



اوتو سيكولوغي مارا  
UNIVERSITI TEKNOLOGI MARA  
CAWANGAN KELANTAN

**THE IMPACT OF EXCHANGE  
RATE TOWARDS TRADE BALANCE: CASE STUDY IN  
MALAYSIA, SINGAPORE AND THAILAND**

MAZWINA HANIM BT ABU BAKAR  
2005652856

BACHELOR OF BUSINESS ADMINISTRATION FINANCE (HONS)  
FINANCE  
FACULTY OF BUSINESS MANAGEMENT  
UNIVERSITI TEKNOLOGI MARA  
KAMPUS MACHANG  
KELANTAN

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## ABSTRACT

*This study examines the impact of exchange rates on trade balance; the study of three countries that have tighter economic relationship with each other; Malaysia, Singapore and Thailand. While Marshall-Lerner condition has shown a theoretical relationship between exchange rates and trade balance, previous empirical result evidence gave mixed results on the impact of exchange rates on trade balance. This study examines the trade balance of Malaysia, Singapore and Thailand with exchange rates of USD, JPY and HKD for the sample period of 1995 to 2005 using quarterly data. The methodology used in this study is single linear regression in order to analyze the relationship and impact of exchange rate towards trade balance. This study found that exchange rates does give a significant effect and have positive relationship with trade balance in the case of Malaysia. However, in Singapore, the exchange rate has positive relationship but insignificant with trade balance. While in Thailand, the exchange rate has a positive weak relationship with trade balance and it has a weak impact on trade balance.*

## 1.0 INTRODUCTION

*Perpustakaan*  
Kampus Kota Bharu

### 1.1 THE OVERVIEW OF MALAYSIA INTERNATIONAL TRADE

Malaysia was formed in 1963 through a federation of the former British colonies. Since then its economy has depended traditionally on its natural resources, particularly rubber and tin. The government's direct involvement diversifies the country's economic base from a commodity oriented to an industrial base economy. Economic liberalization measures have also been introduced across the board that helped improve competitiveness and productivity. For example, extensive privatization has taken place in capital intensive infrastructure such as roads, ports, airports, power, water supply, telecommunication, and transportation. New foreign and domestic investment has also played a significant role in the transformation of Malaysia's economy. Manufacturing has grown to 31% of GDP in 2003 as compared with only 14% in 1970. Agriculture and mining declined to 8.4% and 7.2% of GDP respectively in 2003 as compared with 43% of GDP jointly in 1970.

Malaysia initially favored import-substitution strategies and the development of heavy industries such as the production of cars, methanol, pulp and paper, which was made use the labor-intensive and assemble-type production technique and emphasized domestic demand and self sufficiency. Since the mid-1980s, Malaysia has noted the importance of foreign markets in accelerating economic growth through exports and investment and trade liberalization program began in earnest. The structure of exports eventually shifted from an agricultural base dominated by food crops, rubber and palm oil