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ANALYZING THE DETERMINANTS OF MALAYSIAN TRADE BALANCE FROM 1975 TO 2023: AN ARDL APPROACH

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**FACULTY OF MANAGEMENT AND ECONOMICS
UNIVERSITI PENDIDIKAN SULTAN IDRIS**

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DECLARATION

I am Muhammad Syahmi bin Sulaiman (D20211097996), a final year student from Faculty of Management and Economics (FPE), Sultan Idris Education University (UPSI). I hereby declare that this Final Year Project (FYP) entitled “Analyzing the Determinants of Malaysian Trade Balance from 1975 to 2023: An ARDL Approach” is a result of my research and original work. I conclude on that note this project has been written by myself and this work has not been submitted to any other degree or professional qualification. I confirm that the work submitted is my own, except where work which has formed part of jointly authored publications has been included. This also relates to giving due credit to any expression, thought, references to research findings, and/ or bibliography mentioned or cited in the research. Hence, I declare that the contents of this research is based on my own effort and prepared under the guidance of my supervisor.

(MUHAMMAD SYAHMI
BIN SULAIMAN)

(ASSOC. PROF. DR. ZAINIZAM
BIN ZAKARIYA)



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All praise to Allah SWT, Lord of the universe. With a sense of humility and full of gratitude, I would like to express my infinite appreciation to those who have provided guidance, support, and encouragement throughout the implementation of this final year project. First of all, a big thank you to my supervisor lecturer, Associate Professor Dr. Zainizam bin Zakariya, for his advice and guidance throughout the duration of this project. His commitment and patience have greatly helped me achieve my set objectives. Next, thank you to my family members who have always been the main motivator, providing moral support, as well as unceasing prayers. I would also like to thank my colleagues for their help, sharing of ideas and spirit of collaboration which was very meaningful throughout this process. Not to be forgotten, appreciation to institutions, organizations, and individuals who have provided data, resources, or cooperation in making this research a success. Finally, I am grateful to Allah SWT for giving me the strength and health to complete this project successfully. I hope that the results of this project can make a meaningful contribution to related fields of study. That's all from me, thank you.



ABSTRACT

The aim for this research is to investigate the short-run dynamic and long-run relationship between the independent variables (EXCR, GDP, and BMGR) and dependent variable (TB), and to identify which independent variable (EXCR, GDP, or BMGR) has the most significant effect on the dependent variable (TB), by using an Autoregressive Distributed Lag (ARDL) as the research's approach. The idea that trade balance in Malaysia is not only affected by EXCR, but also by GDP and BMGR. Using the data from Malaysia, covering the years 1975 to 2023, the results indicate that EXCR, GDP, and BMGR significantly influence the trade balance, both in the short and long run. EXCR and GDP play pivotal roles, with the former directly affecting trade competitiveness and the latter shaping overall economic performance. Meanwhile, BMGR contributes to the financial environment impacting trade. This research also provides valuable guidance for policymakers and stakeholders to enhance Malaysia's economic and trade stability.

Keywords: Trade Balance, Short-run Dynamic, Long-run Relationship, ARDL, Malaysia

ABSTRAK

Matlamat kajian ini adalah untuk mengkaji hubungan dinamik jangka pendek dan jangka panjang antara pembolehubah tidak bersandar (kadar pertukaran, KDNK dan pertumbuhan wang luas) dan pembolehubah bersandar (imbangan dagangan), dan untuk mengenal pasti pembolehubah tidak bersandar (kadar pertukaran, KDNK, atau pertumbuhan wang luas) yang mempunyai kesan paling ketara ke atas pembolehubah bersandar (imbangan dagangan), dengan menggunakan *Autoregressive Distributed Lag* (ARDL) sebagai pendekatan penyelidikan. Idea bahawa imbalan perdagangan di Malaysia bukan sahaja dipengaruhi oleh kadar pertukaran, tetapi juga oleh KDNK dan pertumbuhan wang luas. Menggunakan data dari Malaysia, meliputi tahun 1975 hingga 2023, keputusan menunjukkan bahawa kadar pertukaran, KDNK, dan pertumbuhan wang luas secara signifikan mempengaruhi imbalan perdagangan, baik dalam jangka pendek dan panjang. Kadar pertukaran dan KDNK memainkan peranan penting, dengan yang pertama menjejaskan daya saing perdagangan secara langsung dan yang kedua membentuk prestasi ekonomi keseluruhan. Sementara itu, pertumbuhan wang luas menyumbang kepada persekitaran kewangan yang memberi kesan kepada perdagangan. Kajian ini juga menyediakan panduan berharga untuk penggubal dasar dan pihak berkepentingan untuk meningkatkan kestabilan ekonomi dan perdagangan Malaysia.

Kata Kunci: Imbalan Dagangan, Dinamik Jangka Pendek, Hubungan Jangka Panjang, ARDL, Malaysia

TABLE OF CONTENTS

DECLARATION.....	I
ACKNOWLEDGEMENT.....	II
ABSTRACT.....	III
ABSTRAK.....	IV
TABLE OF CONTENTS	V
LIST OF TABLES	VIII
LIST OF FIGURES	IX
LIST OF ABBREVIATIONS	X
CHAPTER 1.....	1
INTRODUCTION.....	1
1.0 INTRODUCTION.....	1
1.1 RESEARCH BACKGROUND.....	2
1.1.1 Trade Balance (TB)	2
1.1.2 Exchange Rate (EXCR).....	4
1.1.3 Gross Domestic Product (GDP)	5
1.1.4 Broad Money Growth (BMGR)	7
1.2 PROBLEM STATEMENT	9
1.3 RESEARCH QUESTIONS.....	11
1.4 RESEARCH OBJECTIVES.....	11
1.5 RESEARCH HYPOTHESIS.....	12
1.6 CONCEPTUAL FRAMEWORK.....	13
1.7 SCOPE OF STUDY	15
1.8 DEFINITION OPERATIONAL	16
1.8.1 Trade Balance (TB)	17
1.8.2 Exchange Rate (EXCR).....	17
1.8.3 Growth Domestic Product (GDP).....	18
1.8.4 Broad Money Growth (BMGR)	18
1.9 LIMITATION OF STUDY	19
1.10 SIGNIFICANCE OF STUDY	20
1.11 CONCLUSION	21
CHAPTER 2.....	22
LITERATURE REVIEW	22
2.0 INTRODUCTION.....	22
2.1 THEORETICAL REVIEW	23
2.1.1 An Introduction of Trade Balance	23



