THE IMPACT OF EXCHANGE RATE VOLATIILITY ON INTERNATIONAL TRADE (A CASE STUDY CONDUCTED IN PLEEBO CITY, MARYLAND COUNTY, LIBERIA 2020-2025)

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ABSTRACT

The impact of exchange rates volatility on global trade in Liberia, Liberia is located in West Africa with approximately 5,649,942 population which is equivalent to 0.07% of the total world population according to Worldometer[17] . A little nation with exchange rate volatility has caused some economic challenges to businesses and the nation at large.

Exchange rate volatility on global business is the normal and random instabilities in the value of one currency relative to another. In the background of global trade, exchange rate volatility can have effects on uncertainty in policy, impact on trade volumes, risk to businesses, competitiveness. The exchange rate fluctuation introduces risk and uncertainty, can disrupt international trade dynamics and affect economic stability Forex traders and businesses have failed to align with the Central Bank of Liberia (CBL) exchange rate policy, lack of adequate exchange rate policy implementation, the

country's highly dependency on imports than exports, making businesses, forex traders to decide the exchange rate for an entire nation. This has affected global trade and profitability causing exchange rate to volatile and economic instability to the citizens in Liberia.

The impact of this research has provided the opportunities and reasons for forex traders and businesses to align with the Central Bank of Liberia (CBL) exchange rate policy, encouraging more Foreign Direct Investment (FDI), also focusing on domestic production in various segments of the economy, minimizing conversion rate volatility, policy implementation across various sectors of the economy.

Keywords: Exchange Rate Volatility, Fluctuation, International Trade, Forex, Import, Export

INTRODUCTION

The exchange rate volatility on global business in Liberia is the recurrent and random variations in the cost of currency alternative to another. This is a situation where one currency keeps rising and falling within an economy as a result of economic factors. Over the period, Liberia has experienced and is experiencing currency volatility, arising from forex traders along the road, businesses failure to align with the Central Bank of Liberia (CBL) exchange rate policy; the country's inability to export more goods and services rather relies heavily on imports and the lack of policies implementation lead to serious exchange rate volatility in the country.

This study seeks to align forex traders, businesses with the Central bank of Liberia (CBL) exchange rate policy encouraging more FDI, investing in various sectors of the economy to boost exports then mainly focusing on imports and policies implementation of exchange rate.

To address these situations, let's considered these few key questions: How much is the Liberian dollar value to other currencies, especially the United States Dollar? What currency is mostly traded on the international market? How long does it take to gather other currencies to enable investors to buy goods and services to trade in Liberia and internationally? If the Central Bank of Liberia (CBL) exchange rate today is 100 LBR to 1 USD and a business man needs USD as soon as possible to buy goods and services, what will be done to get USD quickly? The following chapters will provide a more insight on the relevant literature, methodology, results and discussion.

LITERATURE REVIEW

The effect of conversion rate uncertainty on global business is best understood through economic philosophies like The Philosophy of Comparative Advantage, Elasticity Approach, and Monetary Approach.

- **The Philosophy of Comparative Advantage**: This theory suggests that countries will specialize in the production of goods in which they have a comparative advantage, promoting trade. However, exchange rate volatility can distort price signals and make it harder for traders to forecast costs, which can undermine this advantage.
- **Elasticity Approach**: According to this approach, if exchange rate fluctuations lead to changes in the relative prices of goods, the demand for exports and imports will change accordingly. A volatile exchange rate can make it difficult for businesses to predict future prices and demand, affecting trade volumes.
- **Monetary Approach**: This approach emphasizes that exchange rate movements are often driven by monetary policy, inflation differentials, and economic conditions in both the domestic and foreign markets. Exchange rate volatility may reduce trade by increasing uncertainty about future exchange rates and inflating transaction costs.

Exchange Rate Volatility and International Trade: General Perspectives

Several studies have observed the similarities amid exchange rate instability and global business at the international level. A key finding is that high volatility tends to dampen trade flows, particularly for small or developing economies. For example, **Clark (1973)** suggests that conversion rate fluctuation rises the danger associated with international trade, leading to a reduction in the capacity of goods and services coming into a country(import) and goods services leaving the country(export)[2].

McKenzie (1999) also finds that exchange rate instability negatively impacts business by increasing the costs of hedging and making it harder for firms to engage in long-term contracts[6] . In the same vein, **Broll and Eckwert (1999)** emphasize that exchange rate risk raises transaction costs for exporters and importers, ultimately reducing the volume of trade[1].

