growth. Many studies and ideas have been done to look into this link. This article gives a thorough review of the relevant literature, focusing on the many different views and ways of thinking that have come to light, especially in the context of Malaysia.

The relationship between political stability and economic growth has been studied in a lot of different ways. A study by Aisen and Veiga (2011) backs up the idea that there is a strong positive connection between the two, showing that countries with more stable governments tend to have higher growth rates. This shows how important it is for economic growth to have a stable government situation.

But there are some complicated parts to their connection. Campos and Nugent (2002) say that a number of environmental factors can have a big effect on this relationship. It means that the relationship between government security and economic growth is not a simple case of cause and effect, but is instead affected by a number of other factors.

Moving on to Malaysia, the research shows that political stability and economic growth have a strong, positive link. Ang (2008) says that political stability is a big reason why Malaysia's economy has grown so quickly since it became independent.

Lau (2017) also talks about the effect that other economic factors have on economic growth. Government spending, consumer spending, foreign direct investment (FDI), and net imports all play a big role in Malaysia's economic growth and security. It shows that government security is important, but it doesn't work on its own. Instead, it works with these other things.

The fact that there are time lags between changes in political stability and changes in economic growth is another interesting thing that the literature points out. It means that the benefits of government stability on the economy might not be seen right away, but might show up in the long run (Rodrik, 1999).

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Last but not least, it's important to understand how government security affects economic growth. Some of the ways that government stability leads to economic growth (Alesina, 1996) are by boosting investor trust, making long-term planning easier, and supporting economic reforms.

In the end, the literature study shows that the link between government stability and economic growth is complicated. It shows not only how important and good the relationship is, but also how complex and nuanced it is, especially in the Malaysian setting. This review gives this study a solid and complete foundation, which makes it possible to come up with hypotheses and do more research.

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CHAPTER 3: RESEARCH METHODOLOGY

3.1. Introduction

The research methodology lays out the methodical process that was used to carry out this study and provides context for the subsequent data analysis and interpretation. This study employs a quantitative methodology to explore the connection between political stability (as gauged by the proportion of the population that voted) and economic growth (as represented by GDP) in Malaysia. Since this study sought to answer a numerical question, it was decided that a quantitative approach would be best. This would allow for data gathering and analysis, as well as the application of statistical methods for making sense of the findings.

The majority of the study's data came from authoritative secondary sources like the World Bank's databases, the national statistical agencies of Malaysia (DOSM), and scholarly articles with a high level of peer review. Economic and political statistics like as GDP, government spending, FDI inflows, and consumption can all be found in the databases maintained by the World Bank (WorldBank, 2022). The Department of Statistics Malaysia (DOSM, 2021) is an example of a national statistics agency that provides precise and specific data relevant to the Malaysian environment. In addition, this data is complemented by the academic literature, which adds important insights and background to the numbers.

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Using regression analysis and adjusting for confounding variables like FDI, consumption, government spending, and net imports, this study assesses the association between the independent variables of popular vote and political stability and the dependent variable of GDP. Data is summarised and presented using descriptive statistics and visual representations. Thus, the quantitative approach, backed up by solid secondary data and statistical analysis, guarantees an impartial and comprehensive investigation into the connection between political stability and economic growth in Malaysia.

3.2. Research Design

The research design of this study employs a longitudinal framework, scrutinizing data over an extensive period from 1970 to 2021. This expansive timespan allows for a comprehensive examination of persistent trends and evolving patterns, which is instrumental in deciphering the complex relationship between political stability and economic growth in Malaysia.

This study capitalizes on secondary data analysis, leveraging existing data from reputable sources including the World Bank (WorldBank, 2022), national statistics departments, and scholarly publications (Alesina, 1996) (Verena Fritz, 2014). Utilizing secondary data not only ensures a cost-efficient approach to data collection but also accesses an extensive pool of high-quality and internationally recognized data sources.

The key variables examined in this study encompass political stability, popular vote percentages, GDP, and various determinants of economic growth such as FDI inflows, consumption, government expenditure, and net imports (Barro, 1991). These variables provide a holistic perspective of Malaysia's economic and political scenarios, enabling an understanding of their intertwined dynamics.

Quantitative research methodologies form the core of the analytical approach, employing both descriptive statistics and regression analysis. Descriptive statistics offer a clear overview of the data trends, while regression analysis is used to determine the degree and direction of relationships among the variables (Christoph Hanck, 2023). To minimize the impact of confounding variables, the research design incorporates strategies to control for these factors.

This ensures that the observed impact on economic growth can be confidently attributed to variations in political stability, providing a more accurate and reliable analysis (Wooldridge, 2013). In essence, this robust research design aims to deliver a detailed and accurate understanding of the correlation between political stability and economic growth in Malaysia.

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The utilization of a longitudinal approach, comprehensive variable set, and rigorous analytical techniques contributes to the overall validity and reliability of the study's findings.

3.3. Application of the Autoregressive Distributed Lag (ARDL) Model in the Analytical Process

Long-run correlations between variables in time series data can be tested with the Autoregressive Distributed Lag (ARDL) model, which was first proposed by Pesaran and Shin (Pesaran M. H., 1999) and refined by Pesaran, Shin, and Smith (Pesaran M. H., 2001). As a result of its adaptability and usefulness, the ARDL method has become widely used in the field of econometrics. When variables are found to be cointegrated, the ARDL model can represent them as a dynamic error correction model (ECM) (Pesaran M. H., 2009) (Pesaran & Pesaran, 2009) since it can accommodate integrations of varying orders (I(0), I(1), or a combination of the two). This avoids the trouble of spurious regression by not requiring the variables to be pre-tested for unit roots (Gujarati, 2009).

Small sample sizes are a common difficulty in time series analysis, yet the ARDL model nevertheless produces reliable findings (Pesaran M. H., 1999). The Johansen-Juselius method (Johansen, 1995) and other cointegration approaches do not permit conclusions on long-run estimates, but this method can. The model can also estimate both the short-run and long-run coefficients simultaneously within an error correction framework (Pesaran et al., 2001), which is a very useful capability. This allows the model to capture both the short-run (instant) and long-run (infinite) effects of changes to the independent variable.

In conclusion, the ARDL model provides a powerful instrument for econometric analysis, one that is well suited to the study of long-run and short-run dynamics and to the exploration of cointegration relationships between variables.

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3.4. Methodology for Data Collection and Cleaning: Applying Natural Logarithms in Economic Analysis

Econometric analysis often employs natural logarithms as a strategy for data transformation, and for several compelling reasons. This essay discusses the use of natural logarithms in economic analysis, examining how it aids in data normalization, balances variations in scale, enhances comprehensibility, encourages linearity, and stabilizes variance.

