

**Is there a long-run relationship between trade balance and terms of trade?
The case of Malaysia**

Abstract

This study investigates the relationship between trade balance and terms of trade in Malaysia. It employs commodity terms of trade and income terms of trade. The results show that there is a long-run relationship between trade balance and commodity terms of trade. However, there is no long-run relationship between trade balance and income terms of trade. Commodity terms of trade and income terms of trade are found respectively to Granger cause trade balance and not vice versa. Thus, a change in terms of trade will have an impact on trade balance in Malaysia. In the long run, the impact of terms of trade on trade balance is depending on the measure of terms of trade.