Bilateral Trade Balance of Malaysia to the United States, Japan and Singapore: Empirical Evidence from the Monetary Approach

Abstract

This study examines the long-run and short-run impact of real exchange rate on bilateral trade balance of Malaysia to the United States (US), Japan and Singapore using an augmented model of Rose and Yellen (1989). In the long run, depreciation or devaluation of real exchange rate will generally improve bilateral trade balance. However, the impact of real exchange rate on bilateral trade balance is different across countries in the short run. Moreover, changes in money supply could have an impact on real exchange rate and therefore, bilateral trade balance. Thus, monetary policy could be an effective policy on trade with other countries.