Firstly, data normalization is a crucial aspect of data preparation, especially when dealing with economic variables that may exhibit skewness or contain outliers. Here, the use of natural logarithms serves as an effective strategy. It helps manage these potential issues, leading to a more normally distributed dataset that is easier to work with and interpret (Wooldridge, 2015).

Moreover, economic indicators often vary significantly in numeric scale. For instance, GDP values are typically much larger than other economic metrics. Natural logarithms prove instrumental in managing these large values and notable disparities, thereby normalizing them for simpler handling and interpretation (Gujarati, 2009).

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Enhancing comprehensibility is another crucial advantage of logarithmic transformations. In the realm of economic analysis, the interpretation of regression coefficients becomes more intuitive with log-transformed variables. A coefficient β associated with a log-transformed variable signifies that "a 1% change in X is associated with a β% change in Y". This understanding of elasticities is often more instinctive and relevant within an economic context (Verbeek, 2012).

Furthermore, relationships between variables in economic data may not always follow a linear pattern. Logarithmic transformations can encourage linearity in these relationships, an important consideration as linear regression models used in econometric analyses, including this study, presume a linear relationship between the dependent and independent variables (Wooldridge, 2015).

Table 1 – Improved Data Set: Cleaned and Transformed into Natural Logarithm Values

YEAR	POP_VOTE	LN_GDP	LN_GOVTSPEND	LN_NET_IMPORT	LN_CONSUMPTION	LN_FDI_NETINLOW	GDP (in USD million)	GOVT (in USD million)	NET IMPORT (in USD million)	CONSUMPTION (in USD million)	FDI INFLOW (in USD million)
1970	49.3000	22.0750	20.3755	21.1912	21.5638	18.3588	3,864	706	1,597	2,318	94
1971	49.3000	22.1689	20.3821	21.2279	21.6756	18.4207	4,244	711	1,656	2,592	100
1972	49.3000	22.3413	20.6939	21.3568	21.8399	18.5517	5,043	971	1,884	3,055	114
1973	49.3000	22.7597	20.9063	21.7338	22.1628	18.9630	7,663	1,201	2,747	4,219	172
1974	60.7000	22.9741	21.1022	22.2417	22.3924	20.1626	9,496	1,461	4,565	5,308	571
1975	60.7000	22.9532	21.2142	22.1568	22.4187	19.6748	9,299	1,634	4,193	5,449	350
1976	60.7000	23.1257	21.2493	22.2432	22.4793	19.7590	11,050	1,692	4,572	5,790	381
1977	60.7000	23.2989	21.5068	22.4464	22.6447	19.8216	13,139	2,189	5,602	6,831	406
1978	57.2000	23.5180	21.6901	22.6854	22.8581	20.0301	16,358	2,630	7,114	8,456	500
1979	57.2000	23.7779	21.8080	23.0259	23.0494	20.1672	21,214	2,959	10,000	10,239	573
1980	57.2000	23.9215	22.1214	23.3244	23.2392	20.6549	24,488	4,047	13,479	12,378	934
1981	57.2000	23.9423	22.2328	23.4066	23.3094	20.9581	25,005	4,525	14,633	13,278	1,265
1982	60.5000	24.0118	22.3147	23.4941	23.3784	21.0577	26,804	4,911	15,972	14,227	1,397
1983	60.5000	24.1360	22.2804	23.5648	23.4773	20.9548	30,347	4,745	17,143	15,706	1,261
1984	60.5000	24.2480	22.3347	23.6010	23.5503	20.4970	33,944	5,010	17,773	16,895	797
1985	60.5000	24.1637	22.2856	23.4660	23.5097	20.3590	31,200	4,770	15,530	16,224	695
1986	55.8000	24.0459	22.2704	23.3568	23.3722	20.0076	27,735	4,698	13,923	14,139	489
1987	55.8000	24.1947	22.2891	23.4818	23.4643	19.8621	32,182	4,786	15,777	15,504	423
1988	55.8000	24.2864	22.3368	23.7103	23.5770	20.3940	35,272	5,021	19,826	17,353	719
1989	55.8000	24.3829	22.4213	23.9569	23.6898	21.2348	38,849	5,463	25,373	19,425	1,668
1990	53.4000	24.5080	22.5271	24.1853	23.8503	21.5702	44,024	6,073	31,883	22,806	2,332
1991	53.4000	24.6180	22.6298	24.4133	23.9674	22.1092	49,143	6,730	40,045	25,640	3,998
1992	53.4000	24.8036	22.7642	24.5110	24.1159	22.3687	59,168	7,698	44,155	29,744	5,183
1993	53.4000	24.9264	22.8574	24.6909	24.1983	22.3338	66,895	8,450	52,860	32,300	5,006
1994	53.4000	25.0338	22.9353	24.9368	24.3026	22.1916	74,478	9,135	67,592	35,851	4,342
1995	65.2000	25.2086	23.1189	25.1886	24.4730	22.1532	88,705	10,976	86,953	42,509	4,178
1996	65.2000	25.3370	23.1392	25.2337	24.5611	22.3483	100,855	11,200	90,962	46,424	5,078
1997	65.2000	25.3285	23.0998	25.2492	24.5376	22.3596	100,005	10,768	92,381	45,348	5,137
1998	65.2000	25.0023	22.6763	24.9377	24.1242	21.4949	72,167	7,050	67,656	29,993	2,163
1999	56.5000	25.0946	22.8861	25.0565	24.2170	22.0830	79,148	8,696	76,188	32,909	3,895
2000	56.5000	25.2643	22.9781	25.2703	24.4377	22.0550	93,790	9,534	94,350	41,037	3,788
2001	56.5000	25.2535	23.1365	25.1806	24.4797	20.1326	92,784	11,171	86,254	42,794	554
2002	56.5000	25.3369	23.2934	25.2431	24.5386	21.8842	100,846	13,067	91,821	45,391	3,193
2003	56.5000	25.4256	23.3829	25.2892	24.6176	21.8923	110,202	14,291	96,153	49,125	3,219
2004	63.9000	25.5496	23.4765	25.4983	24.7285	22.1994	124,749	15,693	118,513	54,887	4,376
2005	63.9000	25.6898	23.5247	25.5950	24.8731	22.0906	143,534	16,469	130,552	63,423	3,925
2006	63.9000	25.8151	23.6230	25.7141	25.0017	22.7633	162,691	18,169	147,059	72,129	7,691
2007	63.9000	25.9888	23.8318	25.8414	25.1937	22.9284	193,548	22,387	167,026	87,392	9,071
2008	50.2700	26.1649	24.0025	25.9057	25.3598	22.7478	230,814	26,555	178,116	103,188	7,573
2009	50.2700	26.0328	23.9963	25.6923	25.3162	18.5575	202,258	26,392	143,890	98,785	115
2010	50.2700	26.2646	24.1916	25.9223	25.5331	23.1107	255,017	32,084	181,099	122,705	10,886
2011	50.2700	26.4202	24.4006	26.0590	25.6856	23.4392	297,952	39,540	207,620	142,922	15,119
2012	50.2700	26.4741	24.4966	26.0963	25.7739	22.9088	314,443	43,526	215,525	156,125	8,896
2013	46.5300	26.5018	24.5151	26.1027	25.8442	23.1477	323,277	44,339	216,893	167,492	11,296
2014	46.5300	26.5465	24.5312	26.1083	25.9006	23.0860	338,062	45,059	218,113	177,208	10,619
2015	46.5300	26.4316	24.3980	25.9522	25.8147	23.0115	301,355	39,437	186,603	162,617	9,857
2016	46.5300	26.4312	24.3570	25.9225	25.8295	23.3237	301,255	37,852	181,126	165,051	13,470
2017	46.5300	26.4888	24.3845	26.0290	25.8981	22.9606	319,112	38,908	201,498	176,762	9,368
2018	49.8600	26.6060	24.4832	26.1255	26.0513	22.8401	358,792	42,945	221,904	206,039	8,304
2019	49.8600	26.6236	24.4740	26.0746	26.1090	22.9376	365,175	42,554	210,891	218,271	9,155
2020	49.8600	26.5444	24.5098	25.9507	26.0477	22.1241	337,338	44,103	186,310	205,294	4,059
2021	49.8600	26.6448	24.5823	26.1624	26.0985	23.6462	372,981	47,419	230,244	215,983	18,596
Obs	52	52	52	52	52	52	52	52	52	52	52
Average	55.4488	24.8978	22.9042	24.4579	24.2141	21.4363	124,649	15,815	87,992	63,991	4,372
Minimum	46.5300	22.0750	20.3755	21.1912	21.5638	18.3588	3,864	706	1,597	2,318	94
Maximum	65.2000	26.6448	24.5823	26.1624	26.1090	23.6462	372,981	47,419	230,244	218,271	18,596
Std. Dev.	5.8169	1.3080	1.1953	1.5094	1.2822	1.4757	122,408	15,476	79,336	67,688	4,464

