MALAYSIA – ASEAN TRDAE DETERMINANTS, PATTERNS AND PROSPECTS

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A Project paper Submitted to the Othman Yeop Abdullah Graduate School of Business, Universiti Utara Malaysia, in Partial Fulfillment of the Requirements for the Degree Master of Economic

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Abstrak

Kajian ini bertujuan menganalisis faktor-faktor yang memberi kesan terhadap perdagangan antara Malaysia dan negara ASEAN lain dari 1980-2014. Selain Malaysia, negara ASEAN lain adalah Brunei, Indonesia, Thailand, Singapura, Vietnam, Kemboja, Myanmar, Filipina and Laos. Lima ujian punca unit panel yang berbeza (Ujian LLC, Ujian Breitung, Ujian IPS, Ujian F ADS, dan Ujian F-PP) telah dijalankan bagi mengenal pasti isu-isu kepegunan. Hasil ujian punca unit panel menunjukkan kesemua pemboleh ubah pegun pada satu tahap, dan berubah menjadi tidak pegun pada perbezaan pertama. Selain itu, keputusan Ujian *Causality Granger* menujukkan bahawa dalam jangka pendek, *causality* satu arah telah dikenal pasti pada Keluaran Dalam Negeri Kasar (KDNK) per kapita dan kadar pertukaran jumlah perdagangan Malaysia antara Malaysia dan negara ASEAN yang lain, serta pada jumlah penduduk ke jumlah perdagangan negara ASEAN lain. Bagi ujian bersama, *causality* dwiarah telah dikenal pasti pada KDNK per kapita Malaysia, KDNK per kapita negara ASEAN lain, kadar pertukaran Malaysia, kadar pertukaran negara ASEAN lain, jumlah penduduk negara ASEAN lain, jarak antara ibu negara Malaysia dan ibu negara bagi negara ASEAN lain, dan jumlah perdagangan antara Malaysia dan negara ASEAN lain. Dengan kata lain, kesemua pemboleh ubah bergantung antara satu sama lain. Keputusan model GMM menunjukkan KDNK per kapita Malaysia dan negara ASEAN lain serta kadar pertukaran Malaysia dan negara ASEAN lain adalah positif dan signifikan secara statistik. Walau bagaimanapun, jumlah penduduk negara ASEAN lain tidak signifikan, walaupun pada kadar signifikan 10 peratus. Hubungan jumlah jarak antara ibu negara Malaysia dan negara ASEAN lain juga tidak signifikan. Peningkatan kadar KDNK Malaysia dan negara ASEAN lain serta peningkatan kadar pertukaran mata wang Malaysia dan negara ASEAN lain akan turut merangsang kadar dagangan antara Malaysia dan negara ASEAN lain. Kesimpulannya, peningkatan jumlah jarak antara ibu negara Malaysia dan negara ASEAN lain akan membantutkan kadar dagangan antara Malaysia dan negara ASEAN lain.

Kata kunci: Dagangan Antarabangsa, Ujian *Causality Granger*, Model GMM, Malaysia, ASEAN

ABSTRACT

The main objective of this study is to analyze the factors that effect Malaysia – ASEAN trade during 1980 – 2014. The (9) ASEAN countries such as Brunei, Indonesia, Thailand, Singapore, Vietnam, Cambodia, Myanmar, Philippines and Lao PDR. There are five different panel unit root test have been applied to check the stationarity issues the five test are {LLC test – Beritung test - IPS test – F ADS test – F-PP test}. The results of panel unit root tests shows that all the variables are stationary at level and become non-stationary at first difference. In addition, results of Granger causality suggested that in the short run unidirectional Granger causalities were found to be running from per capita GDP and exchange rate of Malaysia total trade between Malaysian and other ASEAN countries, as well as from total population of other ASEAN countries to total trade. For joint tests, bi-directional causalities were observed between per capita GDP of Malaysia, per capita GDP of other ASEAN countries, exchange rate of Malaysia, exchange rate of other ASEAN countries, total population of other ASEAN countries, distance between capital of Malaysia and capital of other ASEAN countries and total trade between Malaysia and other ASEAN countries. In other words all the variables are reliant to each other. The results of GMM model show that per capita GDP of Malaysia and other ASEAN countries as well as exchange rate of Malaysia and other ASEAN countries are positively and statistically significant. However, total population of other ASEAN countries is insignificant even at 10 percent level of significant. Similarly, total distance between capital of Malaysia and other ASEAN countries is negatively significant. An increase of Gross Domestic Product (GDP) of Malaysia and other ASEAN countries as well as exchange rate of Malaysia and other ASEAN countries will increase it will also boost the trade between Malaysia and other ASEAN countries. Consequently, increase the distance between capital of Malaysia and other ASEAN countries will decrease the trade between Malaysia and other ASEAN countries.

