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THE IMPACT OF THE RECENT CURRENCY CRISIS ON

MALAYSIAN EXPORTS

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BY

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ABSTRACT

Since the outbreak of East and Southeast Asian financial crisis, a lot has been said and done to explain currency crisis that started with floatation of Thai baht. Economists and policymakers from all over the world gathered to discuss the causes of the main agenda in global economic as well as the action to be taken in bringing the affected countries in the East and Southeast Asian region back to recovery path.

However, it is already 17 months since the crisis erupted, still there is no well defined measures that can be adopted by the ailing economies to improve their economic situation. The impacts of the financial crisis had been worst than anyone could imagine. Most countries in the East and Southeast Asia region are still struggling to keep their economic position in order even though drastic measures where taken and implemented.

With this respect, the main purpose of this research paper is to examine the impact of the currency crisis on the Malaysia's external sector. In other words, to examine the impacts of exchange rate fluctuation on Malaysian exports. According to international trade theory, if the currency of a country depreciate, this will increase the export competitiveness of the country since their products are cheaper now. To examine the validity of this claim, co-integration analysis and error-correction model, which was developed by Engle and Granger, is used to examine whether there is long run and short run relationship exists between exchange rates and quantity of exports. The analysis also further extended to see the performance of major agriculture commodities as well as manufactured goods with respects to exchange rates volatility.

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