2.1.2 The Theory of Trade Balance	25
2.2 EMPIRICAL REVIEW	27
2.2.1 The Methods Used in Studying the Trade Balance	27
2.2.2 The Relationship between Exchange Rate and Trade Balance	28
2.2.3 The Relationship between Gross Domestic Product and Trade Balance	30
2.2.4 The Relationship between Broad Money Growth and Trade Balance	32
2.3 CONCLUSION	34
CHAPTER 3	35
RESEARCH METHODOLOGY	35
3.0 INTRODUCTION	35
3.1 METHODOLOGY	36
3.1.1 Research Design	36
3.1.2 Sample and Population	36
3.1.3 Data Collection Instrument	37
3.1.4 Data Collection Method	37
3.1.5 Data Analysis Method	37
3.2 DATA COLLECTION	38
3.3 MODEL SPECIFICATION	39
3.4 ECONOMETRIC APPROACHES	41
3.4.1 Lag Length Selection	41
3.4.2 Unit Root Test	41
3.4.3 Long Run Form and Bounds Test	42
3.4.4 Error Correction Model (ECM)	42
3.4.5 Normality Test	43
3.4.6 Breusch-Godfrey Serial Correlation LM Test	43
3.4.7 Heteroskedasticity Test: Breusch-Pagan-Godfrey	44
3.4.8 Ramsey RESET Test	44
3.4.9 CUSUM Test	45
3.4.10 CUSUM of Squares Test	45
3.5 CONCLUSION	46
CHAPTER 4	47
FINDINGS AND ANALYSIS	47
4.0 INTRODUCTION	47
4.1 LAG LENGTH SELECTION	48
4.2 UNIT ROOT TEST	49
4.3 LONG RUN FORM AND BOUNDS TEST	51
4.4 ERROR CORRECTION MODEL (ECM)	53
4.5 NORMALITY TEST	56
4.6 BREUSCH-GODFREY SERIAL CORRELATION LM TEST	58
4.7 HETEROSKEDASTICITY TEST: BREUSCH-PAGAN-GODFREY	60
4.8 RAMSEY RESET TEST	61



4.9	CUSUM TEST	62
4.10	CUSUM OF SQUARES TEST	64
4.11	CONCLUSION	66
CHAPTER 5		67
CONCLUSION AND RECOMMENDATIONS		67
5.0	INTRODUCTION.....	67
5.1	SUMMARIZE OF FINDINGS AND ANALYSIS	68
5.2	THE INFLUENCE OF TRADE BALANCE DETERMINANTS IN MALAYSIA BEFORE AND AFTER THE COVID-19	70
5.2.1	Exchange Rate (EXCR).....	70
5.2.2	Gross Domestic Product (GDP)	70
5.2.3	Broad Money Growth (BMGR)	71
5.3	THE IMPORTANCE OF SELECTED MACROECONOMIC VARIABLES ON TRADE BALANCE.....	72
5.3.1	Exchange Rate (EXCR).....	72
5.3.2	Gross Domestic Product (GDP)	72
5.3.3	Broad Money Growth (BMGR)	72
5.4	RECOMMENDATIONS FOR THE IMPROVEMENT OF EXISTING POLICIES IN DRIVING A BETTER TRADE BALANCE IN MALAYSIA.....	73
5.4.1	Exchange Rate Policies	73
5.4.2	Gross Domestic Product Policies	73
5.4.3	Broad Money Growth Policies	74
5.5	CONCLUSION	75
REFERENCES		76
APPENDIX		81

LIST OF TABLES

Table 3.1: Time Series' Data Sources	38
Table 4.1: Result for optimal lag length	48
Table 4.2: Result for Unit Root Test in Level and First Difference	49
Table 4.3: Result for Long Run Form and Bounds Test	51
Table 4.4: Result for ECM	53
Table 4.5: Result for Normality Test	56
Table 4.6: Result for Breusch-Godfrey Serial Correlation LM Test	58
Table 4.7: Result for Heteroskedasticity Test: Breusch-Pagan-Godfrey	60
Table 4.8: Result for Ramsey RESET Test	61

LIST OF FIGURES

Figure 1.1: Trade Balance in Malaysia from 1975 to 2023	2
Figure 1.2: Exchange Rate in Malaysia from 1975 to 2023	4
Figure 1.3: GDP in Malaysia from 1975 to 2023	5
Figure 1.4: BMGR in Malaysia from 1975 to 2023	7
Figure 1.5: Relationship between Independent and Dependent Variables	13
Figure 1.6: Methodology framework	14
Figure 4.1: Graph for Cointegration	55
Figure 4.2: Graph for Normality Test	56
Figure 4.3: Result for CUSUM Test	62
Figure 4.4: Result for CUSUM of Squares Test	64

LIST OF ABBREVIATIONS

TB	Trade Balance
EXCR	Exchange Rate
GDP	Gross Domestic Product
BMGR	Broad Money Growth
ARDL	Autoregressive Distributed Lag
ADF	Augmented Dickey-Fuller
ECM	Error Correction Model
CUSUM	Cumulative Sum



CHAPTER 1

INTRODUCTION

1.0 INTRODUCTION

Malaysia is a country that is geographically located in the Southeast Asian region, where the country is in the middle of the trade route between East and West. From an economic perspective, Malaysia is among the nations that are developing the fastest, both in terms of infrastructure and economy. Along with the passage of time, economic activities in Malaysia have grown rapidly since the post-independence era. Apart from focusing on these three economic sectors domestically, which is primary, secondary, and tertiary, Malaysia is also one of the countries that is active in international trade activities. We can observe some of Malaysia's primary trading partners—the US, China, and Japan—through this international trade activity. International trade, according to Heakal, R. (2024), is the buying and selling of goods and services by businesses located in other nations. When we talk about international trade, there will be a situation which is the trade balance that measures the extent to which a country can trade. According to Kenton, W. (2024), the balance of trade (BOT) is the difference between a nation's import and export values over a specific time period. A nation has a trade surplus or positive trade balance if it exports more goods and services than it imports in terms of value, and vice versa.

