CHAPTER 5

Conclusions and Implications

5.1 Conclusion

The main objective of this study is to examine and find out the impact of exchange rate on trade balance of Myanmar over the period of 1986-2015 primarily with the empirical analysis and general descriptive statistics. The data set employed in this study is secondary data of trade balance (TB), Export EX) and Import (IM). These three variables were used into value in US dollar million term and market exchange rate (MER), and the official exchange rate (OER) of Myanmar during the period 1986-2015 were used into kyat per dollar term, respectively.

This study adopted two main methodological approaches in order to find out the appropriate answers to the research problem. Firstly, econometric methods were used such as Dickey-Fuller unit root test, Augmented Dickey-Fuller unit root test, and Switching Regression molel. Empirical results are mainly based on the above econometric methods. Secondly, exchange rate of Myanmar during the period of befor 2012 and after 2012 under new government 1995-2015 was analyzed by using descriptive analysis.

The results of this study is somewhat contrary to conventional belief that exchange rate has significant impact on the trade balance of Myanmar. Exchange rate does have positive impact on trade balance in the long-run indicating that a depreciation can lead to improvement of trade balance and an appreciation can lead to deterioration of trade balance. But in Myanmar after 2011, although the exchange rate depreciated the trade balance did not improve at that year and the trade balance face deficit. Currently, depreciating real exchange rate to improve trade balance cannot take much effect.

5.2 Implications and Policy Recommandations

The results found in this study are (1) the currency depreciation did not improve the trade balance of the country but the currency appreciation reduced the trade balance of the country; (2) the fixed exchange rate system of the country conducted by the government caused the country to face a parallar exchange rate between public and private sectors; and (3) after the reform, the exchange rate policy by new democretive government in 2012   adopted the policy which try to reduce the range of exchange between official and market to be not so different.

The country faced an inapproate exchange rate system over the last decades that made the country worse in economic conditions and the country trade balance deficit in the several years. After the government reformed the unification of exchange rate in 2012 although the the country's official exchange rate and market exchange rate were not so different, the depreciation of the currency could not improve the balance trade of Myanmar. Therefore, the policy makers should care about not only exchange rate policy reform but also other policy reforms which can affect the trade balance of the country.