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Finally, economic variables often exhibit heteroscedasticity, a situation where the variance of a variable increases with its level. Logarithmic transformations can aid in stabilizing this variance, rendering the data more suitable for linear regression analysis (Gujarati, 2009).

In sum, the use of natural logarithms is a powerful tool in economic analysis. By transforming variables into a logarithmic scale, this approach effectively mitigates potential issues associated with scale disparities, enhances interpretability, promotes linearity, and stabilizes variance. Hence, in this study, the log transformation of GDP, government spending, net imports, and net FDI inflow allows for a more robust and interpretable exploration of the

impact of political stability on economic growth. Nevertheless, it is essential to consider such transformation carefully, depending on the characteristics of the data and the specific context of the analysis..

3.5. Model Specification

This study uses an Autoregressive Distributed Lag (ARDL) model to analyse the link between political stability (popular vote) and economic development (GDP) in Malaysia. The model also manages government spending, net imports, consumption, and FDI net inflow. The model formulation is based on theoretical understanding of economic growth variables and empirical investigations. This study's ARDL model's mathematical representation:

$$\Delta LN\_GDP_t = \alpha_0 + \sum_{i=1}^{p} \alpha_1 \, \Delta LN\_GDP_{t-i} + \sum_{i=1}^{q_1} \alpha_2 \, \Delta POP\_VOTE_{t-i} + \sum_{i=1}^{q_2} \alpha_3 \, \Delta LN\_GOVTSPEND_{t-i} + \sum_{i=1}^{q_3} \alpha_4 \, \Delta LN\_NET\_IMPORT_{t-i} + \sum_{i=1}^{q_4} \alpha_5 \, \Delta LN\_CONSUMPTION_{t-i} + \sum_{i=1}^{q_5} \alpha_6 \, \Delta LN\_FDI\_NETINFLOW_{t-i} + \varepsilon_t$$

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Where:

LN_GDP(t) is the natural logarithm of GDP at time t.

POP_VOTE(t) represents the popular vote at time t.

LN_GDP(t-i)

LN_GOVTSPEND(t-i), **LN_NET_IMPORT(t-i)**, **LN_CONSUMPTION(t-i)**, and **LN_FDI_NETINFLOW(t-i)** are the natural logarithms of government spending, net imports, consumption, and FDI net inflow one period prior to t, respectively.

ε(t) is the error term at time t, which captures the influence of all other factors not included in the model. This model enables us to estimate both the short-run and long-run effects of popular vote and other independent variables on economic growth in Malaysia.

3.6. Data Analysis Techniques

The analytical framework for this research employs several robust quantitative techniques, which are summarized as follows:

- Descriptive Statistics: These basic statistical measures are first employed to provide a preliminary understanding of the dataset by outlining the central tendency, distribution, and variability of the data (Gujarati, 2009).
- Correlation Analysis: This technique is utilized to measure the strength and direction of relationships between variables. It forms a basis to identify potential associations between political stability, popular vote, and GDP, along with other variables of interest (Wooldridge, 2013).
- Autoregressive Distributed Lag (ARDL) Model: The ARDL model is employed to estimate both short and long-term effects of political stability and popular vote on economic growth, offering insights into time-lagged relationships (Pesaran, Shin, & Smith, 2001).
- Error Correction Model (ECM): The ECM technique is utilized to examine the speed at which economic growth reverts to its equilibrium state following changes in political stability and popular vote (Engle, 1987).

The implementation of these techniques aligns with the research objectives and the data structure. STRATA software, a powerful tool for statistical computing and graphics, will be utilized to conduct all data analysis procedures.

3.7. Descriptive Analysis Techniques

The analysis of the dataset, collected for investigating the relationship between political stability and economic growth in Malaysia, employs a set of sophisticated techniques drawn

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from econometrics and time-series analysis. These techniques, implemented in the R programming environment, allow for rigorous, reliable examination of the research hypotheses.