Conversely, some studies indicate that the influence of conversion rates on global business may be contingent on other issues, such as the degree of economic openness, the presence of hedging mechanisms, and the structure of trade relations. For example,

Giovannini (1988) suggests that trade relationships between countries with more diversified economies or with effective risk management tools may be fewer complex to conversion rate instability[3].

2. 3 Exchange Rate Volatility and International Trade in Emerging Markets

The effect of exchange rate volatility is particularly pronounced in developing countries, where currency markets are less liquid, and the financial systems may not be as sophisticated as in advanced economies. In the context of Liberia, conversion ratio fluctuations have been shown to influence trade in various sectors, particularly the agricultural and mining industries, which are prominent in the Liberian economy.

Gavin and Hausmann (1998) find that in emerging markets, high exchange rate volatility can reduce trade flows by increasing uncertainty about the future value of foreign currencies. In Liberia, conversion ratio unpredictability may discourage overseas investor's assets and shares in industries such as cocoa, rubber, and timber—key export sectors for the country[4].

In a similar vein, **Khan et al. (2012)** argue that exchange rate volatility affects trade in sub-Saharan Africa by raising transaction costs, reducing the stability of trading relationships, and diminishing the profitability of exports. This is particularly problematic in countries like Liberia, which are heavily dependent on a few key exports and face challenges related to poor infrastructure and limited access to financial services[5].

Specific Context of Pleebo City, Maryland County, Liberia

Pleebo City, being part of Maryland County in south-eastern Liberia, is an important location for trade activities between Liberia and neigh boring countries such as Côte d'Ivoire. The city is strategically located along the Atlantic Ocean, making it a potential hub for both domestic and international trade. However, Liberia's relatively underdeveloped infrastructure, combined with its reliance on primary commodity exports, makes Pleebo City vulnerable to the effects of exchange rate volatility.

For example, the depreciation of the Liberian dollar against major currencies like the US dollar can lead to higher costs for imported goods, which would directly affect the purchasing power of consumers in Pleebo. On the export side, the fluctuating exchange rate may alter the competitiveness of Liberian products in international markets, potentially leading to reduced export volumes or price volatility that traders must navigate.

Moreover, the informal nature of much of the trade conducted in Pleebo, particularly in agricultural goods and small-scale manufacturing, means that traders often lack access to formal hedging instruments or financial tools to mitigate exchange rate risks. This lack of financial infrastructure compounds the negative properties of conversion or exchange rate volatility on commercial activities in a region.

The exchange rate instability or volatility on international trade is a frequent and unpredictable fluctuation in the value of currency relative to another. This is a situation where one currency keeps rising and falling within an economy because of economic factors. Forex traders and businesses can influence exchange rate volatility in servals ways such as: speculative trading by forex traders (high-volume traders, market sentiment), central bank and policy speculation, hedging by businesses (hedging position, unhedged position), supply and demand imbalances (trade flows, capital flows), high frequency trading (HFT), reaction to economic and political events (news and reports, risk aversion), speculative bubbles. and aligning with a country's exchange rate policy, encouraging more domestic trade rather than imports.

METHODOLOGY

This paper takes into considered descriptive, qualitative and quantitative research method approaches to collect informed data and resources for the study. Questionnaires were presented to forex traders, business owners, government entities, private firms through an online survey form, where basic questions regarding the exchange rate volatility on international trade were presented to them. The research designed also took into consideration technical and fundamental analysis on the exchange rate volatility on global business, while other sites were visited, read and used in the related literature section.

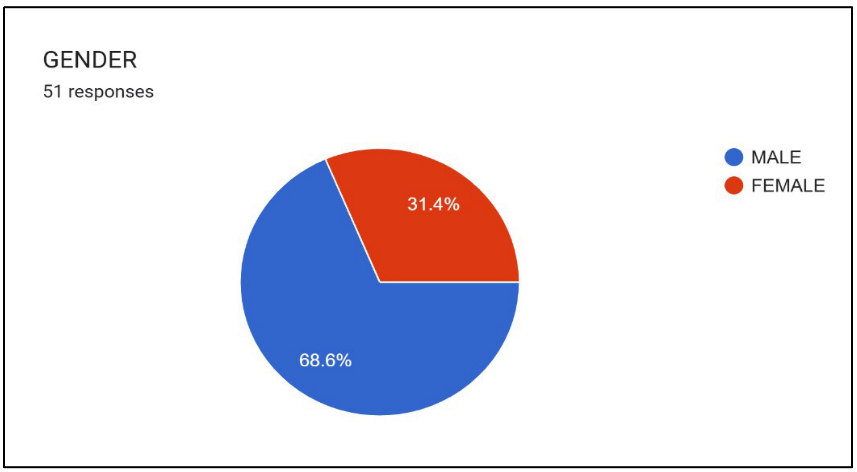
A descriptive survey research design was chosen to assess the impact of exchange rate volatility on international trade in, Pleebo City, Maryland County, Liberia. With a concentration on forex traders, businesses, business owners, private firms, government entities to understand how exchange rate volatility on international trade works, and how can it be mitigated in the growing society. The targeted population of the research work is Pleebo City, Maryland County, Liberia Qualitative and quantitative research method approaches were also used gather numerical data to collect informed data as well.

