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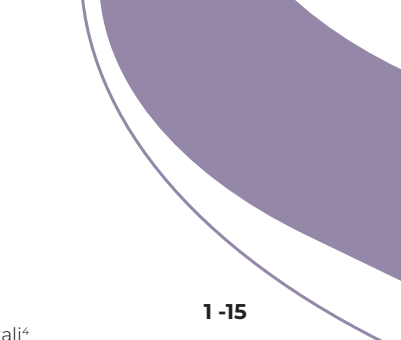


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HOW CONSUMPTION EXPENDITURE AND EXPORT CAN AFFECT MALAYSIA ECONOMIC GROWTH

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ABSTRACT

Consumption expenditure and exports both play pivotal roles in influencing Malaysia's economic growth, but each presents distinct challenges. Consumption expenditure drives domestic demand, stimulates economic activity, and supports business growth. However, excessive reliance on consumption can lead to inflationary pressures and increased trade deficits if not balanced by domestic production. Additionally, high levels of consumer debt could undermine economic stability. On the other hand, exports are essential for Malaysia's economy. This study examines the influence of consumption expenditure and exports on Malaysia's economic growth between 1990 and 2019. This research employed the autoregressive distributed lag (ARDL) technique. The primary results of this study indicate a favourable and substantial correlation between consumption expenditure and exports with regards to long-term economic growth. Exports are the sole factor that has a notable and positive impact on economic growth in the short term. It is crucial to regularly examine the effects of consumption expenditure and export performance on economic growth. Policymakers should maintain a high degree of adaptability and responsiveness, making necessary policy adjustments to address emerging economic issues and capitalise on opportunities. This involves careful management of both domestic demand and export

growth to achieve enduring economic stability and prosperity.

1. Introduction

Economic growth refers to an increase in the production of goods and services. It contributes to economic advancement by enhancing factors like capital goods, the labour force, technology, and human capital. Economic growth is typically measured by a rise in the aggregate market value of newly produced goods and services, commonly assessed through metrics such as Gross Domestic Product (GDP). This growth can be measured in either nominal or real terms. Although alternative metrics are occasionally used, aggregating economic growth is traditionally quantified using Gross National Product (GNP) or GDP. Economic growth specifically refers to an increase in real GDP, which reflects higher national income, production, and overall revenue. Ideally, economic growth should lead to improved living standards and greater consumption of goods and services, making it a key focus of macroeconomic policy. However, this heavy emphasis on GDP as a measure of economic well-being is often criticised. Some economists argue that living standards depend on more than just increasing GDP, suggesting that broader measures, such as the Human Development Index (HDI), which includes factors like literacy rates and healthcare quality alongside GDP, provide a better indication of overall progress. Others propose using a global average instead of GDP alone.

Consumption expenditure is a key driver of Malaysia's economic activity, as it constitutes a substantial portion of the country's Gross Domestic Product (GDP). Over the years, household consumption has played a critical role in sustaining Malaysia's economic growth, especially in periods of external economic uncertainty. When consumers spend more on goods and services, it boosts demand, leading to increased production and, consequently, higher economic output. This surge in demand can encourage businesses to invest in expanding their operations, creating more jobs and further stimulating the economy. However, if consumption expenditure is driven by excessive borrowing, it can lead to unsustainable debt levels, which may harm long-term economic growth. Therefore, maintaining a balance between healthy consumption and sustainable financial practices is crucial for Malaysia's continued economic development. In Malaysia, household consumption expenditure encompasses spending on goods and services such as food, housing, transportation, healthcare, and education. Over the past decade, household consumption has steadily increased, driven by rising incomes, urbanisation, and improved living standards. However, periods of global economic volatility, such as the COVID-19 pandemic, have disrupted consumption patterns, leading to temporary contractions in spending, particularly in sectors like retail, tourism, and hospitality. Despite the positive impact of consumption expenditure on economic growth, challenges remain.

Moreover, exports play a crucial role in Malaysia's economy, making a substantial contribution to its Gross Domestic Product (GDP). Malaysia, being a very open and trade-oriented economy, relies on international markets to sell its goods and services. The export performance of the country is intricately connected to its economic expansion, employment rates, and overall economic stability. Malaysia is a major global exporter of palm oil, a versatile commodity utilised in many sectors such as food, cosmetics, and biofuels. Palm oil plays a substantial role in generating export revenue and is a crucial component of the country's agricultural industry. The Malaysian government aggressively encourages the export of goods and services by implementing various programmes and trade policies that aim to improve the competitiveness of

domestic industries in the international market. The Malaysia External Trade Development Corporation (MATRADE) supports organisations by facilitating market access, supporting trade missions, and assisting firms in international trade activities. Trade pacts like the Regional Comprehensive Economic Partnership (RCEP) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) have created fresh prospects for Malaysian exporters.

