

AGRICULTURE EXPORTS PERFORMANCE IN MALAYSIA



**RESEARCH MANAGEMENT INSTITUTE (RMI)
MARA UNIVERSITY OF TECHNOLOGY
40450 SHAH ALAM
SELANGOR**

BY

**ZUBIR AZHAR
NOOR ZAHIRAH MOHD SIDEK**

SEPTEMBER 2010

Surat Kami : 600-IRDC/SSP/DANA. 5/3/Dsp (20/2008)
Tarikh : 28 November 2008

En. Zubir Bin Azhar
Pensyarah /Ketua Projek
UiTM Cawangan Kedah
Kampus Sungai Petani
Peti Surat 187
08400 Merbok
KEDAH

Tuan,

**MEMOHON PERTUKARAN KETUA PROJEK BAGI PENYELIDIKAN BERTAJUK:
AGRICULTURE EXPORT PERFORMANCE IN MALAYSIA**

Perkara di atas adalah dirujuk.

Sukacita dimaklumkan bahawa permohonan tuan untuk menukar ketua projek iaitu **En. Zubir Bin Azhar No Pekerja 217974** untuk menggantikan **Pn. Noor Zahirah Binti Mohd Sidek No Pekerja 184023** yang sedang bercuti kerana menyambung pengajian di peringkat Ijazah Doktor Falsafah di Universiti Islam Antarabangsa Malaysia **ADALAH DILULUSKAN** oleh pihak RMI. Sehubungan dengan itu, rekod projek ini akan dikemaskini.

Sekian, harap maklum.

Yang benar,


PROF. DR. AZNI ZAIN AHMED
Perolong Naib Canselor (Penyelidikan)

- s.k
1. Pengarah Kampus
UiTM Cawangan Kedah
Kampus Sungai Petani
Peti Surat 187
08400 Merbok
KEDAH
 2. Prof. Madya Dr. Maznah Wan Omar
Koordinator RMU
UiTM Cawangan Kedah
Kampus Sungai Petani
Peti Surat 187
08400 Merbok
KEDAH

FTN/lala

Sekian, harap maklum. Terima kasih.

'SELAMAT MENJALANKAN PENYELIDIKAN'

Yang benar,



PROF. DR. AZNI ZAIN AHMED
Penolong Naib Canselor (Penyelidikan)

- s.k.
1. Dekan
Fakulti Pengurusan Perniagaan
 2. Koordinator URDC
Fakulti Pengurusan Perniagaan
 3. Puan Rosnani Abd. Razak
Penolong Bendahari
Unit Kewangan Zon 17, UiTM Shah Alam
(Sila ambil perhatian)

/hmy

ABSTRACT

This paper examines the impact of exchange rate risk on the agriculture exports in the era of recurring financial crises and global economic instability. Exchange rate risk is captured by misalignments in the real bilateral US-RM exchange rate. This paper is divided into two parts. First, the incidence of exchange rate misalignment is observed using price-based approach (purchasing power parity) and model-based approach (behavioural equilibrium exchange rate). Then, the estimated exchange rate misalignment is used as a variable in the export model to capture the impact of risks. In addition, the estimated misalignments are segregated into events of overvaluation and undervaluation to further comprehend their individual impact. Results suggest that in the long run, overvaluation has a significant negative impact on palm oil exports. The opposite however, could not be construed in the case of undervaluation which suggests asymmetries in the impact of over- and undervaluation of the exchange rate. Other agriculture exports do not exhibit significant long run relationship with exchange rate misalignment. In summary, it is imperative that policy-makers avoid both over- and under-valuation and keep the real exchange rate in line with the economic fundamentals especially in the case of palm oil exports.

TABLE OF CONTENTS

	Page No.
Offer Letter	ii
Cover Letter	iv
Project Team Members	v
Acknowledgment	vi
Abstract	vii
List of Tables	ix
List of Figures	x
List of Abbreviations	xi
CHAPTER 1 – INTRODUCTION	1
CHAPTER 2 – BACKGROUND INFORMATION	
2.1 Introduction	5
2.2 The Agriculture Policies	5
2.3 Incentives in the Agriculture Sector	7
2.4 Performance of the Agriculture Sector	10
2.5 Conclusion	14
CHAPTER 3 – THEORETICAL AND EMPIRICAL FRAMEWORK	
3.1 Introduction	15
3.2 The Theoretical Model	15
3.3 The Empirical Model	17
3.4 Conclusion	18
CHAPTER 4 – ESTIMATION OF THE EXCHANGE RATE MISALIGNMENT	
4.1 Introduction	19
4.2 Price-based approach: Purchasing Power Parity (PPP)	19
4.3 Model-based approach: Behavioural Equilibrium Exchange Rate (BEER)	20
4.4 Conclusion	23
CHAPTER 5 – ESTIMATION METHOD	
5.1 Introduction	24
5.2 Bounds Testing Method	24
5.3 Wald Test for Asymmetries	27
5.4 Conclusion	28
CHAPTER 6 – EMPIRICAL RESULTS	
6.1 Introduction	29
6.2 Results – Palm Oil Exports	29
CHAPTER 7 – CONCLUSION	37
References	39
Appendices	43