The Impact of Exchange Rate on Myanmar Trade Sector

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This study aim to show how does the US Dollar and Chinese Yuan currently impact on Myanmar`s trade sector. The analysis aims to determine whether the level of exchange rates is key factors in trade flow. This paper focus on the level of exchange rates and trade in Myanmar with the selected United State and China during 2014 April to 2016 December.

I. Introduction

In all modern economies, money (i.e. currency) is created and controlled by a central governing authority. Currencies are developed by individual countries, because countries buy goods and services from other countries and sell goods and services to other countries so it will be important to think about how currencies of one country can be exchanged for currencies of other countries.

All central banks try to defend these rates within a certain range by buying or selling their country's currency as the situation warrants. Trade is a driver for economic prosperity of a country as well as an engine of growth for developing and developed countries. It is also a vital element of Myanmar's economic growth. Myanmar has opened its economy after 1988 and its trade volume has increased year after year. Policymakers want to increase not only the trade sector but also the level of exchange rates.

This paper is organized as follows: Section (I) is Introduction. Section (II) presents the exchange rates and Trade Theory. Section (III) presents the trends of Myanmar exchange rates and trade in relation to United States and China and (IV) Conclusion.

II. Exchange Rate and Trade: Theory and Literature Review

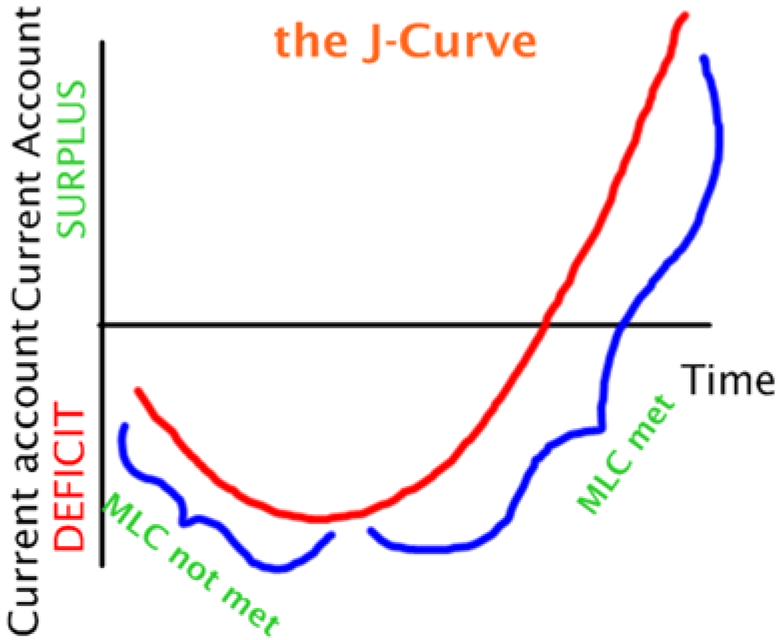
2.1 Theory

Exchange rate policy that is one of the powerful tools of economic regulation. The exchange rate, the price of a unit of currency is the amount of another currency that is needed to purchase it. For example: Myanmar kyats 1360 equal 1$ of United States. Exchange rate level has important implication for debt servicing and foreign investment flows. The exchange rate affects firms and country`s trade balance. The value of all goods and services sold to other countries (exports) minus the value of all goods and services bought from foreigners (imports) is called trade balance. If the value of trade balance is positive, exports more than imports, that's trade surplus or favorable balance of trade. If the value of trade balance is negative, imports more than exports, that's trade deficit or adverse balance of trade.

Changes in the price of a currency are referred to as appreciation and depreciation. Appreciation occurs when a currency becomes more valuable and depreciation occurs when a currency becomes less valuable. Economists say that currencies appreciate and depreciate specifically relative to other currencies. Foreign currencies are more valuable cause of depreciation so we will receive a lot of foreign currency from selling the exported good. On the other hand, the devaluation will effect on price of export. First, the price will be depressed due to devaluation or depreciation; and second, the price rose due to increase in demand. So, the exported volumes will be likely increased. The devaluation or depreciation will effect on import as more expensive in domestic currency. This will stimulate domestic consumers to choose for domestically produced goods and control to consume foreign goods.

Let us discuss when evaluating the impact of a currency fluctuation on the balance of trade with the J-curve and Marshall-Lerner condition. When a currency depreciates imports fall and exports increase, the balance of trade improves. When a currency appreciates, exports fall and imports increase and thus our balance of trade will deteriorate. This analysis ignores the impact of price elasticity of demand for imports and exports. The Marshall-Lerner condition makes us consider those price elasticities. The Marshall-Lerner condition is set to hold when the sum of price elasticity of demand for imports and exports is greater than 1. It means that the change in demand for imports and exports needs to be greater than the change in value of the currency. So, if the currency depreciates by 10% the sum price elasticity of demand for imports and exports needs to be greater than 10% for the depreciation to improve the balance of trade. Note that the demand for goods and service which must be quite elastic with lots of substitutes.