This issue is interesting to discuss since Malaysia is a country that is active in trade activities at the global level. The goal of this trade balance issue is to identify the determinants that influence how much Malaysia's trade balance changes. There are also studies that explain about determinants of trade balance. The analysis concludes that foreign direct investment significantly and negatively impacted the trade balance (Nguyen, T. V. N., 2020). According to Dilanchiev, A. and Taktakishvili, T. (2022), the results show that a perceived effective exchange rate has a statistically significant short-term negative influence on the trade balance and a statistically significant long-term positive impact. The next part of this research will explain more about the research background.



1.1 RESEARCH BACKGROUND

The background of this research will be used by the researcher to explain in more detail about the research issue which is the trade balance in Malaysia and its determinants.

1.1.1 Trade Balance (TB)

The trade balance (TB) is calculated by deducting the value of imports from the value of exports, as the researcher explains in the introduction. A trade surplus is denoted by a positive value, and a trade deficit by a negative value. The Malaysian economy is heavily reliant on international trade, according to Trading Economics (2024). Malaysia has consistently reported trade surpluses since 1998, primarily as a result of an increase in exports of electronics and electrical goods. Figure 1.1 below shows the trend of TB in Malaysia from 1975 to 2023.

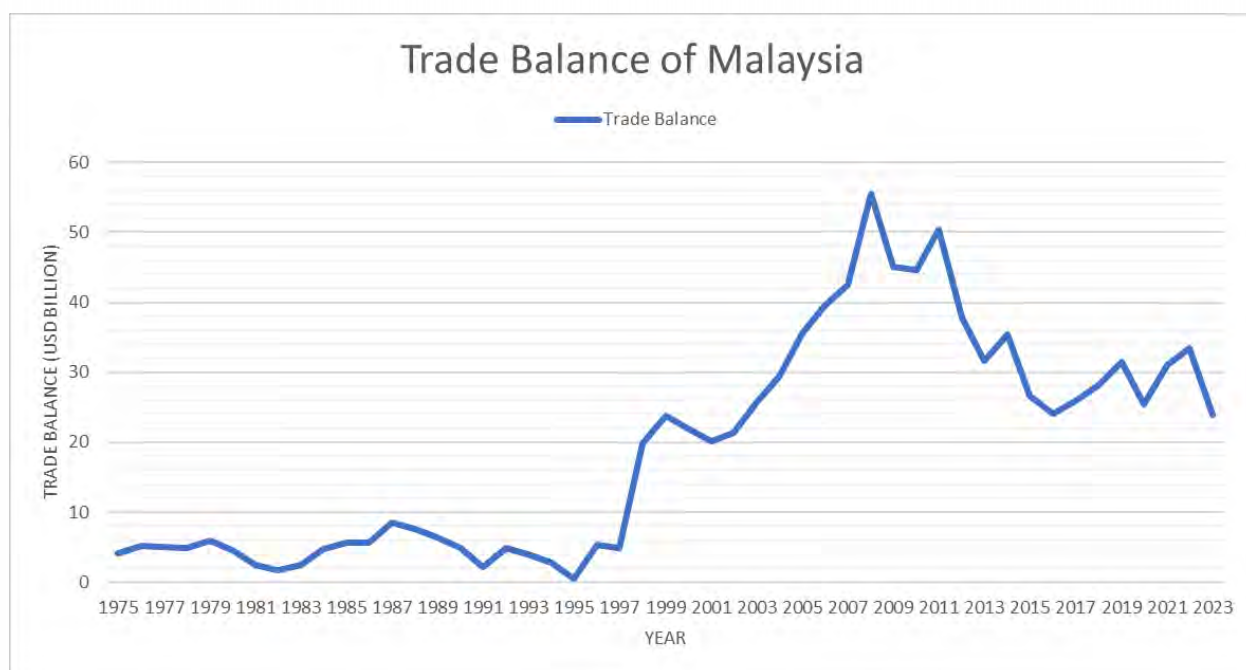


Figure 1.1: Trade Balance in Malaysia from 1975 to 2023

Based on Figure 1.1, from 1975 to the early 1990s, Malaysia's TB was relatively low, fluctuating close to zero, with occasional dips into negative values, suggesting periods of trade deficit. However, in the mid-1990s to early 2000s, there was a notable increase, with a sharp rise around the late 1990s. This period aligns with Malaysia's economic growth and increased export activity. The TB reached its peak in the mid-2000s, exceeding USD 50 billion. After this peak, the TB fluctuated but generally trended downward, although it remained above the mean for most years. In the 2020s, the TB stabilized around USD 20-30 billion, indicating a reduced but consistent trade surplus. This growth pattern suggests that Malaysia experienced strong export performance and favorable economic conditions in the 1990s and 2000s, potentially due to industrial expansion and trade agreements. The fluctuations in the 2010s may reflect global economic instability, fluctuating commodity prices, and potential shifts in Malaysia's export-import dynamics. The recent stability may indicate a more balanced trade environment, but it could also signal a slower growth rate compared to past decades.

There are several studies that also examine the issue of TB determinants. Ray, S. (2012) states that the study looks at how several factors, such as the real effective exchange rate, domestic consumption, foreign direct investment, and foreign income, affect the trade balance and how it affects India's short- and long-term trade balance behaviour from 1972–1973 to 2010–2011. Furthermore, Shah, A. Q. (2015) found that the money supply, foreign direct investment, gross domestic product, total domestic consumption, and the exchange rate of the Pakistani Rupee against the US dollar are independent factors, whereas the balance of trade is the dependent variable. Annual data for the variables has been gathered from FY 1975–1976 to FY 2009–2010.