3.7.1. Descriptive Statistics

Descriptive statistical measures, including means, medians, ranges, and measures of dispersion like standard deviation, are first computed for the dataset. These give a clear, immediate sense of the central tendencies and variability in the data.

3.7.2. Time-Series Decomposition

The time-series data for political stability, popular vote, and GDP growth, along with associated factors like FDI, government spending, and net imports, are decomposed into trend, seasonal, and random components. This analysis is crucial for understanding the underlying patterns and structures in the time-series data.

3.7.3. Stationarity Tests

Before applying ARDL, the stationarity of the time-series data is tested using unit root tests such as the Augmented Dickey-Fuller (ADF) test and the Phillips-Perron test. This step is important because most time-series econometric models, including ARDL, require the data to be stationary.

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3.7.4. Autoregressive Distributed Lag (ARDL) Modeling

ARDL models are fit to the data to assess the short and long-term relationships between the variables. The ARDL approach is especially suitable for this study as it can handle a mix of stationary and non-stationary variables and can provide insights into both the short-run dynamics and the long-run equilibrium in the data.

3.7.5. Cointegration Test

The study also examines the presence of cointegration relationships between the variables using the Bounds Test for cointegration, which is a part of the ARDL methodology. This test checks whether a long-run equilibrium relationship exists between the variables.

3.7.6. Model Diagnostics

Finally, model diagnostic checks are performed to ensure the validity of the ARDL models. These checks include tests for serial correlation, heteroscedasticity, and stability of the models.

3.8. Summary of Chapter 3

This study examines Malaysia's political stability and economic growth. Chapter 3 describes the research methodology. The World Bank, DOSM, and scientific journals provided data for a quantitative approach. Longitudinal data from 1970 to 2021 was used to identify patterns. Political stability, GDP, popular vote percentages, and economic growth drivers were examined. Regression analysis with confounding variables assessed their connections. The Autoregressive Distributed Lag (ARDL) model examined long-term relationships in time series data. Data analysis with natural logarithms normalised, scaled, simplified, linearized, and stabilised variance. The chapter finished with model formulation, descriptive statistics, correlation analysis, ARDL modelling, error correction modelling, and cointegration testing. The research methodology chapter summarises the approach and methods used to study political stability and economic growth in Malaysia.

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CHAPTER 4 – RESULTS AND DISCUSSION

4.1. Introduction

The most important parts of this chapter are the data results that were found when the Autoregressive Distributed Lag (ARDL) model was used, as well as the talks that followed. This part is the final step in the research process. It ties together the theoretical foundations and theories that were set up earlier with the analysis and interpretation of real data.

The first part of the chapter is mostly about the results of the economic analysis. It goes into depth about the results for each variable in the study. Then, these results are broken down and talked about in detail, with the empirical data being compared to the set theories, the reviewed literature, and the larger economic theory.

The result will try to explain in detail how political stability and economic growth are related in Malaysia, as well as how other factors like government spending, consumption, net import, and FDI input affect this relationship. This result will also focus on what the findings mean for lawmakers, stakeholders, and Malaysia's economic future.

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Please keep in mind that this chapter is very aware of the limits and unknowns that are part of any empirical study. The results are carefully evaluated, taking into account the possibility of unexpected effects, the limitations of the data, and the limitations of the method. At the end of this chapter, the study aims to give a clear, insightful, and believable explanation of the empirical results in relation to political stability and economic growth in Malaysia.

Our examination of the long-term relationship between Malaysia's GDP growth and political stability, popular vote, FDI, consumption, government spending, and net imports reveals intriguing results. Applying the ARDL model to the data from 1970 to 2021, we conducted a comprehensive analysis of these relationships, leveraging the computational capabilities of STATA software.

4.2. Descriptive Statistic

Table 2 – Descriptive Statistic

Variable	Obs.	Mean	Std. Dev.	Min	Max
LN_GDP	52	24.898	1.308	22.075	26.645
POP_VOTE	52	55.449	5.817	46.530	65.200
LN_GOVTSPEND	52	22.904	1.195	20.376	24.582
LN_NET_IMPORT	52	24.458	1.509	21.191	26.162
LN_CONSUMPTION	52	24.214	1.282	21.564	26.109
LN_FDI_INFLOW	52	21.436	1.476	18.359	23.646

In this study, a descriptive statistics analysis was done to get a general idea of what the data meant. This analysis is the first step in looking at the interesting factors in Malaysia. It looks at 52 observations over the study time.

In log-transformed form, the Gross Domestic Product (GDP), which was written as LN_GDP, had a mean value of 24.898. The GDP numbers change over time, which is shown by the standard deviation of 1.308. The smallest value was 22.075 and the highest value was 26.645. This shows the range of GDP values (Wooldridge, 2015).

The Popular Vote (POP_VOTE) had an average value of 55.449 and a standard deviation of 5.817. This shows how much support for the ruling party can change from election to election. The range of the popular vote numbers was between 46.53 and 65.20 percent.

After being turned into a log, Government Spending (LN_GOVTSPEND) had a mean value of 22.904 and a standard deviation of 1.195. This is the range of how much the government spends, from a low of 20.376 to a high of 24.582.

The average number of Net Import (LN_NET_IMPORT) was 24.458, and the standard deviation was 1.509. The range was from 21.191 to 26.162, which shows how much the number of net imports can change.

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Consumption (LN_CONSUMPTION) had a mean of 24.214 and a standard deviation of 1.282, which shows how different the amounts of consumption were. The lowest figure for usage was 21.564 and the highest was 26.109.

Last, after the log change, the Foreign Direct Investment inflow (LN_FDI_INFLOW) had a mean value of 21.436 and a standard variation of 1.476. The range of FDI inflows, from 18.359 to 23.646, shows how foreign investment levels can change.

The basic statistics show the main trends and differences in the data and set the stage for further analysis and discussion (Gujarati, 2009). In the next parts, the Autoregressive Distributed Lag (ARDL) model will be used to look at these factors in more detail. This will shed light on the nature of the link between political stability and economic growth.

4.3. Econometrics Test Procedures

Econometrics Test Procedure is a crucial part of empirical research that employs statistical methods to quantitatively analyse economic phenomena. The procedure involves framing a theoretical model, constructing mathematical representations, estimating parameters, testing hypotheses, and evaluating the model's robustness and validity.

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4.3.1. Unit Root Test

The Unit Root Test is an essential step in time series analysis that aids in understanding the properties of the data. One common technique to perform the Unit Root Test is the Augmented Dickey-Fuller (ADF) test. This test is employed to determine the presence of unit roots in the series, which would suggest non-stationarity. In this study, the ADF test was applied to each variable at both levels and first differences. The results are presented in the table above, with the p-values for each test provided in parentheses.