Further development of the theory suggested that we should differentiate between short and long run effects because in short run some prices and volumes and production capacities are fixed. In this situation, J-curve assumption suggested that in the short term, a depreciation of an exchange rate may not improve the current account deficit of the balance of payments due to the low price elasticity of demand for exports and imports in the immediate aftermath of an exchange rate change. Providing that the elasticities of demand for exports and imports are greater than 1 in the long term the trade balance will improve if the Marshall-Lerner condition holds.



MLC = Marshall-Lerner condition

The net effect of these two phenomena is that greater quantities of exports at lower prices and diminished quantities of more expensive imports depends on import and export price elasticities. If exported goods are price elastic, their quantity demanded will increase proportionately more than the decrease in price, and total export revenue will increase. Similarly, if goods imported are elastic, total import expenditure will decrease. The existence of J-curve is very individual across countries (Stucka (2003), but it is crucial to a country's policy maker. The response of trade balance to exchange rate changes also depends on whether a fixed or floating exchange rate regime is adopted in the country (Gomez and Alvarez-Ude 2006).

III. Trends of Myanmar exchange rate and trade in relations to United States and China

3.1 Myanmar foreign trade with China

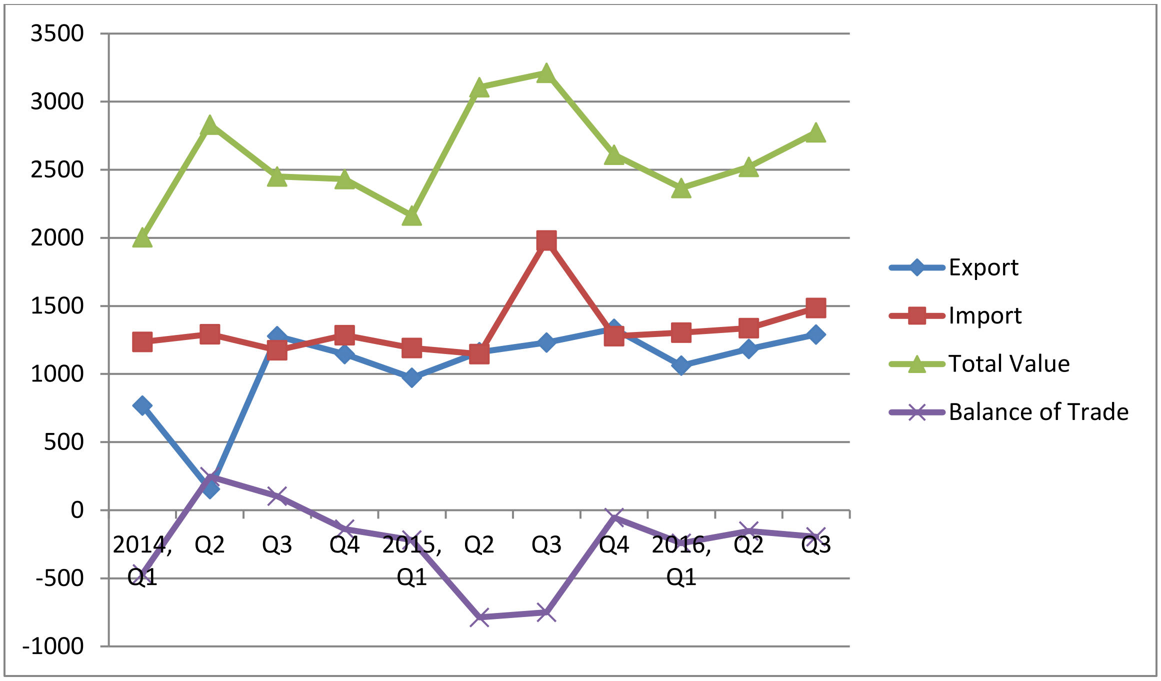
Myanmar and China are historically friendly neighbors sharing relations diplomatic, political, security and economic. Myanmar transformed the border trade to a normal trade zone to enhance bilateral trade between the two countries. The trade zone is connected to China’s Ruili in Yunnan province with Myanmar’s border town of Muse. Border trade between the two countries has been legitimized, regularized and institutionalized since the adoption of the open-door policy by Myanmar’s government. Bilateral trade and economic relations between China and Myanmar have continued to develop in recent period.