1.1.2 Exchange Rate (EXCR)

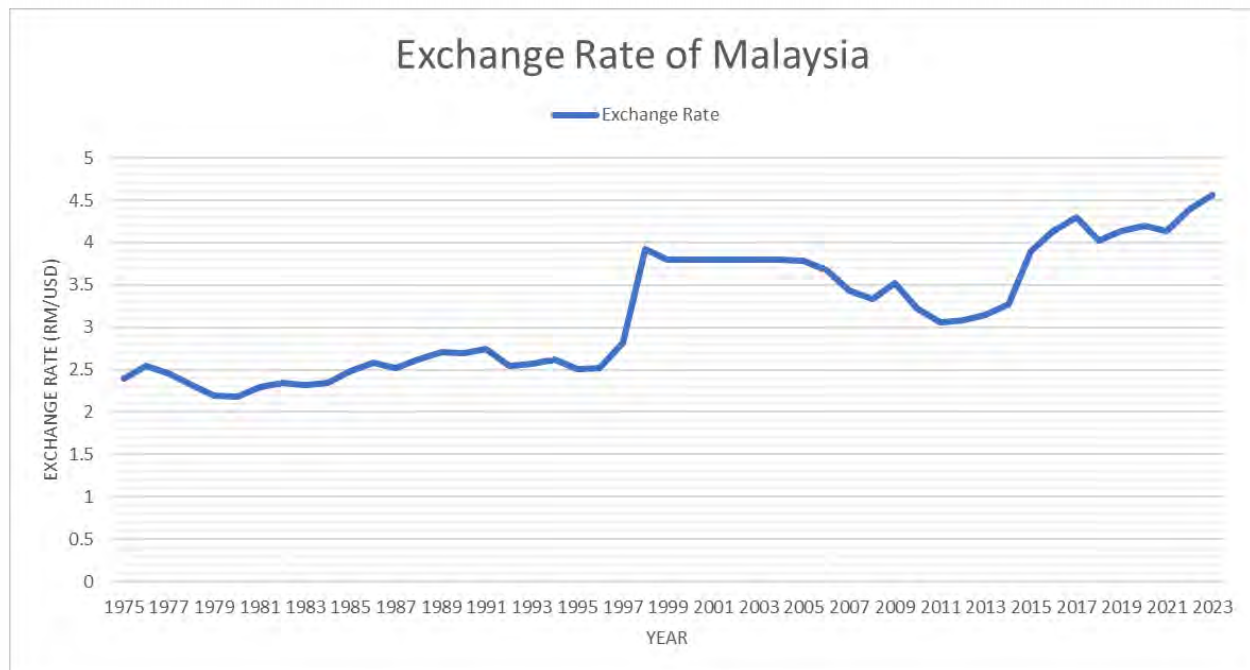


Figure 1.2: EXCR in Malaysia from 1975 to 2023

Based on Figure 1.2, from 1975 to 1985, the EXCR of MYR/USD remained relatively stable, fluctuating around the low 2s. This period saw minor changes, with values ranging from 2.4 in 1975 to 2.48 in 1985. Moving into the period of 1986 to 1995, there was a slight but steady increase in the EXCR, maintaining relative stability with values between 2.52 in 1987 to 2.51 in 1995. The most dramatic shift occurred between 1996 and 2005, during the Asian financial crisis, when the EXCR surged from 2.52 in 1996 to 3.93 in 1998, stabilizing around 3.8 by the early 2000s. In the subsequent decade from 2006 to 2015, the EXCR continued to adjust and gradually increased, moving from 3.44 in 2006 to 4.14 in 2015. The period from 2016 to 2023 saw a steady rise, with the EXCR reaching its peak values of 4.56 in 2022 and 2023. All things considered, the research shows that the Malaysian Ringgit has lost value in relation to the US dollar during the previous few decades, with notable effects from recent economic crises like the Asian financial crisis and a general increasing tendency.

1.1.3 Gross Domestic Product (GDP)

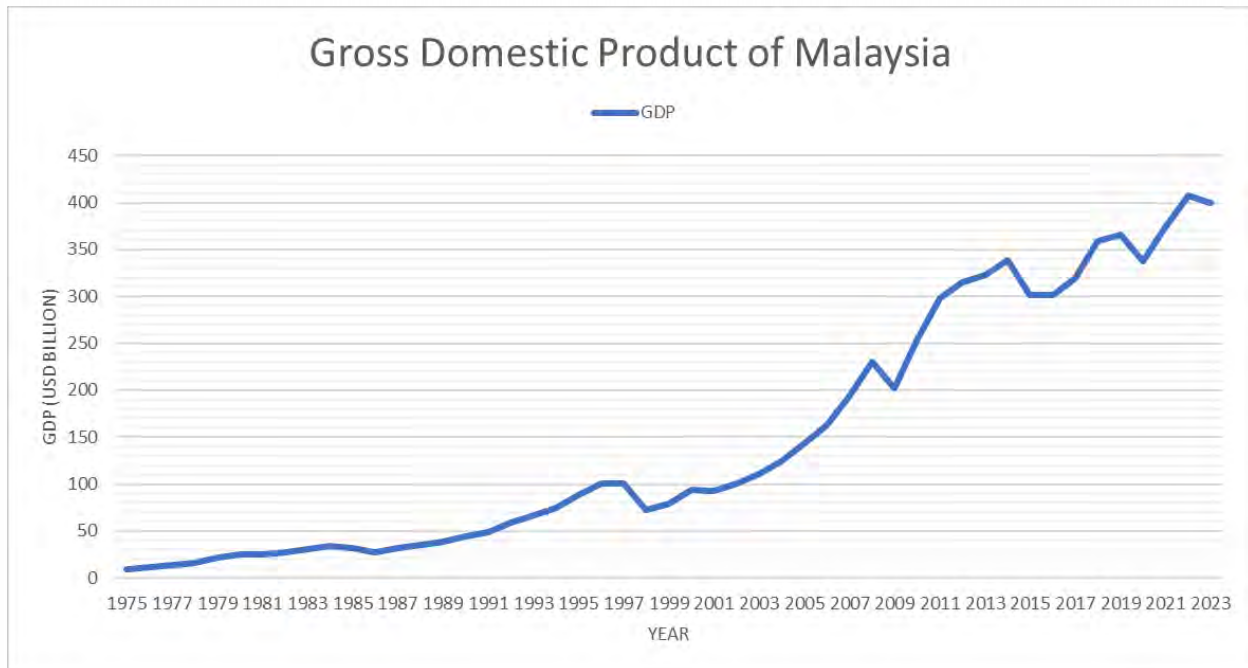


Figure 1.3: GDP in Malaysia from 1975 to 2023

Based on Figure 1.3, from 1975 to 1985, Malaysia's GDP grew steadily from 9.3 billion USD in 1975 to 31.2 billion USD in 1985, reflecting significant economic development and an average annual growth driven by industrialization and export expansion. Despite minor hiccups, the GDP grew steadily between 1986 and 1995, rising from 27.73 billion USD in 1986 to 100.01 billion USD in 1995. There were notable fluctuations, including a decline in 1986 to 27.73 billion USD, followed by recovery and growth up to 1990, where the GDP reached 49.14 billion USD. The early 1990s saw robust growth, culminating in 1995 with GDP reaching 100.01 billion USD. The Asian financial crisis from 1997 to 1998 significantly impacted Malaysia's GDP. In 1996, GDP peaked at 100.86 billion USD but fell sharply to 72.17 billion USD in 1998. Despite the crisis, Malaysia's economy showed resilience, recovering to 110.2 billion USD by 2000 and reaching 143.53 billion USD by 2005, supported by government intervention and economic reforms.