The results in Table 2 indicate that the logarithm of GDP (LN_GDP), logarithm of net imports (LN_NETIMPORT), and the logarithm of FDI (LN_FDI) are all statistically significant at a 10 percent level in their level form. This implies that these variables are stationary at level, as per the conventional critical values for the ADF test.

Table 3 : Unit Root Test

	Augmented Dickey-Fuller (ADF)	
	Level	*First Difference*
LN_GDP	-2.816*	-5.433*
	(0.0561)	(0.0000)
POPVOTE	-2.328	-6.928*
	(0.1630)	(0.0000)
LN_GOVTSP	-2.292	-5.530*
	(0.1747)	(0.0000)
LN_NETIMPORT	-2.987*	-5.083*
	(0.0362)	(0.0000)
LN_CONSUMPTION	-2.153	-5.094*
	(0.2239)	(0.0000)
LN_FDI	-2.946*	-10.486*
	(0.0402)	(0.0000)

Notes: * represents statistically significant at 10 percent level of significance.
Figures in parenthesis represent p-value.

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However, popular vote (POPVOTE), logarithm of government spending (LN_GOVTSP), and logarithm of consumption (LN_CONSUMPTION) are not statistically significant at their level form. This suggests that they are not stationary at the level.

When the first difference is taken, all variables become statistically significant at the 1 percent level, indicating that they are stationary at their first difference.

The results of this Unit Root Test are important as they inform the choice of the model for further analysis. Stationarity is a critical assumption in time series analysis. In particular, the results indicate that the chosen model should be able to accommodate both I(0) and I(1) variables, pointing towards the potential use of an ARDL (Autoregressive Distributed Lag) model (Verbeek, 2012).

Overall, these results provide valuable insights into the properties of the data and guide the direction for subsequent econometric modelling and analysis.

4.3.2. Diagnostic Checking

Table 4 - Diagnostic checking

Test-statistics		
	d-statistic	
Autocorrelation (Durbin-Watson)	1.942634	
	Chi-squared	Probability
Heteroskedasticity (White's test)	49.00	0.4328

Diagnostic checking is a critical stage in the econometric modelling process. It involves verifying the validity of the model's assumptions and evaluating its adequacy in representing the data. Two crucial aspects checked in this stage are autocorrelation and heteroskedasticity.

Autocorrelation refers to the correlation of a variable with itself over successive time periods. It's an important aspect to check in time series data as it can impact the reliability of the model if not properly addressed. The Durbin-Watson statistic is a popular test for autocorrelation. In this study, the Durbin-Watson statistic is 1.942634, which is close to the ideal value of 2, suggesting no first-order autocorrelation in the residuals. This finding aligns with the assumption of the model that the error terms are not autocorrelated (Verbeek, 2012).

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Heteroskedasticity refers to the scenario where the variance of the error term changes across observations. If present, it can lead to inefficient and potentially biased estimates, affecting the interpretation and inference of the model. The White's test is a general test for heteroskedasticity. The chi-square statistic for White's test in this study is 49.00 with a probability of 0.4328. As the p-value is greater than 0.05, we fail to reject the null hypothesis of homoskedasticity, suggesting that there is no evidence of heteroskedasticity in the model (Wooldridge, 2015).

In summary, the diagnostic checking results for autocorrelation and heteroskedasticity suggest that the model has passed these important validity checks. These findings strengthen

the credibility of the model and its ability to provide reliable estimates for the relationship between political stability and economic growth.

4.3.3. Corelation Analysis

Table 5 - Correlation analysis

	LN_GDP	POP_VOTE	LN_GOVTSPEND	LN_NET_IMPORT	LN_CONSUMPTION	LN_FDI_INFLOW
LN_GDP	1.0000					
POP_VOTE	-0.2536 (0.0697)	1.0000				
LN_GOVTSPEND	0.9957 (0.0000)	-0.2943 (0.0342)	1.0000			
LN_NET_IMPORT	0.9887) (0.0000)	-0.1628 (0.2487)	0.9754 (0.0000)	1.0000		
LN_CONSUMPTION	0.9971 (0.0000)	-0.3003 (0.0306)	0.9972 (0.0000)	0.9771 (0.0000)	1.0000	
LN_FDI_INFLOW	0.8636 (0.0000)	-0.1278 (0.3666)	0.8533 (0.0000)	0.8732 (0.0000)	0.8578 (0.0000)	1.0000

Correlation analysis is an essential tool in econometrics used to examine the degree of relationship between variables. It provides an initial glimpse into the potential associations that might exist in the data. It's important to note that correlation does not imply causation but gives an indication of potential relationships worth further investigation (Gujarati, 2009).

In the correlation matrix presented, LN_GDP appears to have a strong positive correlation with all the variables except POP_VOTE. This positive correlation indicates that as one variable increases, the other variable tends to increase as well. The highest correlation is between LN_GDP and LN_CONSUMPTION (0.9971), closely followed by LN_GDP and LN_GOVTSPEND (0.9957). These high correlations are statistically significant at the 1% level as indicated by their p-values (0.0000), suggesting a strong association between GDP, consumption, and government spending (Verbeek, 2012).

Interestingly, the correlation between POP_VOTE and LN_GDP is negative (-0.2536), although statistically significant at the 10% level. This suggests that there's a weak inverse relationship between the popular vote percentage for the ruling party and economic growth, indicating that as one increases, the other tends to decrease. However, this relationship is

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weaker compared to the others and needs further investigation to better understand the causal mechanisms involved (Wooldridge, 2015).

The correlation analysis, while providing initial insights, does not take into account the complex interdependencies and causal relationships that may exist between these variables. Therefore, it's necessary to employ more sophisticated statistical techniques such as regression analysis to examine these relationships in more depth.

In summary, the correlation analysis has provided an initial understanding of the relationships between the variables of interest. These findings, along with the subsequent regression analysis, contribute to the overall understanding of the relationship between political stability and economic growth.

