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How sensitive are Malaysia's bilateral trade flows to depreciation?

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Abstract

In an attempt to assess the impact of currency depreciation on the trade balance, recent studies are employing disaggregated trade data to avoid aggregation bias. However, since import and export prices are not available at disaggregated level, recent studies are using export and import values rather than their volumes so that they can establish direct relation between inpayments and the exchange rate as well as between outpayments and the exchange rate. This study explores the experience of Malaysia. Bilateral inpayments and outpayments models are estimated between Malaysia and her 14 trading partners using quarterly data and bound testing approach to cointegration. The results show that depreciation has short-run effect on the trade balance. The results also show that the trade balance is not cointegrated with the exchange rate. The results also show that the trade balance is not cointegrated with the exchange rate.

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¹ There is another group of studies that have employed aggregate trade data in assessing the impact of currency devaluation. The list includes Briguglio ([1989](#)), Tegene ([1991](#)), Buluswar et al. ([1996](#)), Rahman et al. ([1997](#)), Nachane and Ranade ([1998](#)), Miljkovic ([2000](#)), Bahmani-Oskooee ([2001](#)), Kyereme ([2002](#)) and Berument and Dincer ([2005](#)).

² For a comprehensive study and estimates of the Marshall-Lerner condition see Bahmani-Oskooee and Niroomand ([1998](#)).

³ The significance levels are portrayed by two straight lines whose equations are given in Brown et al. ([1975](#)) Section 2.3.

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