

Exchange rate volatility and exports of Malaysian manufactured goods to China: an empirical analysis

Abstract

The impact of exchange rate volatility on international trade is an important issue in international economics. This study investigates the impact of exchange rate volatility on disaggregated bilateral exports of Malaysian manufactured goods to China. Exchange rate volatility is estimated by the threshold generalized autoregressive conditional heteroscedasticity (TGARCH) model, more specifically the TGARCH(1,1) model. The Johansen cointegration method and the dynamic ordinary least squares (DOLS) estimator are used in the estimation. There is some evidence of exchange rate volatility to have significant impact on real exports. Moreover, the impact of exchange rate volatility on real export can be negative or positive. The exports competitiveness of Malaysia should be improved. Exports shall be further diversified with more focused on intra-regional trade in Association of Southeast Asian Nations Economic Community (AEC).