Consumption expenditure and export are two crucial components of Malaysia's economic growth, but both face significant challenges that can affect the country's overall economic performance. While consumption drives domestic demand, exports fuel international trade, and both are interconnected in shaping Malaysia's economic outlook. One of the most pressing issues concerning consumption expenditure in Malaysia is the rapid rise in household debt. In recent years, Malaysia's household debt-to-GDP ratio has increased significantly, largely due to easy access to credit for housing, vehicles, and personal loans. This high level of debt restricts future spending, as households allocate a significant portion of their income towards debt repayment. Consequently, this can reduce disposable income and slow down domestic consumption growth in the long term. The rising cost of living, particularly in urban areas, is another issue impacting consumption expenditure in Malaysia. Higher costs for essential goods and services, such as food, housing, transportation, and healthcare, have reduced the purchasing power of households. Inflation, particularly during periods of global economic uncertainty or supply chain disruptions, can further diminish real incomes and limit consumer spending. During economic downturns, such as the COVID-19 pandemic, Malaysia has relied heavily on government stimulus measures to support consumption. While these measures provide short-term relief, prolonged dependence on fiscal intervention can strain public finances and may not be sustainable in the long term.

Malaysia's economy is heavily reliant on exports, making it vulnerable to global economic conditions. Economic slowdowns in major trading partners like China, the US, and the EU can reduce demand for Malaysian exports, particularly in key sectors such as electrical and electronics (E&E), palm oil, and petroleum. Trade tensions, geopolitical instability, and changes in global supply chains also pose risks to Malaysia's export performance. In the export-oriented sectors, particularly in electronics and manufacturing, Malaysia faces stiff competition from other countries in the region, such as Vietnam, Thailand, and Indonesia. These countries are rapidly advancing in their technological capabilities and industrial infrastructure, potentially reducing Malaysia's competitive edge. Without continuous innovation, investments in new technologies, and upskilling of the workforce, Malaysia may find it difficult to maintain its position in the global supply chain.

This study examines the influence of both consumption expenditure and exports on Malaysia's economic growth between 1990 and 2019, utilising the Autoregressive Distributed Lag (ARDL) model. This model allows for a detailed analysis of both long-term and short-term impacts, highlighting the specific contributions of each factor to GDP growth. By examining historical data and drawing insights from existing literature, the study aims to provide a comprehensive understanding of how consumption expenditure and export performance shape Malaysia's economic trajectory. Moreover, the study seeks to offer policy recommendations that could enhance Malaysia's economic resilience by balancing the roles of domestic consumption and international trade.

In conclusion, this research explores a dual-pathway approach to economic growth, where both domestic and international economic drivers are recognised as essential components of a stable and sustainable economic structure. A balanced focus on promoting healthy consumption patterns, encouraging savings, and strengthening the export sector could position Malaysia to

achieve long-term economic stability and prosperity, even in the face of global economic uncertainties.

2. Literature Review

The consumption-led growth hypothesis posits that increased household spending can stimulate economic growth by boosting demand for goods and services. The theory suggests that consumption expenditure, when sustained, leads to increased production, employment, and income, forming a virtuous cycle of economic expansion. Mankiw (2019) highlights that in modern economies, consumption accounts for the largest portion of GDP, emphasising its role in driving economic growth. Mankiw argues that when households increase their spending, businesses respond by ramping up production, which in turn leads to job creation and income growth, further enhancing consumption. Afonso and Sousa (2021) investigated the role of household consumption in economic growth across the European Union (EU). Their findings confirmed the consumption-led growth hypothesis, particularly in economies recovering from financial crises. They found that increasing household spending was crucial in reigniting economic activity and reducing unemployment during post-crisis recovery periods.