Keywords: International Trade, Granger Causality, GMM model, Malaysia, ASEAN

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TABLE OF CONTENTS

PERMISSION TO USE iii
ABSTRACT iv
ACKNOWLEDGEMENTS vi
TABLE OF CONTENTS vii
LIST OF TABLES ix
LIST OF FIGURES x
LIST OF ABBREVIATIONS xi
CHAPTER ONE: INTRDUCTION 1
1.1 Background of the Study 1
1.1.1 Chinese and Indian Immigration to Malaya 3
1.1.2 Background of Malaysian Economy 8
1.2 Problem Statement 20
1.3 Research Questions 21
1.4 Research Objectives 21
1.5 Significance of the Study 22
1.6 Scope of the Study 23
1.7 Organization of the Study 23
CHAPTER TWO: LITERATURE REVIEW 25
2.0 Introduction 25
2.1 Previous Studies on Determinants of International Trade 25
2.2.1 Exchange Rate 28
2.2.2 Geographical Distance 29
2.2.3 Population 30
2.2.4 GDP growth 31
2.2.5 Relative Factor Endowment 32
2.2 Previous Studies on Determinants of Imports 33
2.3 Previous Studies on Determinants of Exports 39
2.4 Theoretical Framework 42

CHAPTER THREE: METHODOLOGY 50
3.1 Introduction 50
3.2 Model Specification 50
3.3 Justification of Variables 53
3.3.1 Per Capita GDP 53
3.3.2 Population 53
3.3.3 Geographical Distance 54
3.3.4 Exchange Rate 54
3.4 Data Source 55
3.5 Method of Analysis 56
3.5.1 Testing the Cross-Sectional Dependency 57
3.5.2 Panel Unit Roots 58
3.5.3 Panel cointegration tests 59
3.5.4 Generalized Method of Movement (GMM) 60
3.6 Conclusion 62
CHAPTER 4: EMPIRICAL RESULTS 63
4.1 Panel Unit Root Test 63
4.2 Results of Panel Cointegration 65
4.3 Results of Panel Granger Causality 66
4.4 Generalized Method of Movement (GMM) 68
4.5 Conclusion 71
CHAPTER FIVE: SUMMARY AND POLICY IMPLICATION 73
5.1 Introduction 73
5.2 Summary 73
5.3 Policy Implication 76
5.4 Conclusion 76
References 78

LIST OF TABLES

Table 1.1	Racial Composition Federation of Malaya (1911 – 1957)	4
Table 1.2	Growth of Chinese and Indian population in Malaya 1871-1941	4
Table 1.3	Macroeconomic indicators in Malaysian Economy during (1980-2014)	9
Table1.4	Malaysian Annual Trade between 2000 to 2014 (Billion USD)	19
Table1.5	Malaysian Trade with ASEAN countries between 1980 to 2014 (Million$)	20
Table3.1	Variables, Definition, Measurement and Source	56
Table4.1	Results of Panel Unit Tests	65
Table 4.2	Testing for Univariate Cointegration between Total Malaysian Trade with ASEAN countries and other variables	65
Table4.3	Panel VECM causality test results for Univariate Model	68
Table 4.4	GMM Estimates for the Model	71

LIST OF FIGURES

Figure1.1	Top five Malaysian Trade destination 2014 (Billion USD)	16
Figure 1**.2**	Malaysian imports from ASEAN countries (2014)	18
Figure 1.3	Malaysian Exports to ASEAN countries (2014)	18

LIST OF ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
GMM	Generalized Method of Movement
OLS	Ordinary Least Square
MCA	Malaysian Chinese Association
NEP	New Economic Policy
NEM	New Economic Model
NDP	New Development Policy
LNG	Liquefied Natural Gas
FDI	Foreign Direct Investment
AFAS	ASEAN Framework Agreement on Services
AIA	ASEAN Investment Area
DOTS	Direction of Trade Statistics
OECD	Organization of Economic Co-operation and Development
WTO	World Trade Organization
2SLS	Two Stage Least Square
FTA	Free Trade Agreement
SADC	South Africa Development Community
SAARC	South Asian Association for Regional Cooperation
SBC	Schwarz Bayesian Criterion
CLRM	Classical Linear Regression Model
CD	Cross Dependency
LLC	Levin, Lin and Chu
IPS	Im, Pesaran and Shin

CHAPTER ONE

INTRODUCTION

- **Organization of studies:-**

The chapter begins with the background of the study under section 1.1. In this section study explain the importance of international trade towards economic growth and development and role of Malaysian trade with ASEAN countries. The problem of the study is stated under Section 1.2. The problem of the study is stated under Section 1.2. The research questions and objectives have been provided in the Section 1.3 and Section 1.4 respectively. The significance of the study is discussed under Section 1.5 followed by scope of the study under Section 1.6. The structure of the study is presented under section 1.7. Finally, Section 1.8 provides the conclusion of the chapter.

1.1 Background of the Study

International trade have fundamental role in an economic system. The import of raw materials, capital and intermediate goods are always required to enhance the production. The countries want to import these items due to scarcity of these items domestically and foster exports growth. Imports of consumer goods are also required to meet the excess in domestic demand. Export of trade is crucial to meet the required foreign exchange gap and to increase the import capacity. An increase in import capacity boosts the industrialization and overall economic activities, which, in turn, can ensure economic growth .

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