ANALYSIS OF THE INTERACTION OF EXCHANGE RATE FLUCTUATIONS TOWARDS EXPORTS AND IMPORTS PERFORMANCE IN ASEAN-5 COUNTRIES

ANALISIS INTERAKSI FLUKTUASI MATA UANG TERHADAP KINERJA EKSPOR DAN IMPOR DI NEGARA ASEAN-5

UNDERGRADUATE THESIS
Submitted as the fulfillment on the requirement for Bachelor degree of Economics at the International Program for Islamic Economics and Finance (IPIEF) Department of Economics, Faculty of Economics University of Muhammadiyah Yogyakarta

By:
SATRIADJIE SARWO GUMILAR
20120430103

ECONOMICS FACULTY
INTERNATIONAL PROGRAM FOR ISLAMIC ECONOMICS AND FINANCE (IPIEF)
UNIVERSITY OF MUHAMMADIYAH YOGYAKARTA
DECLARATION

Name : SATRIADJIE SARWO GUMILAR
Student Number : 20120430103

I declare that this undergraduate thesis entitled “ANALYSIS OF THE INTERACTION OF EXCHANGE RATE FLUCTUATIONS TOWARDS EXPORTS AND IMPORTS PERFORMANCE IN ASEAN-5 COUNTRIES” contains no material which has been accepted for the award of any other degree or diploma in my name, in any university or other tertiary institution and, to the best of my knowledge and belief, contains no material previously published or written by another person, except where due reference has been made in text. Therefore, if any violation of intellectual right is found in this study, I agree to accept any relevant academic consequences.

Yogyakarta, August 29th, 2016

Satriadjie Sarwo Gumilar
MOTTO

“Berubah atau punah? Kritikan itu hal yang biasa bagi orang yang berpikir.”
— Ali Sadikin

“Every saint has the past, and every sinner has a future.”
— Oscar Wilde

“I learn the most from making my own mistakes.”
— David Fincher

“It is better to keep your mouth closed and let people think you are a fool than to open it and remove all doubt.”
— Mark Twain
ACKNOWLEDGEMENT

In the name of Allah, the Most Gracious and the Most Merciful

First and foremost, all praises to Allah for the strengths, the patience and His blessing in completing this undergraduate thesis. Peace and blessing of Allah be upon last Prophet Muhammad (Peace Be upon Him).

This undergraduate thesis entitled “Analysis of The Interaction of Exchange Rate Fluctuations towards the Exports and Imports Performance in ASEAN-5 Countries” has been kept on track and seen through to completion with the support and encouragement of numerous people. Therefore, the researcher wants to give special appreciation to the related parties in supporting the accomplishment of this research:

1. The honorable Prof. Dr. Bambang Cipto, M.A., as the Rector of Universitas Muhammadiyah Yogyakarta.

2. Dr. Nano Prawoto, S.E., M.Si., as the Dean of Faculty of Economics.

3. Dr. Masyhudi Muqorobin, S.E., Akt.,M.Ec., as the Director of International Program for Islamic Economics and Finance in Universitas Muhammadiyah Yogyakarta.

4. Dr. Imamudin Yuliadi, S.E., M.Si., as the Head of Department of Economics in Universitas Muhammadiyah Yogyakarta and as my first supervisor together with Mr. Dimas Bagus Wiranata Kusuma, S.E., M.Sc as my second supervisor for the advices and the supports.
5. Lecturers and staffs of IPIEF: Mrs. Yuli Utami, M.Ec., Mrs. Diah Dewanti M.Sc., Mrs. Lilies Setiartiti, Mrs. Endah Saptutyningsih, Mr. Abdul Hakim, Mr. Hendrianto, Mr. Ayif Faturahman, M.Si, Mr. Sahlan, Mr. Umar, and Mrs. Linda Kusumastuti, S.E.

6. For my parents especially to my mother Neny Irmawati who gave so much effort for my studies. Thank you for all the patients, supports, caring and everything I need. For my father Heru Subiyanto and my only younger sister Mojo Putri Sekar Kedaton. Wish we could reach our dream and keep supporting each other as a family.

7. For my family in SunShine Voice UMY, especially for 15th batch members, and all my brothers and sisters in the organization. I’ve learn so much things from you guys.

