



**EXTERNAL TRADE AND TOURISM OF EAST MALAYSIA:
AN ECONOMETRICS ANALYSIS**

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ABSTRACT

This paper aims to provide an analysis on the relationship between external trade and tourism that might have evolved in the development of East Malaysia economy. All analysis have been conducted using the annual data of total trade, exports, imports and the number of tourist arrivals into Sabah, over the period of 1998-2009 and Sarawak over the period of 1989-2009.

To accomplish this objective, a three stage procedures followed to test the direction of causality. In the first stage, we use Augmented Dickey Fuller (ADF) unit root test to test the order of integration. The second stage involved testing for the existence of long-run relationship between the various series by using co-integration test. The third stage involved Granger-causality test to further explore the relationship between series. From a previous study, it was found that an increase in trade causes growth in the tourism sector. The finding of the study indicates that there is a one-way causal effect (unidirectional causality) between all series except for exports. Increases in total trade and imports will cause growth in the tourism sector, which means that most of tourist arrivals are related to business tourism and we can say that there are long-run relationships between all series.

We believe that this framework will contribute to understanding why East Malaysia states have made progress over the past decades. Progress has been very impressive lately and has contributed to Malaysia's economic growth generally.