From 2006 to 2015, Malaysia's GDP experienced robust growth, increasing from 162.69 billion USD in 2006 to 314.44 billion USD in 2015. Key growth years included 2010, with a GDP of 230.81 billion USD, and 2013, with a GDP of 314.44 billion USD, reflecting strong domestic demand, export growth, and investment in infrastructure and services. From 2016 to 2023, Malaysia's GDP continued to grow, reaching its highest value of 407.03 billion USD in 2022. However, the COVID-19 pandemic and other worldwide economic issues caused a minor drop in 2023, with GDP coming in at 399.65 billion USD. This period reflects both resilience and the impacts of global economic conditions. Overall, from 9.3 billion USD in 1975 to 399.65 billion USD in 2023, Malaysia's GDP has increased dramatically. Key events like the Asian financial crisis and global economic issues have an impact on the trends, which show robust economic progress propelled by industrialisation, export growth, and resilience in the face of economic disasters.

1.1.4 Broad Money Growth (BMGR)

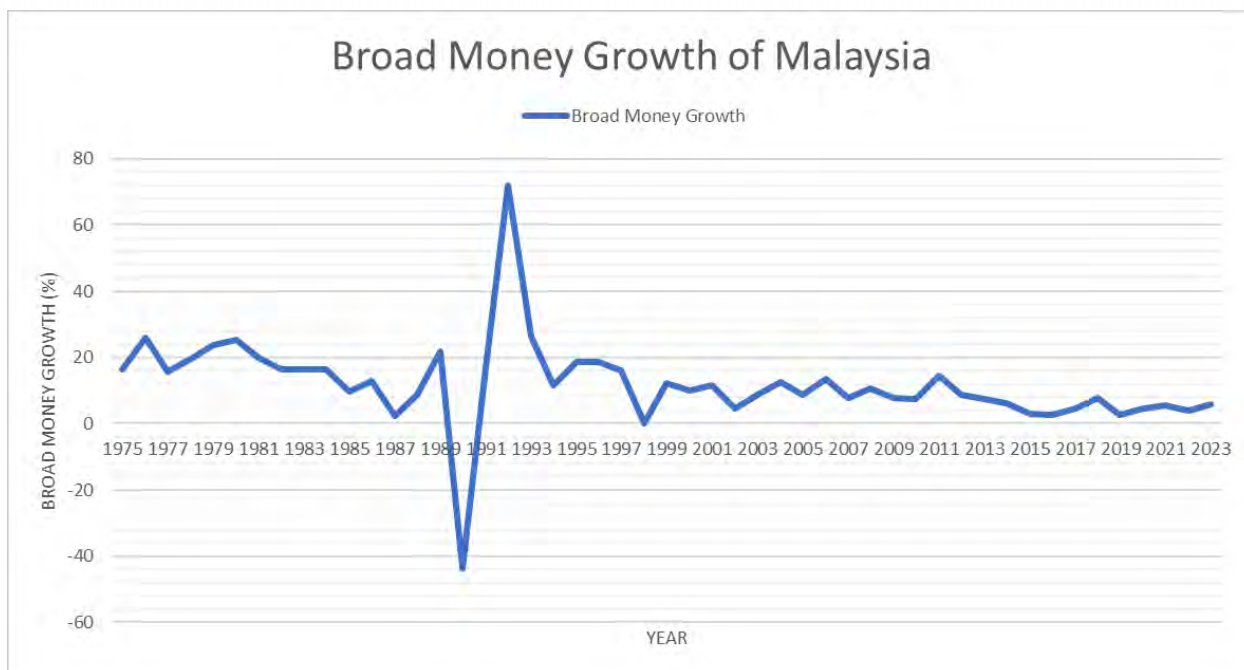


Figure 1.4: BMGR in Malaysia from 1975 to 2023

Based on Figure 1.4, from 1975 to 1985, Malaysia experienced significant growth and high volatility in BMGR, with values peaking at 25.9% in 1976 and dropping to 9.8% in 1985. The early years showed substantial growth rates, averaging around 17%. The period from 1986 to 1995 continued to exhibit volatility, with notable fluctuations, such as a dramatic drop to -43.7% in 1988, followed by a spike to 71.9% in 1990. The early 1990s saw rates stabilizing around 18.5%. The decade from 1996 to 2005 marked post-crisis recovery and stabilization, with rates declining to 0.2% in 1999 before recovering to 12.7% in 2004 and stabilizing at 8.8% in 2005. From 2006 to 2015, Malaysia experienced more steady growth with moderate fluctuations, with growth rates ranging from 7.3% to 14.6%, reflecting more controlled economic expansion. In the most recent period from 2016 to 2023, broad money growth rates remained stable despite global economic challenges. The rates peaked at 5.8% in 2023, showing economic resilience and controlled growth, reflecting maturity in economic policies.

Overall, BMGR in Malaysia has shown significant volatility and growth from 1975 to 2023, with notable fluctuations and periods of stabilization and recovery. Recent years have demonstrated stable growth amid global challenges, showcasing economic resilience and maturity.

The next part of this research will explain more about the problem statement.

