CHAPTER V

CONCLUSION

5.1 Conclusion

This research are conducting five of Asia Countries which are selected from the organization Asocciation of South East Asia Nation (ASEAN) members, namely Singapore, Malaysia, Thailand, Indonesia, and Philippine. There are two issues that tried to explore in regards with a quite high correlation between exchange rate policies and trade policies as a single framework to expanding the macroeconomic performance. This study are applied some statistical approach to find an evidence related to the topic. The co-integration of exports and imports variables, the interraction between exchange rate fluctuation and the exports and imports are the concern problem that the researcher wants to find. This study started with the Augmented Dickey Fuller – unit root testing to see the stationarity of variables in all countries observed. Continued with Johansen Juselius Cointegration test. After that, we conduct the Vector Error Correction Model (VECM) and Vector Autoregression (VAR) to see the causality between exports, imports, and exchange rate in the short-term and long-term condition. Then, we conduct the Impulse Response Function (IRF) and Variance Decomposition (VD) to see the response when the variables get shocked. Based on the findings, there are several conclusion that might answer the research questions, namely;

1. The exports and imports are co-integrated in all sample ASEAN-5 countries. Thus, it implies that all the countries are not in violation in their international budget constrains and that trade imbalances are short-term phenomenom that in the long-term are sustainable according to Irrandous Ericson (2004). It also implies that all countries observed are showing a "good policy" in managing their trade balance stability and moving away from external shocks or the existence of a productivity gap.

2. In general, the VAR and VECM result showing the causality between trade balance variables and exchange rate. By looking the R-squared of each estimation, most of the countries showing that their exchange rate is influenced by trade balance just only under 50%. It is indicates that the fiscal policy is not really affective in maintaining the exchange rate fluctuations.

3. According to Variance Decomposition result, we can obviously testify that the variation in exchange rate volatility are largely contributed by exchange rate itself except Indonesia. Exports and imports variables are contributed less than 10% in almost observed countries, while Indonesia has 34% imports and 12% exports contributing the exchange rate volatility. It is indicates that almost of all countries observed are maintaining to manage their currency gets fluctuating.

5.2 Suggestion

Regarding to this research, there are several recommendations as an implementation from the research findings:

1. The government of ASEAN anchor has to take an attention more to the exchange rate volatility and fundamental factor due to the impact of unstable economic condition that would lead to the crisis. The stable and sustainable of imports and exports are highly put into account and hopefully the macroeconomic policies issued represent "good policy" so that exchange rate policies become increasingly intertwined with trade policies, and ultimately trade between members are promoted and sustained.

2. We assume that the fundamental factors of most ASEAN countries are still weak. The fundamental factors such as, the rate of inflations, low GDP, unemployment, and also the trade policy are still need to oversee, considering those factors are vital for economic stability.