The Impact of Oil Rent Dependence on Malaysian Manufacturing Sector: The Role of Financial Development

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The classical economists always expect that the possession of oil and natural gas resources will stimulate sustainable economic growth in oil-endowed countries. Nonetheless, it is found that the economy of oil-abundant countries grows at a slower pace and the history also provides many examples for the failure of manufacturing sector in oil-rich countries. In this instance, the countries are claimed to suffer from oil curse, which can be defined as an inverse relationship between oil rent dependence and economic growth. Hence, this research empirically investigates the impacts of oil rent dependence on manufacturing sector along with the moderation role of financial development on the impacts of oil rent dependence on manufacturing sector, which is widely-recognized as the main driver for economic growth in Malaysia. This study employs data which covered the period of 1970-2018 and the data was analyzed by adopting Autoregressive Distributed Lag (ARDL) bounds test. The empirical findings indicate that oil rent dependence is having positive and significant impacts on the production of manufacturing sector. However, the results also revealed that the financial development will reduce the significant positive impacts of oil rent dependence on the production of manufacturing sector, indicating the presence of underdeveloped financial sector in Malaysia which consequently leads to inefficiency in oil rent utilization and thus, dampens the positive impacts of oil rent dependence. On the other hand, while the results indicate that oil rent dependence does not have any significant impact on the export of manufacturing sector, it is also found that the financial development does not moderate the impacts of oil rent dependence on export of manufacturing sector, indicating the weakness of Malaysia's financial sector in allocating the oil rent into productive investments. The current study concludes with suggestions for policymakers on how to fully utilize the oil rent. It is apparent that the financial sector is encouraged to engage in more productive investments so that it can enhance the positive impacts of oil rent dependence instead of dampening it.

Keywords: *Financial Development, Manufacturing Sector, Oil Curse, Oil Rent Dependence*