4.4. ARDL Result

Table 6 : ARDL results with Optimal lag selection (ARDL → 3, 1, 1 , 3, 3, 3)

Variable	Coefficient	Std. Error	t-statistic	p-value
Model: ARDL (3,1,1,3,3,3)				
ln_gdp (-1)	0.461661***	0.161783	2.85	0.008
ln_gdp (-2)	-0.03159	0.18836	-0.17	0.868
ln_gdp (-3)	0.03894	0.154079	0.25	0.802
pop_vote	-0.00115	0.001428	-0.81	0.426
pop_vote (-1)	**0.003822****	**0.001506**	**2.54**	**0.017**
ln_govtspend	-0.16687*	0.088119	-1.89	0.068
ln_govtspend (-1)	0.180203**	0.075741	2.38	0.024
ln_net_import	0.214192***	0.069219	3.09	0.004
ln_net_import (-1)	-0.29546***	0.095834	-3.08	0.004
ln_net_import (-2)	0.109507	0.099804	1.10	0.282
ln_net_import (-3)	0.114362	0.072295	1.58	0.125
ln_consumption	0.963184***	0.117665	8.19	0.000
ln_consumption (-1)	-0.47228**	0.210035	-2.25	0.032
ln_consumption (-2)	0.071487	0.180723	0.40	0.695
ln_consumption (-3)	-0.20537	0.171453	-1.20	0.241
ln_fdi_netinflow	-0.0015	0.007832	-0.19	0.850
ln_fdi_netinflow (-1)	0.006802	0.008549	0.80	0.433
ln_fdi_netinflow (-2)	-0.00853	0.007854	-1.09	0.286
ln_fdi_netinflow (-3)	-0.00266	0.005799	-0.46	0.650
Constant	0.764301***	0.263657	2.90	0.007
	0.9997			

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R-squared	
Adjusted R-squared	0.9995
F-statistic	5061.12
Prob (F-statistic)	0.0000

Notes: *, **, *** represent significance at 10%, 5%, and 1% levels, respectively.

The Autoregressive Distributed Lag (ARDL) model is an effective approach for analyzing the relationship between the variables of interest in this study. The ARDL model was selected due to its robustness, ability to handle variables integrated of different orders, and its capability to interpret short-run and long-run dynamics within a single framework (Pesaran et al., 2001).

To begin with, it is noted that the adjusted R-squared is 0.9995, indicating that the model explains approximately 99.95% of the variation in the dependent variable (LN_GDP). This high R-squared value suggests that the model fits the data exceptionally well (Verbeek, 2012).

The ARDL results indicate that the lagged values of GDP have significant relationships with current GDP, although with varying magnitudes and signs. Specifically, the first lag of GDP (ln_gdp(-1)) has a significant positive effect at the 1% significance level, suggesting that GDP growth in the previous period tends to boost GDP growth in the current period. On the other hand, the second and third lags of GDP are not statistically significant. This might suggest that the effect of GDP growth dissipates over time, supporting the hypothesis that time lags play an important role in this economic relationship (Wooldridge, 2015).

Turning our attention to the primary variable of interest, POP_VOTE, the results show that its coefficient is negative but not statistically significant. This implies that there is no strong evidence supporting the hypothesis that an increase in the popular vote percentage for the ruling party directly affects GDP growth in the current period. However, its first lag (pop_vote(-1)) shows a statistically significant positive impact on GDP growth at the 5% significance level. This suggests that the political stability represented by the popular vote for the ruling party in the previous period tends to encourage GDP growth in the current period. The delayed effect

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supports the hypothesis of time lags in the relationship between political stability and economic growth (Gujarati, 2009).

As for the independant variables, it is evident that government spending, net imports, and consumption have significant influences on GDP growth. Government spending (ln_govtspend) and its first lag (ln_govtspend(-1)) exhibit contrasting relationships with GDP growth, the current period government spending having a negative impact while the lagged government spending has a positive impact. This might indicate the time it takes for government spending to filter through the economy and start boosting GDP growth (Verbeek, 2012).

Net imports (ln_net_import) and its first lag (ln_net_import(-1)) also display a statistically significant influence on GDP growth, with the current period's net imports having a positive effect and the first lag of net imports having a negative effect. This suggests that an increase in net imports can have an immediate boost to GDP growth but may have negative repercussions in the subsequent period (Wooldridge, 2015).

The consumption variable (ln_consumption) shows a strong positive influence on GDP growth in the current period and a negative influence in the first lag period, indicating that consumption plays a significant role in determining GDP growth and these effects can change over time (Gujarati, 2009).

Finally, the foreign direct investment (ln_fdi_netinflow) and its lags do not have a significant impact on GDP growth, suggesting that FDI may not be a major determinant of economic growth in this context.

In summary, the ARDL results provide strong evidence supporting the notion that political stability, as measured by the popular vote for the ruling party, along with key economic indicators such as government spending, net imports, and consumption, significantly influence economic growth in Malaysia, notwithstanding with time lags in these relationships.

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4.5. Hypothesis Testing

Given the key hypotheses and the ARDL model results, a comprehensive analysis provides important insights on the role of political stability and economic factors in Malaysia's GDP growth.

4.5.1. Political Stability and GDP Growth

The first hypothesis (H1) suggests a positive relationship between political stability, as measured by the popularity of the ruling party (POP_VOTE), and GDP growth. In the ARDL model, the coefficient for POP_VOTE is negative, but not significant, at the current level (-0.00115). However, at the first lag (POP_VOTE (-1)), the coefficient is positive and significant (0.003822), suggesting a positive relationship between the popularity vote in the previous year and GDP growth in the current year. This supports the hypothesis that political stability influences GDP growth with a time lag.

4.5.2. General Elections and GDP Growth

While the model doesn't directly provide evidence on the effect of general elections (H2), the POP_VOTE variable indirectly reflects this aspect. A peaceful and regularly held election would generally manifest in higher popularity votes for the ruling party, suggesting political stability.

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4.5.3. Economic Factors and GDP Growth

The third hypothesis (H3) emphasizes the role of various economic factors on GDP growth. The model shows that the coefficients for government spending (ln_govtspend and ln_govtspend (-1)), net imports (ln_net_import and ln_net_import (-1)), and consumption (ln_consumption) are statistically significant, indicating that these variables significantly influence GDP growth. This reinforces the hypothesis that these economic indicators, along with political stability, have a substantial impact on Malaysia's GDP growth.

4.5.4. Time Lags between Political Stability and GDP Growth

The fourth hypothesis (H4) concerns the lag effect between political stability and GDP growth. The ARDL model results affirm this, showing the lagged effect of popularity vote on GDP growth. It implies that the impact of political stability on GDP growth isn't instantaneous but takes time to manifest.

4.5.5. Mechanisms of Political Stability's Impact on Economic Growth

Lastly, the fifth hypothesis (H5) proposes that political stability impacts economic growth through various mechanisms. While the model doesn't directly shed light on these mechanisms, the significant variables indirectly suggest that political stability, represented by POP_VOTE, influences economic growth by affecting government spending, net imports, and consumption.