Table – 1

(Value = U.S $ Million)

Trade with China (Fiscal Year)	Export	Import	Total Value	Balance of Trade
2014, Q1	769.03	1236.18	2005.21	-467.15
Q2	153.82	1291.95	2830.77	246.87
Q3	1277.68	1173.72	2451.4	103.96
Q4	1147.45	1285.45	2432.9	-138
2015, Q1	972.7	1191	2163.7	-218.3
Q2	1160.31	1147	3107.31	-786.69
Q3	1231.14	1980.28	3211.42	-749.14
Q4	1332.46	1277.14	2609.6	-55.32
2016, Q1	1061.86	1303.99	2365.85	-242.13
Q2	1183.91	1337.02	2520.93	-153.11
Q3	1289.4	1484.85	2774.25	-195.45

Source: Central Statistical Organization (CSO)



CSO,

China has consistently ranked high among Myanmar's trading partners than others. While Myanmar`s exports to China increased from 769.03 US $ millions in the first quarter of 2014-2015 to 1289.24 US $ millions in the third quarter of 2016-2017, imports also increased from 1236.18 US $ millions to 1484.85.

3.2 Myanmar foreign trade with United States

The U.S government encourages investment in Myanmar as part of an overall strategy to encourage the economic growth and improve the standard of living for people of Myanmar. The 2013 U.S.-Myanmar Trade and Investment Framework Agreement (TIFA), created a platform for ongoing dialogue on trade and investment issues between the two governments. Under the TIFA, the two governments work together to identify initiatives that support Burma's ongoing reform process and related development activities.

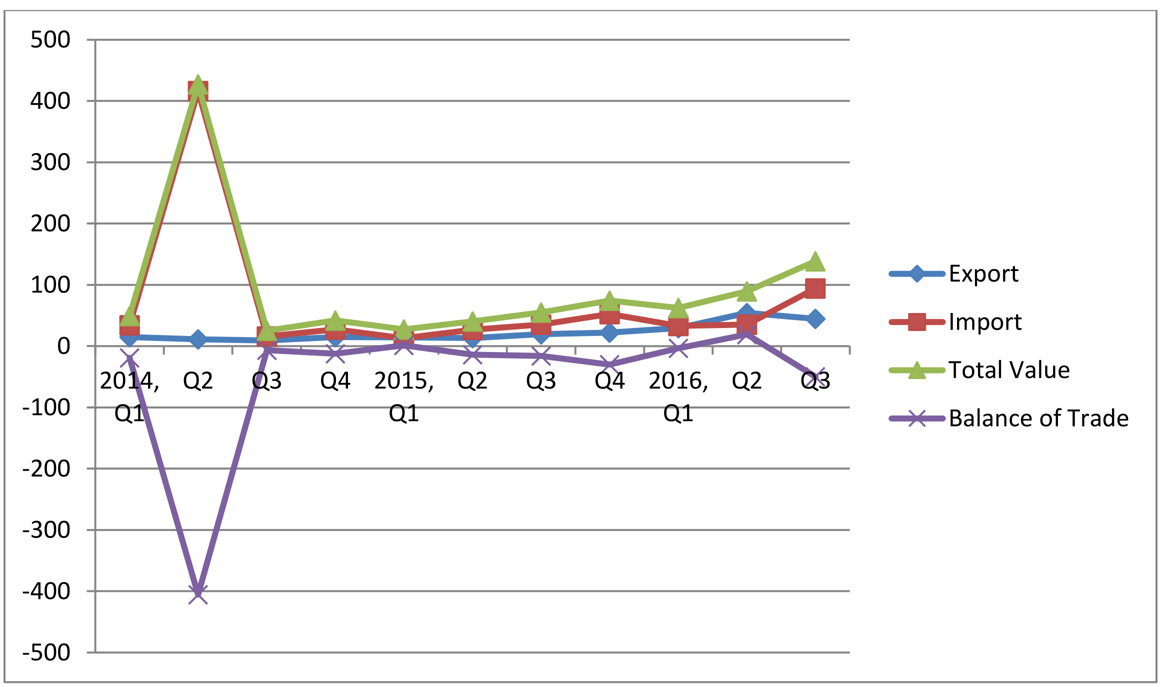
Table-2

(Value = U.S $ Million)

Trade with U.S (F.Y)	Export	Import	Total Value	Balance of Trade
2014, Q1	15.07	34.07	49.14	-19
Q2	11	416.55	427.55	-405.55
Q3	9.29	16	25.29	-6.71
Q4	14.91	27.22	42.13	-12.31
2015, Q1	14.23	12.94	27.17	1.29
Q2	13.23	27.09	40.32	-13.86
Q3	19.49	35.37	54.86	-15.88
Q4	22.27	52.28	74.55	-30.01
2016, Q1	29.34	33	62.34	-3.66
Q2	54.28	35.03	89.31	19.25
Q3	44.42	94.15	138.57	-49.73

Source: Central Statistical Organization (CSO)

(Value = U.S $ Million)



While U.S. trade with Myanmar remains small since the initial lifting of sanctions, it has grown significantly. In 2014, Myanmar`s exports to U.S increased, to 44.42 US $ millions in the third quarter of 2016-2017.

