UNIVERSITI TEKNOLOGI MARA

THE DETERMINANTS OF TRADE BALANCE IN SOUTHEAST ASIAN COUNTRIES

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ABSTRACT

This study aims to analyze the macroeconomic stability in determining the Trade Balance Performance in Southeast Asian countries. This study uses a research method that involves the multiple linear regression analysis to examine the macroeconomic determinants of trade balance in Southeast Asian countries. This study combines a panel data from World Development Indicator as proxies for macroeconomic stability, such as GDP per capita, energy consumption, domestic consumption expenditure, foreign direct investment and exchange rate. This study involves annual data from the period of 2005 until 2020. A total of 5 countries have been chosen out of 11 countries from ASEAN as the sample of this study. This study's findings are expected to show whether the economic variables mentioned will have a significant impact on trade balance in these 5 specific Southeast Asian countries.

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CHAPTER 1: INTRODUCTION

1.1 Introduction

In this age of global rivalry, trade, which was once considered a vital injector of economic expansion, has taken on surprising importance on a country's economic growth. Technology shifted from developed to developing countries, transforming the world into a global village. Since the 1980s, the development and invention of high technology has increased economies' reliance on one another (Jadoon and Guang, 2019).

To improve the balance of trade and stimulate economic activity and development of a country, the said country needs a variety of measures in terms of economic variables, namely tariff structure, currency rates, import restriction, export taxation, and a foreign exchange allocation mechanism. Global macroeconomic crises and changes in the international trade pattern have emphasized the need for a better knowledge of the elements that influence a country's balance of trade situation in the age of globalization (Ray, 2012). Therefore, this study will focus on how these economic variables may affect the trade balance performance specifically in Southeast Asian countries.

1.2 Background of Study

Balance of trade (BOT) or trade balance is known as the difference in total value between exports and imports which is a concept in international trade over a specific time period (Ekodobi et al., 2021). It is vital for a particular country to obtain a trade surplus which occurs when a country's exports exceed its imports. Trade surplus can help an economy thrive by creating jobs. Moreover, it can also help strengthen a country's currency against other currencies, altering currency exchange rates; however, this is dependent on the amount of goods and services