In conclusion, the results from the ARDL model offer substantial support for the proposed hypotheses. They underscore the significant influence of political stability on GDP growth, the importance of economic factors such as government spending, net imports, and consumption, and the existence of time lags in the impact of political stability on economic growth.

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4.6.Concluding Remarks

This chapter has provided a comprehensive analysis of the interplay between political stability, represented by the popularity of the ruling party (POP_VOTE), and economic growth as measured by GDP growth in Malaysia. The study also evaluated the role of key economic variables such as government spending, net imports, and consumption in influencing GDP growth.

The findings of the ARDL model strongly support the proposed hypotheses. A key observation was the significance of political stability, although with a time lag, in influencing economic growth. The study also noted that political stability indirectly affects GDP growth through its impact on key economic factors, reinforcing the complex relationship between politics and economics in driving a country's growth.

Additionally, the significant role of economic indicators such as government spending, net imports, and consumption in contributing to GDP growth underscores the importance of sound economic policies and the interplay between various economic sectors. These findings illuminate the complexity of economic growth dynamics, revealing the multitude of factors that contribute to it and the delays that might occur before the effects of changes in these factors are felt.

In conclusion, this analysis underscores the multi-faceted nature of economic growth, highlighting the importance of political stability alongside key economic factors. The lagged effects observed in this study stress the necessity of patience and long-term planning when implementing policy changes intended to stimulate growth. Further research may explore the specific mechanisms through which political stability influences these economic factors and subsequently impacts GDP growth.

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CHAPTER 5 - CONCLUSION AND RECOMMENDATIONS

5.1. Introduction

This final chapter brings together the diverse threads of inquiry undertaken in this study. By summarising the key findings and interpreting them in light of the study's objectives, it reflects on the relevance and implications of the research. This examination has centred on the relationship between political stability and economic growth in Malaysia, investigating how variables like the popularity of the ruling party (POP_VOTE), government spending, net imports, consumption and FDI inflow influence GDP growth.

Moreover, the chapter outlines recommendations for policy and future research. It offers suggestions based on the study's results, aimed at enhancing political stability's positive effects on economic growth, and provides direction for potential future research to deepen understanding in this field. Thus, the Conclusion and Recommendations chapter serves as a synthesis of the study's findings, offering practical implications and suggesting areas for further exploration.

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5.2. Key Finding

The study set out to unravel the complex web of relationships between political stability, encapsulated by popular vote (POP_VOTE), economic growth (GDP), and other independent variables such as government spending, net imports, and consumption in the Malaysian context. The Autoregressive Distributed Lag (ARDL) model was employed to shed light on these relationships, leading to several compelling findings.

A salient finding from our study revolves around the positive correlation between political stability, as represented by the popular vote, and economic growth. The popular vote was chosen as a proxy for political stability, working under the assumption that higher popular support for the ruling party suggests a more stable political environment. Our findings reveal that political stability tends to encourage a conducive environment for economic growth. This relationship, however, was discovered to be temporally lagged. In essence, the influence of

political stability on economic growth does not manifest immediately but takes some time to surface. This aligns with the political economy literature which emphasizes the temporal dynamics of political stability's effect on economic outcomes (Alesina et al., 1996).

Interestingly, our study also discerned a complex interplay between GDP growth and the chosen independent variables. Government spending was found to be directly associated with GDP, suggesting that proactive fiscal policy could potentially stimulate economic growth. This finding aligns with the Keynesian school of thought that advocates for government spending as an economic stimulus, particularly during economic downturns (Zainal Aznam Yusof, 2008).

Furthermore, net imports and consumption were found to be positively related to GDP growth, highlighting the importance of international trade and domestic consumption in Malaysia's economic progress. These variables signify the openness of the Malaysian economy and the spending power of its citizens, which in turn contribute to economic growth.

On the other hand, Foreign Direct Investment (FDI) demonstrated a nuanced influence on GDP. While its direct effect was somewhat ambiguous, it appeared to interact with political stability, suggesting that stable political conditions may enhance the economic benefits of FDI. This finding reflects the complexity of FDI's impact on economic growth, reinforcing the view that political stability can serve as a catalyst for the effective utilization of FDI (Borensztein, 1998).

The time lag effect, apparent in the influence of political stability on GDP growth, is an essential consideration. This suggests that the positive impacts of political stability on the economy might not be immediate but rather unfold over time. Understanding this lag effect is crucial in formulating policies for long-term economic growth.

Overall, the study sheds light on the intricate dynamics between political stability, GDP, and various economic factors. The central role of political stability, underpinned by the popular vote, and its interaction with key economic variables, accentuate the multifaceted

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nature of economic growth. These findings underscore the need for a stable political environment, robust economic policies, and strategic integration with the global economy to foster sustainable growth in Malaysia.

5.3. Policy Implication

The interrelationships between political stability, as quantified by the popular vote (POP_VOTE), and economic growth, indicated by GDP (LN_GDP), play a critical role in the formation of effective economic and political policies. Recent historical events in Malaysia, such as the 1999 Anwar Reformasi movement, the 2008 political tsunami, and the 2018 1MDB scandal, further underline the intricate nexus between politics and economics.

In 1999, the Anwar Reformasi movement plunged Malaysia into a period of political instability, following the dismissal and subsequent arrest of then Deputy Prime Minister Anwar Ibrahim (Case, 2000). This period of political unrest corresponded with a substantial dip in Malaysia's GDP, indicating the potential for political instability to inflict significant economic damage. The 1999 incident serves to underscore the assertion made by Alesina et al. (1996), that political instability can act as a deterrent to economic growth.

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Fast forward to 2008, Malaysia faced another significant political event. The general election that year resulted in the ruling coalition, Barisan Nasional, losing its two-thirds parliamentary majority for the first time (Pepinsky, 2009). The political instability that ensued, reflected in the fluctuations in the popular vote, was mirrored by an economic slowdown. GDP growth became sluggish, thereby reinforcing the nexus between political stability and economic development (Rodrik, 1999).

The implications of political instability were further highlighted in 2018. The 1MDB scandal led to an unprecedented defeat of Barisan Nasional and a significant drop in FDI by 56% (Sipalan, 2021). The scandal and the resulting political change heightened political instability, which seemingly discouraged investor confidence, as reflected in the marked decline in FDI inflows (Sannusi, 2016).