Other than that, Chenery and Syrquin (2020) examined the role of consumption expenditure in low- and middle-income countries. They found that consumption often drives early stages of economic growth, particularly in economies with large agricultural sectors. The study argued that as incomes rise, consumption patterns shift towards higher-value goods, spurring industrialisation and services growth. Besides, Sunde and Vischer (2018) studied the relationship between consumption and growth in Sub-Saharan Africa, highlighting that increased household spending contributes significantly to GDP growth. However, the study warned of potential challenges related to inequality, as higher-income households tend to save more while lower-income households, which spend a greater share of their income, may face consumption constraints due to limited access to credit and rising inflation.

Moreover, income inequality significantly influences consumption patterns, particularly in emerging economies. Jappelli and Pistaferri (2018) argue that when income is concentrated among wealthier households who have lower marginal propensities to consume, aggregate consumption growth tends to stagnate. This view is supported by Galor and Zeira (2019), who highlight that income redistribution mechanisms, such as expanded access to education and credit, can stimulate broader household spending and promote inclusive growth. In Malaysia's context, the uneven distribution of income and limited access to financial instruments among lower-income groups may weaken the overall impact of consumption on economic growth. Therefore, understanding the consumption-growth nexus requires careful consideration of distributional dynamics rather than treating consumption as a monolithic aggregate. Conversely, a study by Sutherland and Hoeller (2020) found that while access to credit can support consumption in the short term, excessive debt can lead to financial instability, limiting future consumption as households focus on debt repayment. The study recommended that governments monitor household debt levels to ensure they do not undermine long-term growth prospects. Similarly, a study by Dynan et al. (2021) found that, while increased access to credit supported consumption and economic growth before the 2008 financial crisis, high levels of debt led to a sharp reduction in spending during the crisis. Their study emphasised the importance of prudent lending practices and financial literacy programmes to maintain a healthy balance between credit-fuelled consumption and sustainable growth.

The export-led growth (ELG) hypothesis is a central theory in the literature, suggesting that an increase in exports leads to higher economic growth. This theory posits that exports contribute to economic expansion by increasing foreign exchange earnings, enabling greater investment in

infrastructure, and fostering productivity improvements through economies of scale. Malaysia, being a trade-dependent economy, is often cited as a textbook example of an export-led growth model. Rambeli et al. (2016) examined the relationship between exports and economic growth in Malaysia using time series data. Their study found strong evidence supporting the ELG hypothesis, concluding that exports, particularly in the manufacturing sector, are a key driver of Malaysia's GDP growth. The study highlighted that sectors like electrical and electronics (E&E) play a crucial role in expanding the nation's economic base. Giles and Williams (2000) conducted a comparative analysis of export-led growth in several developing economies, including Malaysia. Their results indicated that Malaysia's high export-to-GDP ratio allowed it to leverage international markets for sustained economic growth. The study also emphasised the need for a diversified export base to maintain long-term growth prospects.

Besides, a study by Wong and Tang (2007) applied the Granger causality test to analyse the causal relationship between exports and economic growth in Malaysia. Their results suggested a bidirectional causality between the two, indicating that while exports contribute to growth, economic growth also stimulates exports by improving the productive capacity of the economy. This feedback loop underscores the importance of both domestic economic policies and trade openness. Ibrahim (2016) conducted a cointegration analysis to investigate long-term relationships between exports and GDP in Malaysia. The study found that exports, particularly in the manufacturing sector, have a positive and significant long-run impact on economic growth. It also highlighted the importance of maintaining export competitiveness to sustain long-term growth.

Abd Rahman and Ismail (2009) explored the link between export activities and technological upgrading in Malaysia. They found that firms engaged in exporting are more likely to adopt advanced technologies and innovative practices, which, in turn, enhance productivity. The study emphasised that export-oriented industries have access to larger markets, which enables firms to invest in research and development (R&D) and technology transfers. Cheong and Law (2019) investigated the role of foreign direct investment (FDI) in enhancing the export sector's technological capabilities. Their findings revealed that FDI, particularly in high-tech industries, has helped Malaysia upgrade its export base and move up the value chain. The study noted that the E&E sector benefited from substantial FDI, which enhanced Malaysia's competitiveness in global markets.

Mahadevan (2007) analysed the role of the manufacturing sector, particularly the E&E industry, in driving Malaysia's export-led growth. The study found that Malaysia's ability to integrate into global value chains has allowed it to benefit from increased demand for electronics, leading to robust export performance. The E&E sector's success has also spurred technological spillovers, productivity gains, and foreign direct investment (FDI), further accelerating growth. Nair et al. (2010) investigated the role of commodity exports, particularly palm oil and petroleum, in Malaysia's economic growth. Their findings suggest that while commodity exports are crucial for foreign exchange earnings, over-reliance on these sectors exposes the economy to global price fluctuations. The study recommended diversifying export products to ensure sustainable growth.

