Relationship between Real Exchange Rate and Economic Growth in Asia – Pacific Countries

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Abstract

This studyproposes to investigatethe link between Real Exchange Rate and Economic Growth in ten Asia - Pacific countries and aims to study how Real Exchange Rate (RER) and Economic Growth (EG) were related to each other. This study decomposed the linear relationship between RER and Economic Growth Variables like FER, GDP, Exports and Imports. It was found that FER, GDP, Exports and Imports did have positive relationship with RER in all the ten sample countries. Real Exchange Rate caused exports in countries like Hong Kong and Thailand. But Japan, the only country, did not report long run relationship between RER and Economic Growth Variables.

JEL Classification:G15, F21 and F31

Keywords: Real Exchange Rate, Imports, Exports and Foreign Exchange Reserves

Section I: INTRODUCTION

The exchange rate of a country is an important determinant of the growth of its cross-border trading and it serves as a measure of its international competitiveness. The level of Real Exchange Rates, relative to equilibrium Real Exchange Rate and its stability, have been shown to importantly influence export growth, consumption, resource allocation, employment and private investments **(Sagathevan, 2010).**

The tight management of the exchange rate, in many Asian economies, is often seen as part of an export-led development strategy. However, the trade balance surpluses, accumulated over

Section V: CONCLUSION

This study delved into the association between Real Exchange Rate and Economic Growth. The results of this study revealed that more countries recorded high positive linear relationship, between the Real Exchange Rate and Foreign Exchange Reserves as well as between Real Exchange Rate and Gross Domestic Product. Moreover, this study found that the data achieved normality, as identified with the help of Jarque – Bera for sample variables, against sample countries, at the 5% significant level. The Jarque – Bera probability value of each sample variables was zero against the sample countries. In other words, the data were normally distributed. This study concluded, from the Correlation Test, that sample variables, against sample countries, realized positive relationship, during the study period. Real Exchange Rate, in respect of Foreign Exchange Reserves and Gross Domestic Product achieved high level of positive relation, in most of the sample countries compared to other dependent variables. Real Exchange Rate, in respect of Exports, recorded high level of positive correlation, in two countries (Indonesia and South Korea) only. Lastly, Real Exchange Rate, in respect of Imports which witnessed high level of positive correlation, in two countries (Australia and South Korea) only. South Korea was the only country, which witnesses high level of positive relationship, between Real Exchange Rate and Economic Growth. The overall analysis this study revealed that South Korea experiences linear relationship between Real Exchange Rate and Economic Growth, among the sample countries. South Korea was one of the best trading partners for all countries. Exporters and Importers, who were involved in international trade are advised to invest in South Korea, to get a huge profit rather than from any other country.

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