



**AN ECONOMIC ANALYSIS OF THE RELATIONSHIP BETWEEN REAL
EXCHANGE RATE, PRICE OF TIMBER AND MALAYSIAN TIMBER
EXPORT VALUE IN THREE ECONOMIC CRISIS**

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DECLARATION OF ORIGINAL WORK

I am Nur Sarah Binti Ahmad with I/C Number : 890717-12-5706 hereby declare that :

- i) This work has not previously been accepted in substance for any degree, locally or overseas and is not being concurrently submitted for this degree or any other degree.
- ii) This project paper is the result of my independent work and investigation except where otherwise.
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Signature: _____

A handwritten signature in black ink, appearing to read "Nur Sarah Binti Ahmad".

Date: 9 JULY 2012

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Abstract

This paper analyze the relationship of exchange rate, price of export timber and timber export values in three economic crisis : Commodity Shock in 1985-1986, Asian Financial Crisis in 1997-1998 and The Global Financial Crisis in 2008-2009. The estimation results suggest that negative relationship exist between real exchange rate and the export value of timber. In other words, show that if the real exchange rate increases (Malaysian Ringgit Depreciation), this will increase the performance of the timber products and hence encourage export values. While the price of timber affects the performance of timber exports positively in the long run and short run estimation. From the findings of the study can be concluded that appreciating real exchange rate is one of major factors that impede timber export performance. Furthermore, the study also established the efficacy of price increases as a factor for increasing output of timber export. Since three economic crisis has drove many economist researchers in the region including Malaysia to study the impacts of exchange rate and price behavior on international trade flows which Malaysia considered involved in economic openness.

Keyword :Real Effective Exchange Rate, Price of Timber Export, International Trade, Timber Export

CHAPTER 1

OVERVIEW OF RESEARCH REPORT

1.1 Introduction

Over the years, the relationship between exchange rate, price and export has been analyzed by some researchers mainly after the time of economic crisis exits frequently such during at the time of Commodity Shock in 1985-1986, Asian Financial Crisis in 1997-1998 and The Global Financial Crisis in 2008-2009. These crisis which reflects the weakness of the financial system has resulted in many countries in the region have a problem currency depreciation in their respective countries including depression in commodity export prices and decrease in the performance of export value.

Trade liberalization Policy introduced by the West, with its glorification of trade expansion without boundaries are believed to cause the economic crisis that led decline in currency. Another element of the cause of the crisis associated with weakness of the internal financial system in the countries involved. Although Asian countries have financial crisis in the 1980s, but there are differences between both where the financial crisis in the 1980s due to the economic downturn in developed countries triggered by the US high-interest rate policy (the ‘Volker shock’) in the early 1980s resulted in a massive collapse of world commodity trade and in 1997 several East Asian countries began to experience serious financial problems. In some of these countries, in this situation of increased financial fragility, currency speculators took advantage of the deregulated environment (that allowed them to function), borrowed in local currency and sold the currency short against the US dollar. Whereby the financial crisis in 1998 in Malaysia, the ringgit came under speculative attack and also declined significantly. While financial crisis in 2008 triggered by the bursting of a speculative bubble in the US housing market