3. Methodology

This study investigates how consumption expenditure and exports affect economic growth in Malaysia from 1990 to 2019. The dependent variable in this study is economic growth, while the independent variables are consumption expenditure, exports, and capital. The variable capital serves as a control variable. The dataset used in this study was obtained from the World Bank. The Autoregressive Distributed Lag (ARDL) approach is employed for analysis. The model specification for this study is as follows:

$$\text{GDP}_t = \beta_0 + \beta_1 \text{CE}_t + \beta_2 \text{EXP}_t + \beta_3 \text{CAP}_t + \varepsilon_t \quad (1)$$

Where GDP refers to gross domestic product, CE refers to consumption expenditure, EXP refers to exports, and CAP refers to capital. The subscript t represents the number of years. β denotes the regression coefficients for each variable, and ε is the error term. Equation (1) contains multiple variables that will subsequently be logged to prevent inaccurate estimations. Therefore, Equation (2) will be constructed in the following manner:

$$\ln \text{GDP}_t = \beta_0 + \beta_1 \ln \text{CE}_t + \beta_2 \ln \text{EXP}_t + \beta_3 \ln \text{CAP}_t + \varepsilon_t \quad (2)$$

A unit root test based on the Augmented Dickey-Fuller (ADF) method was used in this study to examine data stationarity, as shown in Equation (3).

$$\Delta Y_t = \beta_1 + \delta Y_{t-1} + \alpha \sum p \Delta Y_{t-1} + U_t \quad (3)$$

The null hypothesis is accepted if the result shows that it is insignificant ($\delta = 0$). As a result, it can be said that the data are either stationary or have a single source. The alternative hypothesis is accepted, nonetheless, if the data indicate that it is significant ($\delta \neq 0$). As a result, it can be said that the data do not move or have a unit source. This method demonstrates how the dependent variable responds over the long term to changes in the independent variable.

This method can be used even with a small sample size, unlike the Johansen cointegration strategy, which requires a large sample size. The ARDL method's advantages also include the ability to produce estimates with a focus on the future. Many different tests are executed in the ARDL test, including the bound test, diagnostic test, error correction model (ECM), cumulative residual recursive sum (CUSUM), and cumulative square residual sum (CUSUMSQ). A model for the relationship between economic growth and macroeconomic indicators is presented in both the long and short term in Equation (4).

$$\begin{aligned} \Delta \ln \text{GDP}_t = & \beta_0 + \phi_1 \ln \text{GDP}_{t-1} + \beta'_1 \ln \text{CE}_t + \beta'_2 \ln \text{EXP}_t + \beta'_3 \ln \text{CAP}_t \\ & + \sum_{j=1}^{p-1} \lambda_j \Delta \ln \text{GDP}_{t-j} + \sum_{j=0}^{q-1} \delta'_{1ij} \Delta \ln \text{CE}_{t-j} + \sum_{j=0}^{q-1} \delta'_{2ij} \Delta \ln \text{EXP}_{t-j} \\ & + \sum_{j=0}^{q-1} \delta'_{3ij} \Delta \ln \text{CAP}_{t-j} + \varepsilon_j \end{aligned} \quad (4)$$

Tests for heteroscedasticity, Jarque-Bera, Ramsey stability, Breusch-Godfrey serial correlation, and other conditions need to be run as part of the diagnostic process. This model is ideal if the results of the diagnostic tests are not statistically significant. After that, you can run the CUSUM and CUSUMSQ tests. This test is utilised to ensure that the equation model is stable (4). The stability of the model is determined by whether the CUSUM and CUSUMSQ lines fall within the 5% critical line.

4. Results

The results of this study, using the ARDL model, reveal significant insights into the role of consumption expenditure and exports in influencing Malaysia's economic growth over both the long term and the short term. The unit root test is crucial for assessing the stationarity of the annual time series data. This test helps determine whether the factors in the model, such as Gross Domestic Product (GDP), Exports (EXP), Consumption Expenditure (CE), and Capital (CAP), are integrated in the same way. In this study, we applied the Augmented Dickey-Fuller (ADF) test to evaluate the stationarity of these factors. The objective is to ensure that the time series data, which include GDP, Exports, Consumption Expenditure, and Capital, are stationary. Stationarity is necessary for obtaining valid t-statistics and f-statistics. Thus, performing the unit root test is a critical step before proceeding with further economic analyses. The results of the unit root test are detailed in Table 1, showing both the levels and the first differences, including results with and without the trend.