3.3 Trends of Myanmar Exchange rate with United States and China

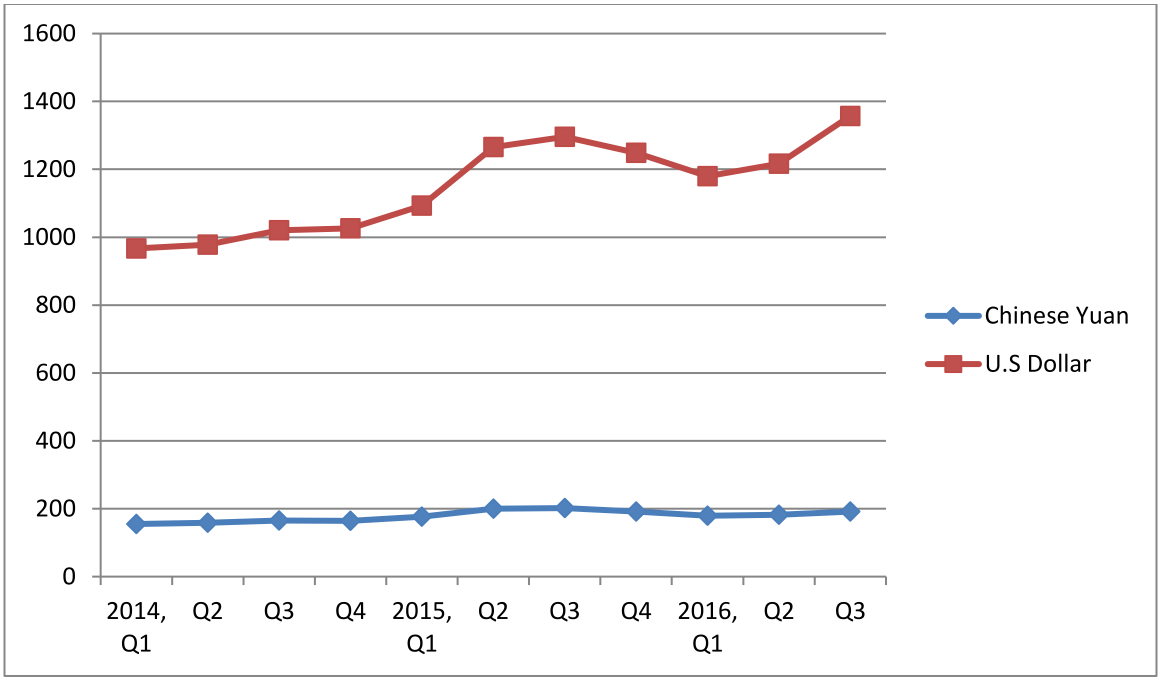
Table-3

Exchange rate volatility of China and U.S.A		
F.Y	Chinese Yuan	U.S Dollar
2014, Q1	155.02	967
Q2	158.9	978
Q3	165.65	1020
Q4	164.55	1026.33
2015, Q1	176.15	1092.67
Q2	200.19	1265.33
Q3	201.95	1295.33
Q4	191.34	1249
2016, Q1	179.65	1179.33
Q2	182.46	1216.67
Q3	191.82	1357.25

Source: Central Statistical Organization (CSO)

Figure -3

(Kyats)



According to figure 3, when Chinese Yuan has to few fluctuation but dollar is more fluctuation its means people are willing to speculative motive on dollar. Cause dollar are more competition than other currencies for the payments or reserve money or liquidity assets.

IV. Conclusion

Currently Myanmar has tries to be stable political and economic. After Myanmar joined Free Trade Area of Asia Pacific (FTAAP), exports are less than imports so the currency of the importing countries should be depreciated as good as for Myanmar. The currency of Myanmar also depreciated otherwise improve the export goods are cheaper than other countries and then employments and incomes will be increase.

But from the table (1, 2, 3) during 2014-2016 Myanmar trading with United State and China, exports and imports are continually increasing and exchange rate are depreciated. Cause are the printing money for the government budgets deficit so inflation will increased and the holder of US Dollar are more accordingly imports are increased than export and The balance of trade are deficit. This depreciation is not good for Myanmar according to M- L conditions, the goods and services must be quite elastic when the currency depreciated. The depreciation of currency holding countries are more competing in export than comparatively the dollar on the other hands, imports are limited. If Myanmar can't export as China, Myanmar currency should be appreciation.

V. References

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