

## **Bilateral Trade Balances : Evidence from Malaysia**

### **Abstract**

This study examines the impacts of real exchange rates on the bilateral trade balances of Malaysia with the USA, Japan and Singapore. The results for the long-run co-integrating vectors show that depreciation or devaluation of real exchange rates will improve bilateral trade balances. In the short run, there is some evidence of the J-curve phenomenon. Changes in real money supply contribute greatly to changes in real exchange rates. Generally, changes in real exchange rates contribute significantly to changes in bilateral trade balances. Monetary policy can be used to influence bilateral trade balances.