Table 1
Unit root test

Variable	Intercept				Intercept with Trend			
	Level		First Difference		Level		First Difference	
	t-statistic	Prob.	t-statistic	Prob.	t-statistic	Prob.	t-statistic	Prob.
lnGDP	-2.23220	0.2000	-5.99984**	0.0000	-2.19768	0.4731	-6.68639**	0.0000
lnEXP	-4.29195**	0.0022	-3.88257**	0.0063	-2.10154	0.5235	-5.07053**	0.0017
lnCE	0.05788	0.9566	-4.53529**	0.0012	-2.4512	0.3475	-4.48573**	0.0069
lnCAP	-1.84827	0.3508	-5.58311**	0.0001	-2.71238	0.2392	-5.47816**	0.0007

Note: ** denote significant at 5%

Following this, a bounds test was conducted to check for a long-run relationship among the variables. The F-statistic obtained from the test exceeded the upper bound critical values at the 1%, 5%, and 10% significance levels, indicating the existence of a long-term equilibrium relationship between GDP, consumption expenditure, and exports in Malaysia. Table 1 presents the results of the unit root test. The findings indicate that all variables are non-stationary at both the level and intercept specifications. However, when tested at the first difference, all variables are stationary and significant at the 5% significance level. Specifically, while the level results for variables with and without trends show non-stationarity, the first difference results reveal that lnGDP, lnEXP, lnCE, and lnCAP are stationary and significant at the 5% level.

Table 2
Bound Test

Significance Level	F-statistic 6.25200***	
	Critical Value Lower Bound	Upper Bound
10%	2.37	3.2
5%	2.79	3.67
1%	3.65	4.66

If a long-run equilibrium relationship does exist between the variables, the results of the bounds test will provide evidence of it. Referring to Table 2, at the 10%, 5%, and 1% significance levels, the F-statistic of 6.25200 clearly exceeds the respective critical values. This confirms that the variables under consideration are related in the long run, and the correlation is statistically significant. The substantial evidence of a long-run relationship suggests that the variables are likely co-integrated and move in tandem over the long term.

Table 3
ARDL Long run estimation

	Coefficient	T-statistic	Prob.
InEXP	0.5044**	12.1445	0.0000
InCE	1.0458**	25.2013	0.0000
InCAP	-1.1006**	-2.6340	0.0196
C	-11.9290**	-19.3260	0.0000

Note: ** denote significant at 5%

The ARDL model's long-term predictions are shown in Table 3. A statistically significant correlation of 0.5044 indicates that GDP significantly affects exports in Malaysia over the long run. The data points to a robust positive correlation between exports and GDP growth. There is a correlation between a 1% rise in exports and a 0.50% increase in economic growth. This relationship highlights how expanding into new markets through exports can enhance sales and earnings, potentially capturing a larger share of the global market. These findings align with previous research, such as Ibrahim's (2002) study on six Asian countries, which examined a new productivity model and the externality effects of exports. Ibrahim found that exports positively influenced performance and development and that the export sector benefits the broader economy. However, the extent of these externality effects can vary depending on several factors.

The next indicator that has a strong and positive correlation with economic growth is consumption expenditure (InCE). This translates to a 1.0458% rise in GDP growth for every 1% increase in consumer spending. Studies that highlight the importance of aggregate demand in boosting economic activity, such as those in Keynesian economics, lend credence to the idea that consumer spending has a substantial positive influence on GDP growth. Additional evidence that increasing consumption levels can boost economic growth comes from the work of Barro and Sala-i-Martin (2004).

To cap it all off, capital (InCAP) has a substantial, negative impact on inflation. With this negative coefficient, we may deduce that GDP growth slows down by 1.1006% for every 1% increase in

capital. The negative relationship might indicate issues such as diminishing returns to capital or inefficiencies in capital use. The negative long-term coefficient for capital observed in this study, while initially counterintuitive, warrants deeper examination within the Malaysian context. Traditional growth models, such as those by Solow (1956) and Barro and Sala-i-Martin (2004), emphasise capital accumulation as a key engine of economic growth. However, this relationship is not linear or universally positive—especially in middle-income countries like Malaysia, where the effectiveness of capital depends heavily on how efficiently it is allocated and utilised.

