CAUSALITY BETWEEN TRADE OPENNESS AND ECONOMIC GROWTH: EVIDENCES FROM MALAYSIA

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ABSTRAC

International trade can be describe as the exchange of good and services across countries and its include all cross border activities (Kumar,2009), and it consist of export, import and foreign direct investment. This trade happen due to differences in nation business nature. There are no countries that can maximize their production due to distinction in natural resources, human capital, financial and technology level in each country. Hence, countries will participate in international trade by export the excess goods and services to another countries, and import goods and services that not produce in the countries (Adedeji, 2006). This study focus on the causality between trade openness and economic growth in Malaysia. For the trade openness, the variable choose by researcher are exchange rate, export, import and FDI. Meanwhile, the dependant variable is Malaysia economic growth. The scope of this study ranges from 1988-2017. The method used in regressing the data include normality test, Unit root test (ADF and PP test), optimal lag order, Johansen Cointergration test, Vector Error Corection, Granger causality test and Lagrange Multiplier test. From the result in data analysis, we can see that the only significant variable is exchange rate. However, it has negative relationship with GDP whereby increase in exchange rate will lead to decrease in GDP. Therefore, researcher recommends that the government should take an action to stabilize the exchange rate in order to prevent it to fluctuate too frequently. This recommendation is in line with Thapa(2002) suggestion.