THE DETERMINANTS OF MALAYSIAN TRADE BALANCE:
A JOHANSEN AND JUSELIUS APPROACH

KHAIRUNNISA BT AZRIN
2010798905

MOHAMMAD AMYRUL HAFIZ BIN AZIZAN
2010324877

BACHELOR OF BUSINESS ADMINISTRATION (HONS)
INTERNATIONAL BUSINESS
FACULTY OF BUSINESS MANAGEMENT
UNIVERSITY TEKNOLOGI MARA,
MELAKA

JUNE 2013
THE DETERMINANTS OF MALAYSIAN TRADE BALANCE: 
A JOHANSEN AND JUSELIUS APPROACH

MODE B

KAIRUNNISA BT AZRIN
MOHAMMAD AMYRUL HAFIZ BIN AZIZAN

BACHELOR OF BUSINESS ADMINISTRATION (HONS)
INTERNATIONAL BUSINESS

Submitted in Partial Fulfillment
Of the Requirement for the
Bachelor of Business Administration (Hons) International Business

FACULTY OF BUSINESS MANAGEMENT
UiTM MELAKA
DECLARATION OF ORIGINAL WORK

We,  Khairunnisa bt Azrin (890413-14-5142) ,
Mohammad Amyrul Hafiz bin Azizan (880110-01-5587)

Hereby, declare that:

i. This work has not previously been accepted in substance of any degree, locally and overseas and is not being concurrently submitted for this degree or any other degrees

ii. This project-paper is the result of my independent work and investigation, except where otherwise stated.

iii. All verbatim extracts have been distinguished by quotation marks and sources of my information have been specifically acknowledged.

Signature: ___________________________   Date :

Signature: ___________________________   Date :
ABSTRACT

This paper examines the short- and long-run relationships between trade balance, real exchange rates, income and money supply in the case of Malaysia. Data for the variables were obtained from World Development Indicators (WDI) from 1975 to 2010. The results based on the Johansen Juselius there is at least two cointegration vector equation in the study using lag 1. Based on Johansen Juselius, we found equilibrium relationship exists between trade balance and the determinants of trade. Based on Juselius, there is two long run relationships appear in the model. It was from hypothesis none and atmost 1 where the figure of trace statistic is bigger than 5% critical value. We also are using VECM test and Granger Causality test to examine the long run relationships and short run relationship in the model. We found that there is a directional relationship between GDP and REER because the probability is less than 0.05. There is also shows that there is only one short run relationship that appears in the model. Results shows that trade balance and real exchange effective rates have long run relationship because of negatives value result on VECM test. The result was supported by previous study by (2007). A few policies implication can be recommended such as government should increase trade deficit of raw materials. Another than that, government also should increase export penetration to other country. Than there is two other recommendation on increasing food production to increase trade balance.
CHAPTER 1

INTRODUCTION

1.1 BACKGROUND OF STUDY

External trade environment and domestic policies have a great impact on trade and economic growth. Is same goes to Malaysia. Trade environment give both direct impact and indirect impact to the trade balance if we aware.

As introduction, Malaysia is known as an upper-middle income economy and a new in industrialized economy compare to other industrialized country in the world. Malaysia gross national income of USD 7,900 per capita.(2013, World Bank) .Malaysia is a highly open economy whereby the exports comprise almost 100 percent from its GDP. Malaysia is among the leading exporter of electrical appliances, electronic parts and components, palm oil, and natural gas.

Malaysia is also externally competitive, ranking 18th (out of 135 economies) in the International Finance Corporation 2012 ranking of ease of doing business in the world. Malaysia's GDP growth is projected at 4.8% in 2012 and 4.6 % in 2012.(World Bank) Therefore as we can see even we are small in country but our economystill stable even there is many issue faces in global market..

Malaysia has progressed from being a producer of raw materials, such as tin and rubber, in the 1970s to being a multi-sector economy that grew on