In Malaysia, several structural issues may contribute to the declining marginal returns of capital. These include inefficient capital distribution, over-investment in low-yield infrastructure projects, and resource misallocation influenced by political and regulatory distortions. Capital-intensive public investments, especially those lacking economic viability or technological spillover, may crowd out private investment and hinder overall productivity. Furthermore, bureaucratic inefficiencies and regulatory hurdles often slow down project execution and diminish the returns on physical capital investment.

This finding supports the view that in later stages of development, mere capital accumulation is insufficient to sustain growth. Rather, institutional quality, innovation, and effective governance become pivotal. Malaysia's experience illustrates the importance of ensuring that capital investments are not only adequate in quantity but also efficient in quality and aligned with productivity-enhancing activities. Thus, our result contributes to the growth stage debate by highlighting the potential limitations of capital in economies transitioning beyond middle-income status, reinforcing the argument for structural reforms and improved investment strategies.

Table 4
ARDL Short run estimation

	Coefficient	T-statistic	Prob.
D(lnEXP)	0.3422**	2.6957	0.0174
D(lnCE)	0.0257	1.1189	0.2820
D(lnCAP)	0.0299	0.4696	0.6459
C	-14.2932**	-5.1339	0.0002
ECT (-1)	-1.1982**	0.2492	0.0003
R² = 0.9995	Adj.R² = 0.991	DW = 1.8699	

Note: ** denote significant at 5%

The outcomes of the ARDL short-run estimation test are displayed in Table 4. With a coefficient of -1.1982, the ECT (Error Correction Term) derived from the ARDL regression is negative and statistically significant at the 5% level. The variables will change over time, according to this ECT value, which shows that the model is adapting quickly; Malaysia reached 119% of the necessary adjustment in only one year. The coefficient for the export variable is 0.3422, which is significant at the 5% level. This means that for every 1% increase in exports, there is a 0.34% rise in economic growth. However, there is no statistically significant relationship between economic growth and the variables of consumption expenditure and capital. This highlights the relatively immediate impact that exports have on economic growth, especially considering Malaysia's dependence on international markets. Conversely, consumption expenditure does not show a statistically significant relationship with GDP in the short run. This finding suggests that while household spending drives long-term growth, its immediate effect may be more moderate.

Table 5
Diagnostic Test Results

Test Statistic	F-statistic
Jarque-Bera Normality Test	0.3279 (0.8488)
Breusch-Godfrey Serial Correlation Test	0.0520 (0.9495)
Breusch-Pagan Test for Heteroskedasticity	0.9679 (0.5172)
Ramsey RESET Stability Test	0.0076 (0.9318)

In Table 5, you can see the various methods of diagnosis. We ran a battery of checks to ensure the data was accurate and to rule out any mistakes. Among these tests were the Ramsey RESET stability test, the Breusch-Pagan test for heteroskedasticity, the Jarque-Bera normality test, and the Breusch-Godfrey serial correlation test. The Jarque-Bera normality test, the Breusch-Godfrey serial correlation test, the heteroskedasticity test, and the Ramsey RESET stability test all produced non-significant results (Table 5), confirming that the model is free from issues related to non-normality, autocorrelation, heteroskedasticity, and misspecification. Since the p-value for every test is greater than 10% of the significance level, the model is free of economic issues.

Figures 1 and 2 display the cumulative sum of recursive residuals (CUSUM) and the sum of squares of recursive residuals (CUSUMSQ), which are used to evaluate the model's stability, alongside the four diagnostic tests previously mentioned. At the 5% significance level, denoted by the two red dotted lines, stability is proven when the blue CUSUM and CUSUMSQ lines stay inside. The model's stability has been verified because these conditions have been met. It is safe to say that the study's econometric model is stable and produces trustworthy results for the primary analysis, as shown by the diagnostic and stability tests.

