

The Effects of Real Exchange Rate Volatility on Thailand's Exports to the United States and Japan Under the Recent Float

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Abstract:

This paper investigates whether the real exchange rate uncertainty depresses Thailand's exports to the United States and Japan and thus causes the trade balances to deteriorate under the floating exchange rate regime. Monthly data from July 1997 to December 2007 are utilized. Industrial production indexes are used as proxies of real income of the two major trading partners. The results from bounds testing for cointegration show that the variables in the export demand are cointegrated, and the Marshall-Lerner condition still holds in the case of United States. Real exchange rate volatility generated by the ARCH(1) process as a measure of uncertainty has a negative effect on exports to Japan, but has no effect on exports to the United States. However, total exports can be harmed by real exchange rate uncertainty for exports to Japan.

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