8. For all the IPIEF 2012 class members. Fitra, Bima, Puguh, Bayu, Irfan, Ardi, Yusuf, Adini, Fanny, Caca, Dyah, Widhia, Andika, Nurul, Lia, and all the colleague brothers and sisters in IPIEF.

9. For all mates in Yogyakarta, Fauzi, Marilda, Dody, Amel, Sayogi, Ovi, and brother uki, especially for Ageng Cahya, who want to shares all of the emotional feelings, passing through the ups and downs, and thank you for all the supports provided.

Yogyakarta, August 12th, 2016

Satriadjie Sarwo Gumilar
TABLE OF CONTENTS

TITLE PAGE ................................................................. i
SUPERVISORS AGREEMENT PAGE ..................................... ii
EXAMINER COMMITTEE AGREEMENT PAGE ....................... iii
DECLARATION PAGE......................................................... iv
MOTTO PAGE ............................................................... v
TRIBUTE PAGE ............................................................. vi
ABSTRACT ........................................................................ vii
ACKNOWLEDGEMENT....................................................... viii
TABLE OF CONTENTS ....................................................... x
LIST OF TABLE ............................................................. xii
LIST OF FIGURE ............................................................ xiii

CHAPTER I INTRODUCTION............................................... 1
  1.1 Background .......................................................... 1
  1.2 Limitations of Research ............................... 6
  1.3 Research’s Problem ............................................. 6
  1.4 Purposes of Research ..................................... 7
  1.5 Research’s Outline ......................................... 7

CHAPTER II LITERATURE REVIEW................................. 9
  2.1 Theory .............................................................. 9
  2.2 Previous Studies ................................................. 27
  2.3 Theoretical Framework ................................. 29
  2.4 Hypothesis ......................................................... 32

CHAPTER III RESEARCH METHODOLOGY ...................... 33
  3.1 Research’s Object ............................................ 33
  3.2 Data Types ....................................................... 33
  3.3 Technique of Data Collection ....................... 34
  3.4 Operational Definition of Researched Variables ...... 34
  3.5 Model Analysis ............................................... 36
# LIST OF TABLE

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1</td>
<td>ASEAN-5 Indicators for 2005 and 2014</td>
<td>3</td>
</tr>
<tr>
<td>2.1</td>
<td>Absolute Advantages</td>
<td>20</td>
</tr>
<tr>
<td>2.2</td>
<td>Comparative Advantages</td>
<td>22</td>
</tr>
<tr>
<td>2.3</td>
<td>Previous Studies</td>
<td>27</td>
</tr>
<tr>
<td>3.1</td>
<td>Observed Variables</td>
<td>35</td>
</tr>
<tr>
<td>4.1</td>
<td>Unit Root Test</td>
<td>50</td>
</tr>
<tr>
<td>4.2</td>
<td>Optimal Lag Length Criteria</td>
<td>51</td>
</tr>
<tr>
<td>4.3</td>
<td>Cointegration Test</td>
<td>52</td>
</tr>
<tr>
<td>4.4</td>
<td>Cointegration Test 2</td>
<td>53</td>
</tr>
<tr>
<td>4.5</td>
<td>Granger Causality Test</td>
<td>55</td>
</tr>
<tr>
<td>4.6</td>
<td>Short-term VECM Estimation</td>
<td>58</td>
</tr>
<tr>
<td>4.7</td>
<td>Long-term VECM Estimation</td>
<td>59</td>
</tr>
<tr>
<td>4.8</td>
<td>Indonesia IRF (table)</td>
<td>72</td>
</tr>
</tbody>
</table>
LIST OF FIGURE

2.1 Equilibrium Exchange Rate .................................................. 14
2.2 Research Framework .......................................................... 32
3.1 VAR/VECM Analysis Process ................................................. 41
4.1 Singapore’s Trade Balance.................................................... 44
4.2 Malaysia’s Trade Balance..................................................... 45
4.3 Thailand’s Trade Balance..................................................... 46
4.4 Indonesia’s Trade Balance.................................................... 47
4.5 Philippine’s Trade Balance ................................................... 48
4.6 Singapore IRF (graph) ........................................................ 67
4.7 Malaysia IRF (graph) ........................................................ 67
4.8 Thailand IRF (graph) ........................................................ 68
4.9 Indonesia IRF (graph) ....................................................... 69
4.10 Philippine IRF (graph) ...................................................... 70