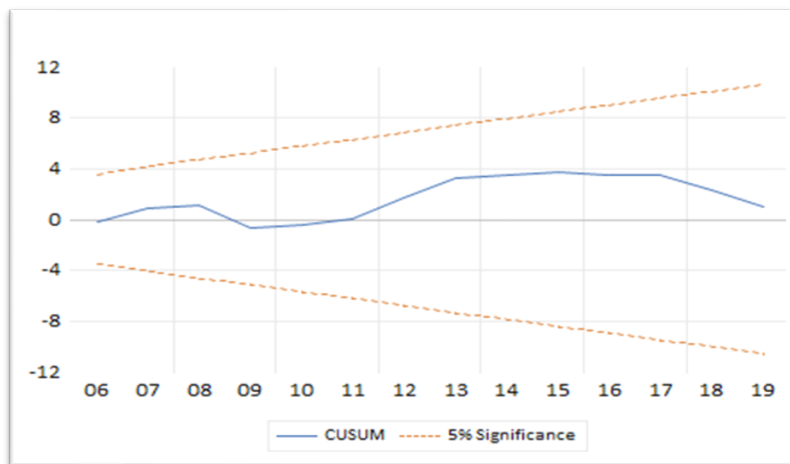


Figure 1. Cumulative Sum of Recursive Residual (CUSUM)

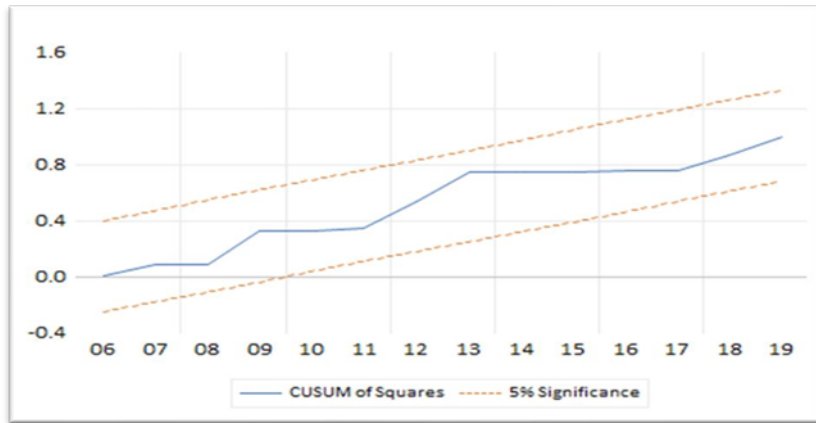


Figure 2. Cumulative Sum of Squares of Recursive Residual (CUSUMSQ)

The results demonstrate that while both exports and consumption expenditure are essential drivers of Malaysia's economic growth, their impacts vary across time horizons. Exports have an immediate influence on economic growth in the short term and continue to play a crucial role in the long run. Meanwhile, consumption expenditure exerts a more substantial impact over the long term, suggesting that efforts to enhance household income, reduce debt, and promote sustainable consumption patterns could yield lasting benefits for the economy. The negative effect of capital in the long-run model further emphasises the need for efficient capital allocation and investment strategies that enhance productivity.

5. Conclusion

This study highlights the significant roles that consumption expenditure and exports play in driving Malaysia's economic growth. Through an analysis using the Autoregressive Distributed Lag (ARDL) model, the results indicate that both consumption expenditure and exports have a substantial positive impact on long-term economic growth, with exports being the key driver in the short term. These findings reinforce the importance of a balanced economic approach that prioritises both domestic and international economic activities.

Consumption expenditure, fuelled by household spending on goods and services, supports Malaysia's GDP by driving domestic demand and stimulating production. However, this reliance on consumption has its challenges. Excessive consumer debt and inflationary pressures may lead to instability if not carefully managed. Policies promoting financial literacy, sustainable borrowing practices, and income growth, particularly for lower-income groups, would strengthen the resilience of domestic consumption as a growth factor.

On the other hand, Malaysia's export sector, which is vital to the economy, offers opportunities for substantial growth but also exposes the country to global market risks. Economic slowdowns in major trading partners or fluctuations in commodity prices can hinder growth, highlighting the importance of diversification within the export sector. Enhancing the export of higher-value goods and technology-based products could provide greater resilience and sustain Malaysia's economic growth in a competitive global market. Additionally, integrating sustainable practices

into industries like palm oil production is essential to meet international standards, retain market access, and ensure long-term viability.

Moving forward, a synergistic approach that promotes both consumption-driven and export-led growth is recommended. Policymakers should foster domestic economic stability while supporting international competitiveness through technological innovation and workforce development. In essence, Malaysia's pathway to sustainable economic growth lies in maintaining a flexible and adaptive economic structure that can respond to both domestic and global changes.

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Conflict of Interest

There are no conflicts of interest.

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