MONEY SUPPLY AND EXPORTS: A GREATER MEKONG SUBREGION PERSPECTIVE

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ABSTRACT

This paper investigates causational effect between domestic money supply and exports in the Greater Mekong Subregion (GMS) when trade is extended beyond the subregion. Following the export-led economic growth and gravity trade approach, we adopt a simple Dynamic Stochastic General Equilibrium representation with two rational expectation components, a Taylor rule for interest rate, a built in inflation target for six GMS and nine representative major trade countries to examine effect of domestic consumption expenditures and China's exchange rate regime on country-specific money supply and exports. We find lagged changes in national exports have near zero effect on contemporaneous change in national money supply, but changes in lagged money supply have very significant effect on changes in contemporaneous exports. Cambodia, Laos, and Vietnam seem to react similarly with largest positive money changes from domestic consumption expenditures shock and largest negative money change from change in exports. Myanmar has opposite effect than these three countries. Only Thailand has magnitude in causation like the industrialized nations.

Keywords*: Greater Mekong Subregion, Money Supply, Exports, DSGE Model*

1. INTRODUCTION

The Mekong River in Southeast Asia constitutes one of the major river transport corridors for transnational economic development of six riparian nations, Myanmar (abbreviated as MM), China (CN, People's Republic of China), Lao People's Democratic Republic (LA, Lao P.D.R. or Laos), Thailand (TH), Cambodia (KH), and Vietnam (VN, Viet Nam). In 1992 the Greater Mekong Subregion Program promoted by the Asian Development Bank has become a force for robust growth in the subregion. The 2011 fourth GMS summit reaffirmed program vision as the creation and sustainment jointly of a prosperous, integrated, and harmonious subregion on solid economic foundation (GMS Secretariat, 2015).

Five GMS nations are also ASEAN members which has a broader transnational entity with political emphasis. Robust growth in GMS has brought new consideration in the study of regionalism or globalism (Tan, 2014, Macdonald, 2019). Subregional trade is flourishing because of the proximity of nations as demonstrated by the gravity trade model (Frankel, Stein & Wei, 1997). In Table 1 we report the top three trade partners of each GMS nation both exports and imports. We also report the percentage distribution in trade value with trade partners.

For instance, in 2017, a combined 83.9 percent of Laos's exports were made to Thailand, China and Vietnam. Cambodia reported a very pattern with exports to U.S., U.K., and Germany totaling 43.6 percent in value and 60.8 percent of imports value from China, Thailand, and Vietnam. Cambodia's trade with distance countries is because in 2004 the EU granted it with Generalized System of Preferences status with low cost.

EU's institutional arrangement with Cambodia is a special factor in the gravity trade model. To better understand the distance component it is necessary to include more out of GMS countries to study intra- and inter-national trade. In this paper we also include nine other countries for comparison: Malaysia (MY), Singapore (SG), Indonesia (ID), India (IN), Japan (JP), South Korea (KR), Australia (AU), Germany (DE), and USA (US). There are various statistical models to study the distance effect and trade volume include both exports and imports, this paper intends to focus on exports, moreover, we limit to the relationships of two macroeconomic variables money supply and total exports instead of only the distance factor. We intend