1.2 PROBLEM STATEMENT

This trade balance (TB) issue is studied to identify which determinant has the most influence on the changes that occur on the TB from year to year. As explained by the researcher, the identified determinants are the exchange rate (EXCR), gross domestic product (GDP), and broad money growth (BMGR). However, each of these determinants does not have the same influence on the TB. The researcher thinks that there are definitely the most influential determinants and vice versa. Therefore, by using the data obtained through the official government portal and related to it, the researcher wants to study the problem by using research methods such as the ARDL method. Because the researcher wants to look at the relationship between independent (EXCR, GDP, and BMGR) and dependent (TB) factors, this issue is crucial to study. Additionally, the researcher seeks to determine which independent variable most significantly influences the dependent variable. Through this research, the community will be exposed to the explanation of the determinants of TB, the importance of Comparative Advantage and Heckscher-Ohlin Theory, and also it can help the government to improve the country's economic policy such as trade policy, fiscal policy, and monetary policy.

05- This TB issue is not a new issue discussed in the field of economics. There are other studies that also debate this issue. In her study on the trade balance issue, Duasa, J. (2007) looks at the short- and long-term connections between the money supply, income, real exchange rates, and trade balance in the context of Malaysia. In order to determine whether trade balance and the determinants have a long-term equilibrium relationship, she applies the bound testing approach to cointegration and error correction models, which were created inside an autoregressive distributed lag (ARDL) framework. Previous studies by previous researchers on trade balance issues only took into account the effects of the global economic situation at that time. For instance, it is claimed that the global economic crisis that raged around the year of the study had an impact on the trade balance (based on the research of earlier academics). However, the research conducted by this researcher takes into account all the effects that have an influence on the economic situation such as domestic and global economic performance, as well as the impact given before and after the COVID-19.

There is a difference that can be seen through the research conducted by the researcher compared to the research by previous researchers in this same issue. Among the differences that can be seen is through the aspect of the year of study. Previous researchers conducted a study for the years 1974 to 2003 (Duasa, J. 2007). However, the researcher took the initiative to update the research year by choosing the year 1975 to 2023. Among other differences that can be seen is that researcher replace some variables by using proxy data for the purpose of facilitating data search. For example, researcher replace the real exchange rate index with EXCR, income with GDP, and money supply (M3) with BMGR. To conduct this research, researcher have applied the ARDL method. An autoregressive distributed lag (ARDL) model is based on ordinary least squares (OLS) and can be used for both non-stationary and mixed order of integration time series, according to Shrestha, M. B. and Bhatta, G. R. (2018). This model uses a general-to-specific modelling framework with enough lags to represent the data generation process. A straightforward linear transformation can be used to convert ARDL into a dynamic error correction model (ECM).

The next part of this research will explain more about the research questions, research objectives, and research hypothesis.

1.3 RESEARCH QUESTIONS

In order to achieve the objectives of this research, there are several research questions that must be addressed. The research questions are listed as follows:

1.3.1 Is there any short-run dynamic between the independent variables (EXCR, GDP, and BMGR) and dependent variable (TB)?

1.3.2 Is there any long-run relationship between the independent variables (EXCR, GDP, and BMGR) and dependent variable (TB)?

1.3.3 Which independent variable has the most significant effect on the dependent variable?

1.4 RESEARCH OBJECTIVES

There are several research objectives of the research that are listed as follows:

1.4.1 To investigate the short-run dynamic between the independent variables (EXCR, GDP, and BMGR) and dependent variable (TB).

1.4.2 To investigate the long-run relationship between the independent variables (EXCR, GDP, and BMGR) and dependent variable (TB).

1.4.3 To identify which independent variable (EXCR, GDP, or BMGR) has the most significant effect on the dependent variable (TB).

1.5 RESEARCH HYPOTHESIS

In order to answer the research, the researcher employs the null and alternative hypothesis as follows:

1.5.1 H0: There is no short-run dynamic between the independent variables (EXCR, GDP, and BMGR) and dependent variable (TB).

H1: There is a short-run dynamic between the independent variables (EXCR, GDP, and BMGR) and dependent variable (TB).

1.5.2 H0: There is no long-run relationship between the independent variables (EXCR, GDP, and BMGR) and dependent variable (TB).

H1: There is a long-run relationship between the independent variables (EXCR, GDP, and BMGR) and dependent variable (TB).

1.5.3 H0: EXCR has no significant effect on the TB.

H1: EXCR has a significant effect on the TB.

H0: GDP has no significant effect on the TB.

H1: GDP has a significant effect on the TB.

H0: BMGR has no significant effect on the TB.

H1: BMGR has a significant effect on the TB.

The next part of this research will explain more about the conceptual framework.

1.6 CONCEPTUAL FRAMEWORK

The annual data collected by Malaysia for all variables—trade balance (TB), exchange rate (EXCR), GDP, and broad money growth (BMGR)—from 1975 to 2023 were the main focus of this study. The relationship between the independent variables (EXCR, GDP, and BMGR) and the dependent variable (TB) is part of the conceptual framework. The link between independent and dependent variables is depicted in Figure 1.5 below.