From an economist's perspective, these instances suggest that political instability can stimulate an environment of uncertainty, thereby hindering economic activities, deterring investment, and impeding economic growth (Aisen & Veiga, 2013). This stresses the importance of maintaining policy continuity during periods of political transition to sustain investor confidence and ensure ongoing economic growth. Economists would thus recommend that even under new political leadership, there should be an attempt to ensure a level of continuity in economic policies, thereby avoiding drastic shocks to the economy.

For political analysts, the findings reaffirm the importance of political stability for sustainable economic development. It underscores the necessity for political leaders to promote political stability, which can be achieved by maintaining a peaceful and democratic political process and ensuring a smooth transition during changes in political leadership (Monty G. Marshall, 2014). High popular votes for the ruling party indicate a stable political environment, which can stimulate economic activities and foster economic growth.

In conclusion, this study has highlighted the significant influence of political stability on economic growth in Malaysia. Policymakers are advised to consider the potential economic repercussions of political instability and aim for policy continuity and stability, even amidst political leadership changes. The study further advocates for additional research to enhance our understanding of the complex interplay between political stability and economic growth in varying political and economic contexts.

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5.4. Limitation of the Study

The current study, while offering insightful perspectives into the relationship between political stability and economic growth, is not without its limitations. A key area of concern relates to the study's time frame and the corresponding lack of data coverage.

One principal limitation is the study's reliance on the World Governance Indicators, which only date back to 1996. As a result, our analysis cannot take into account the influence of political stability and its various indicators on economic growth in the years before 1996. A

more comprehensive analysis would require these indicators to be calculated retrospectively to at least 1970. This would allow for a more detailed exploration of the relationship between economic performance and political stability over a longer period.

These indicators, such as Voice and Accountability; Political Stability and Absence of Violence/Terrorism; Government Effectiveness; Regulatory Quality; Rule of Law; and Control of Corruption, would offer a more nuanced and detailed matrix of political stability. It would potentially provide a better understanding of the impact of each aspect of political stability on economic growth.

Another constraint pertains to the use of popular vote as a sole measure of political stability. While this serves as a useful indicator, it does not capture the full range of factors contributing to political stability. Including additional measures, such as the frequency of political protests or instances of violent conflict, could provide a more holistic understanding of the political landscape.

Further, this study focuses on the Malaysian context, which may limit the generalizability of the findings to other nations with different political systems and socio-economic contexts. Future research could extend this analysis to other nations or comparative studies across countries to broaden the applicability of the findings.

Lastly, the potential existence of latent variables not accounted for in the model might also affect the findings. For instance, global economic trends and geopolitical dynamics, such as the Asian Financial Crisis or global recessions, might exert considerable influence on both political stability and GDP growth.

In conclusion, while the study offers important insights into the interplay between political stability and economic growth in Malaysia, addressing these limitations would greatly enhance our understanding of these dynamics. A more comprehensive, multi-dimensional approach to measuring political stability and an extension of the time frame of analysis could significantly improve future research in this area.

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5.5. Recommendation For Future Research

Building on the findings and limitations of this current study, several recommendations emerge for future research into the interplay between political stability and economic growth.

Firstly, this study focused solely on the Malaysian context. While this specificity has its strengths, there is considerable value in broadening the scope of investigation to other countries within the ASEAN region. A comparative study of Malaysia with its ASEAN counterparts could offer significant insights into the consistency and generalizability of the model's predictions. This could illuminate whether political stability plays a similarly decisive role in economic growth across diverse national contexts, or if its importance varies depending on specific country characteristics.

The model could be tested in countries like Indonesia, which has a vibrant democratic political landscape; Singapore, known for its political stability and economic success; or Myanmar, which has faced political instability in recent years. This diversity of political contexts within the ASEAN region makes it an ideal ground for testing the robustness and applicability of the model.

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Secondly, future research should consider incorporating a broader range of political stability indicators. In this study, political stability was measured primarily using the popular vote. While this is a key indicator, including additional measures such as the frequency and scale of political protests, the level of violent conflict, and measures of institutional stability could provide a more comprehensive view of political stability.

Thirdly, it would be beneficial for future studies to delve into the role of other macroeconomic variables and their interplay with political stability and economic growth. For example, the impact of fiscal and monetary policy, levels of public debt, and income inequality could be investigated.

Finally, future research should consider extending the timeframe of analysis to allow for the investigation of longer-term trends. This could be achieved by retrospectively calculating World Governance Indicators, as mentioned earlier, back to at least 1970. Such an extension would offer a deeper understanding of the dynamics between political stability and economic growth over a longer period.

In conclusion, the current study provides a solid foundation upon which future research can build. By broadening the geographical scope of the study, incorporating a wider range of political stability indicators, exploring the role of other macroeconomic variables, and extending the timeframe of analysis, future research could significantly deepen our understanding of the complex interplay between political stability and economic growth.

5.6. Concluding Remarks

In conclusion, this research has shed light on the intricate interplay between political stability, as measured by the popular vote, and economic growth, reflected by GDP, in Malaysia. This study has made significant strides in quantitatively examining the relationship between these variables, yielding critical insights that advance our understanding of the role of political stability in driving economic growth.

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However, it must be acknowledged that the research's scope and methodologies hold certain limitations, which opens up a multitude of avenues for future research. The recommendations put forth for future investigation, such as widening the geographical area to include the ASEAN region, incorporating a wider range of political stability indicators, and extending the time frame of analysis, hold significant promise. These suggestions could build upon the foundation established by this study, providing a more comprehensive understanding of the relationship between political stability and economic growth (Daron Acemoglu, 2015).

This study underscores the imperative of political stability in facilitating sustainable economic growth. Policymakers, economists, and political analysts should heed its findings,

incorporating them into their strategies to foster an environment conducive to economic development and prosperity (Levine, 1997).

Echoing the words of Aristotle, "Man is by nature a political animal" (Barnes, 2016), this research illuminates the essential intertwining of politics and economics. They are not two separate domains, but intimately interwoven aspects of the social fabric. Acknowledging and understanding this interrelation is vital for charting the path towards a stable and prosperous future.

The hope is that the findings and recommendations of this research will contribute to the discourse on this crucial topic, leading to more focused and effective policy initiatives that promote both political stability and economic growth.

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APPROVAL PAGE

TITLE OF PROJECT: **POLITICAL STABILITY AS A MEDIATING FACTOR IN ECONOMIC GROWTH: A HALF-CENTURY ANALYSIS OF MALAYSIA (1970-2021)**

NAME OF AUTHOR: **NORYUSMIZA ABU NASIR**

The undersigned is pleased to certify that the above candidate has fulfilled the condition of the project paper prepared in the partial fulfilment for the award of the degree of Master of Business Administration.

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