This research happened with random selections with various groups of people, males, and females from Pleebo City, Maryland County, Liberia. The total sample used is fifty-one (51) persons, 30 males and 21 females. The key method used in this research work to collect informed data was; to interview individuals through questionnaires, the questionnaires were used to conduct interviews with respondents.

RESULT AND DISCUSSION

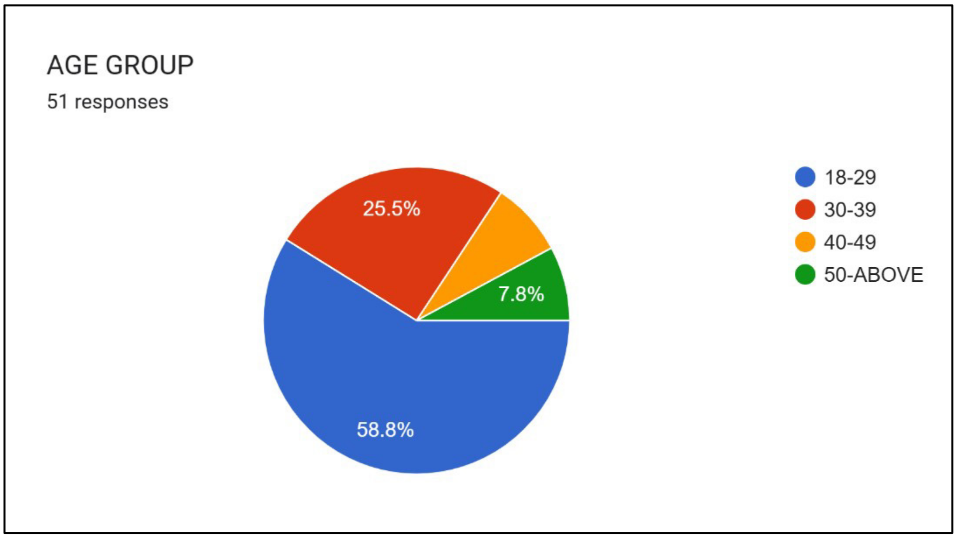
Based on data collected from respondents in the field, particularly in Pleebo City, Maryland County, Liberia on the exchange rate volatility on international trade; shows a significant impact. This study provides a significant understanding on how exchange rate volatility impact international trade, and to create a balance in the growing economic to ensure adequate measures are put in place to mitigate exchange rate volatility on global businesses.

In line with the questions posed, many respondents have agreed that the exchange rate volatility on global job has significantly impacted trade, economic, profits margin, contracts negotiation among others. The significant impact of exchange rate volatility on intentional trade calls for serious actions to be taken by government, forex traders, and business to improve the level of understanding of forex exchange rate on international trade.



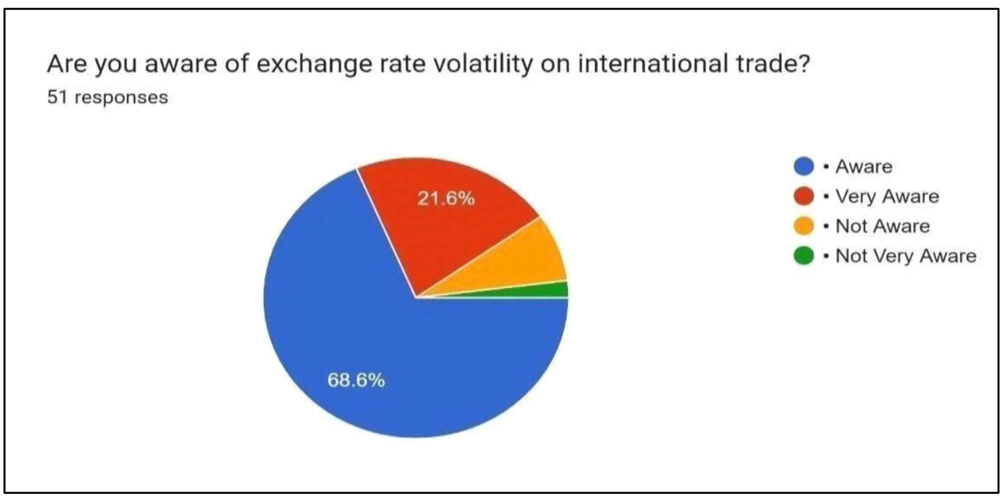
Graph 1 : GENDER

In *Graph 1*, 68.6% of the respondents are males constituting 35 males while 31.4% are females, constituting 16 females.