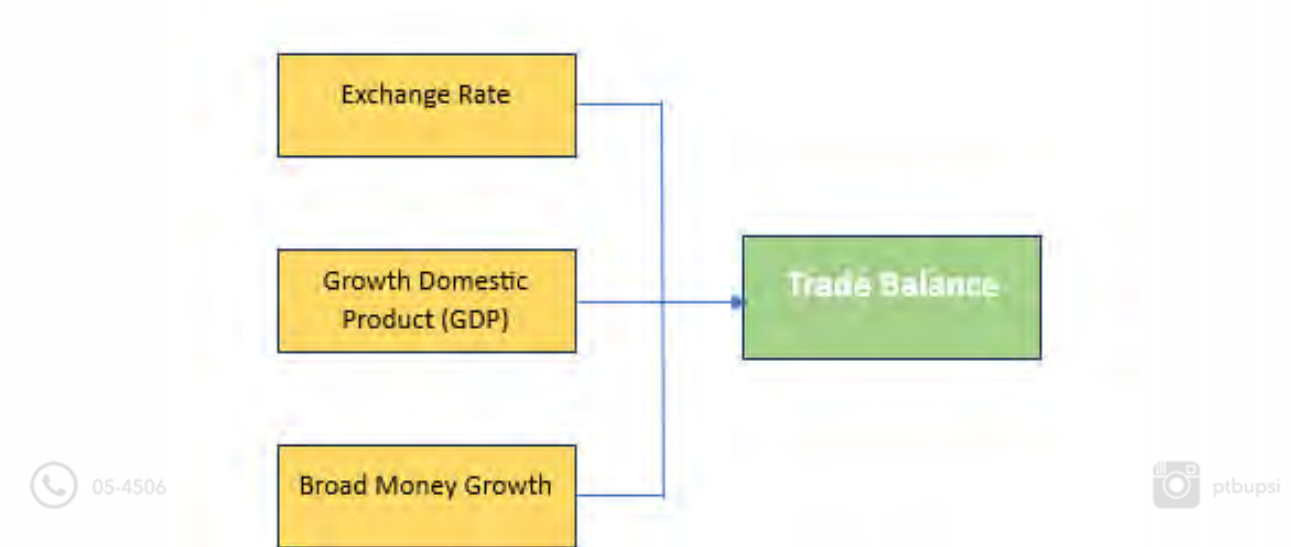


Figure 1.5: Relationship between independent and dependent variables

As shown in Figure 1.6 below, each data set must undergo a unit root test before ARDL is performed in order to ensure that the data were non-stationary at level form. In order for further analyses, such as the ARDL Bound Test for cointegration related to the comparison between F-statistics and critical values, to proceed, non-stationary data must first become stationary. To ensure that the robustness of the specified models in the short- and long-term have stability coefficients to construct error correction model (ECM) in ARDL to inspect the hypotheses for this study, stability for the models is also examined for the short-term and long-term variables in the model.

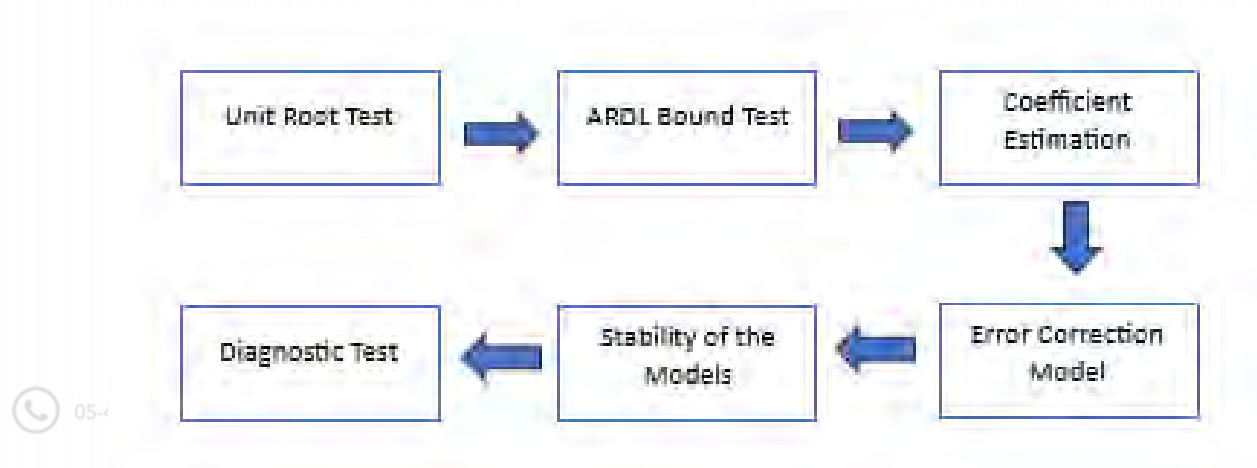


Figure 1.6: Methodology framework

The next part of this research will explain more about the scope of study.

1.7 SCOPE OF STUDY

In general, the purpose of this research is to identify the determinants that play a role in the changes that occur to the trade balance in Malaysia. As stated by the researcher, among the independent variables identified are the EXCR, GDP, and also BMGR. All of these independent variables are seen to have an influence on the trade balance as a dependent variable. However, by using the ARDL method, the researcher wants to see which independent variable has the most impact on the change in the trade balance in Malaysia. The type of data used by researcher is quantitative data, where data for all variables have their own units. For example, for TB data, the researcher uses units of USD billion, EXCR (RM/USD), GDP (USD billion), and BMGR (%). As for the duration of the study, the study conducted by the researcher covers the year 1975 to 2023.

Through research on the determinants of this trade balance, the researcher will explain some theories related to the issue under study. The Comparative Advantage Theory is one of the pertinent theories. According to this idea, which was first put forth by David Ricardo, a nation will benefit from specialising in the manufacture of items with lower relative opportunity costs and trading them for other things. In addition, another related theory is the Heckscher-Ohlin Theory. This theory states that international trade patterns are determined by differences in endowment factors between countries, such as labor, land, and capital. The geographical location covered by the researcher in this study is to focus on the country of Malaysia.

The next part of this research will explain more about the definition operational.

1.8 DEFINITION OPERATIONAL

Researcher utilise definition operations to explain or adequately inform respondents about the variables that will be examined or altered in their investigations. In fact, it helps a researcher get the information that needs for the research and helps to communicate the thoughts to others in a way that is easy to understand. In addition, it seeks to provide a tangible definition for an abstract phenomenon. The data obtained by the researcher is from internet sources, where the researcher has browsed websites such as the Macrotrends, the Department of Statistics Malaysia (DOSM), the Federal Reserve Bank of St. Louis, and the World Bank. The trade balance data was obtained by the researcher by using the subtraction formula between the export value and the import value. The researcher found that the data for trade balance has positive and negative values. Therefore, the data needs to be treated first to ensure that the analysis performed is accurate and valid. The researcher has used the constant addition method, where each data for the trade balance will be added with a certain constant value to change the negative value to positive. The data for EXCR, GDP, and BMGR was taken directly by the researcher from the website as stated.

In this research, there are several variables whose data is taken through proxy data. Proxy data refers to indirect or surrogate measures used by researchers when direct measurements of a variable are difficult, impractical, or impossible to obtain. Proxies are used to approximate the value of the variable of interest by using relevant or readily available data. This proxy should have a strong correlation with the true variable to be effective and reliable. So, in this research, the variable that uses proxy data is GDP where the data is used as a proxy of income, and BMGR for the proxy of M3 (Duasa, J., 2007).

1.8.1 Trade Balance (TB)

The value of imports is subtracted from the value of exports to determine TB. A trade surplus is denoted by a positive value, and a trade deficit by a negative value. The Malaysian economy is heavily reliant on international trade, according to Trading Economics (2024). Malaysia has consistently reported trade surpluses since 1998, primarily as a result of an increase in exports of electronics and electrical goods. The ratio of net exports to output is known as the trade balance, while the relative price of imports to exports is known as the terms of trade (Backus, D., et al., 1992). Aside from that, Focus Economics (2024) defines the trade balance as the net total of a nation's goods imports and exports, excluding any money transfers, investments, and other financial elements.

1.8.2 Exchange Rate (EXCR)

One of the elements influencing the trade balance is EXCR. An EXCR is the rate at which one currency will be exchanged for another, and it has an impact on international trade and money transfers, according to Chen, J. (2024). Both the value of the domestic and foreign currencies have an effect on EXCR. In the meantime, Manual, V. and San, W. (2019) also stated in their study that the EXCR calculates the price Malaysia pays to buy goods from other nations as well as the profits exported to other nations. Aside from that, the Organisation for Economic Co-operation and Development (OECD) (2024) defines exchange rates as the value of one nation's currency relative to another. The national currency to US dollar exchange rate is used to measure this metric.

1.8.3 Growth Domestic Product (GDP)

The entire monetary or market worth of all completed goods and services produced inside a nation's boundaries over a given time period is known as the GDP, according to Fernando, J. (2024). It serves as a thorough assessment of a nation's economic health since it is a wide indicator of total domestic production. Although GDP is usually computed annually, it can sometimes occasionally be computed quarterly. In contrast, GDP is made up of both market-saleable commodities and services as well as certain nonmarket output, including government-funded defence or educational services, according to Callen, T. (2019). Aside from that, GDP is the standard indicator of the value added produced by a nation's production of goods and services during a specific time period, according to the OECD (2024). The income from that production, or the total amount spent on finished products and services (less imports), is therefore also measured by GDP.

1.8.4 Broad Money Growth (BMGR)

Liberto, D. (2020) defines broad money as a metric used to quantify the quantity of money in circulation inside an economy. Narrow money and other assets that are easily convertible into cash to purchase goods and services are included in this method, which is the most comprehensive way to determine a nation's money supply. Broad money, on the other hand, is defined by the World Bank (2024) as the total of currency that is not held by banks, demand deposits that are not held by the central government, time, savings, and foreign currency deposits held by resident sectors other than the central government, bank and traveler's checks, and other securities like commercial paper and certificates of deposit. In addition, currency, deposits with an agreed term of up to two years, deposits redeemable at notice of up to three months, repurchase agreements, money market fund shares/units, and debt instruments with a maturity of up to two years are all considered broad money (M3), according to the OECD (2024).

The next part of this research will explain more about the limitation of study.

1.9 LIMITATION OF STUDY

In this section, the researcher will explain about the limitations of the study faced in conducting a study on the trade balance issue. Research limitations refer to weaknesses or constraints that may affect the results and conclusions of the research. Identifying and acknowledging these limitations is important because it provides a context for interpreting the findings and helps establish the limitations of the study's effectiveness. Therefore, there are several aspects of the limitations of the study that have been identified by the researcher through the research conducted.

The first aspect of this study's limitations is scope and feasibility. Limitations in scope refer to study limitations such as sample size, population, and geographic location. For this research, it is limited to 49 samples that refer to the research period from 1975 to 2023. The geographical location of the research focuses on the country of Malaysia. In addition, the second aspect of the limitations of the study is methodological constraints. It is a limitation related to the research design and the methods used, such as the reliability and validity of the measurement tools, potential bias, and data collection techniques. In this research, the method used is the ARDL method. As for data collection techniques, data is collected through internet sources such as the government's official website.

The next part of this research will explain more about the significance of study.

1.10 SIGNIFICANCE OF STUDY

As explained by the researcher in the previous section, this issue is interesting to discuss since Malaysia is a country that is active in trade activities at the global level. From this trade balance issue, researcher want to see what are the determining factors that play a role in changing the value of Malaysia's trade balance. The significance of the study explains why the research is worth conducting and how it contributes to existing knowledge, theory, practice, or policy. Overall, the significance of study usually includes several aspects. The first aspect is the contribution to knowledge. Through this research, the community will be exposed to the explanation of the determinants of trade balance. This disclosure is important to explain to the public that, as a developing country, there are challenges that need to be faced to advance the national economy. Not only that, this research is more comprehensive and improves the lack of previous studies, where this trade balance issue also takes into account the impact before and after the COVID-19.

Next is the aspect of theoretical implications. This research will explain the importance of Comparative Advantage and Heckscher-Ohlin Theory. Through this research, readers will understand how important it is for a country to specialize in the production of goods and services that will bring benefits to the trade balance. Not only that, an understanding of the Heckscher-Ohlin Theory can also give the reader an understanding of the importance of quality labor, the area of land owned, as well as abundant capital resources which are seen as very important in driving the country's economic growth. Lastly is the aspect of policy implications. This research can help the government to improve the country's economic policy such as trade policy, fiscal policy, and monetary policy. In order to improve the country's trade balance, the government needs to take the initiative to encourage the export of local goods abroad. Support assistance in terms of capital and advisory services is very important for local industries to dare to venture into foreign markets. Not only that, the government's assistance to the people and the campaign to buy local goods are seen to be able to reduce the activity of importing foreign goods into the country.

1.11 CONCLUSION

This chapter has provided a comprehensive introduction to the importance of the trade balance (TB) in Malaysia's economy and the factors influencing it, such as the exchange rate (EXCR), gross domestic product (GDP), and broad money growth (BMGR). The research emphasizes the need to understand the short-term dynamics and long-term relationships between the independent and dependent variables, which is crucial for designing more effective economic policies. Using annual data from 1975 to 2023, the Autoregressive Distributed Lag (ARDL) approach is adopted to ensure analytical precision. Furthermore, this chapter outlines the research objectives, including investigating short- and long-run relationships and identifying the most significant determinant affecting the trade balance. This study is expected to contribute to existing literature, strengthen economic theories such as Comparative Advantage and Heckscher-Ohlin, and assist policymakers in formulating sustainable trade and economic policies. The next chapter will delve into the relevant literature review on the topic.