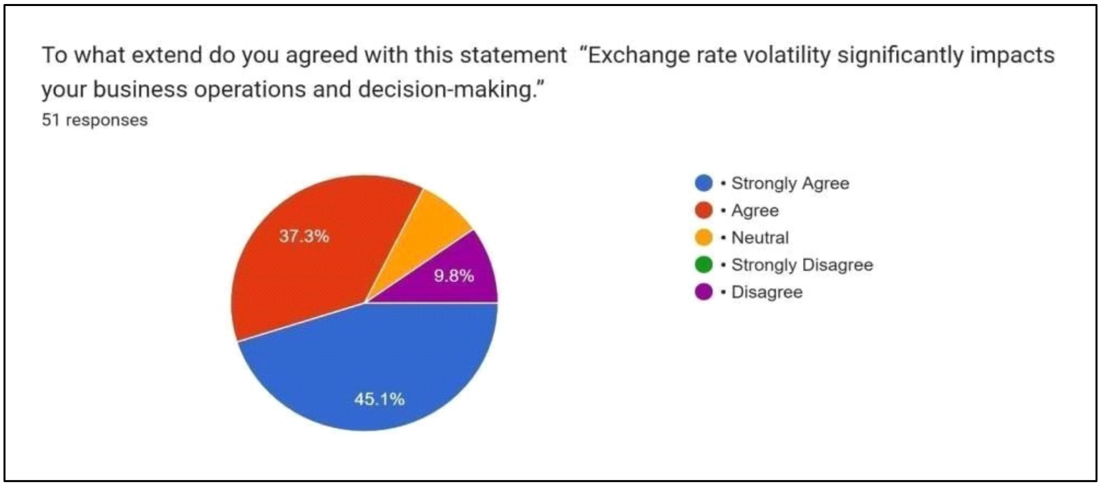
Graph 2 : Age Range

In *Graph 2*, between males and females in Pleebo City, Maryland County, Liberia from the age 18-29, 58.8%. are males and females. From the age 30-40, 25.5%. are males and females. From the age 41-49, 7.8%. are males and females. From the age of 52 and above are females, totalling 7.8%. Constituting 100% of the respondents both males and females.



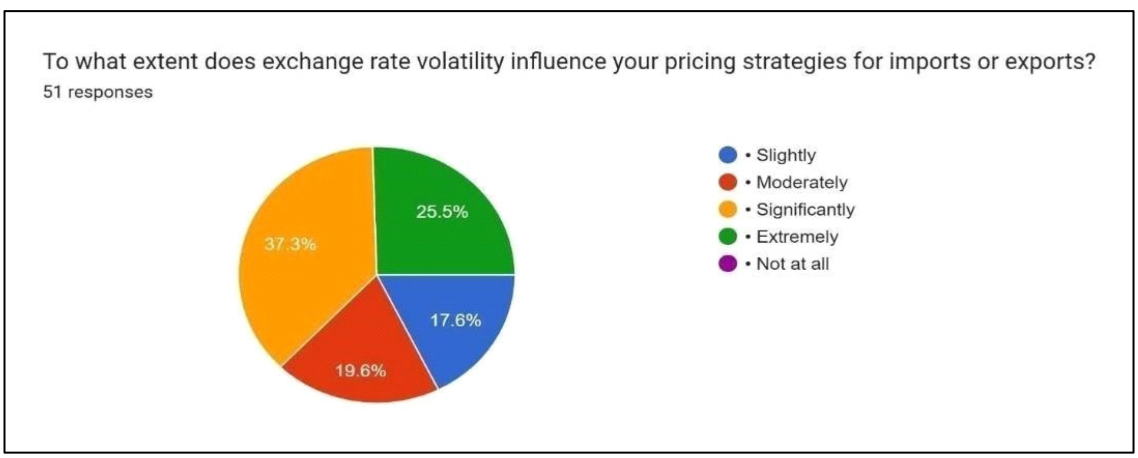
Graph 3 : Awareness of exchange rate volatility

In Graph 3, 68.6% of the respondents responded that they are aware of exchange rate volatility on international trade. 21.6% responded very aware of exchange rate volatility on international trade. 7.8% responded not aware of exchange rate volatility on international trade, 2% responded not very aware of conversion rate instability on global business.



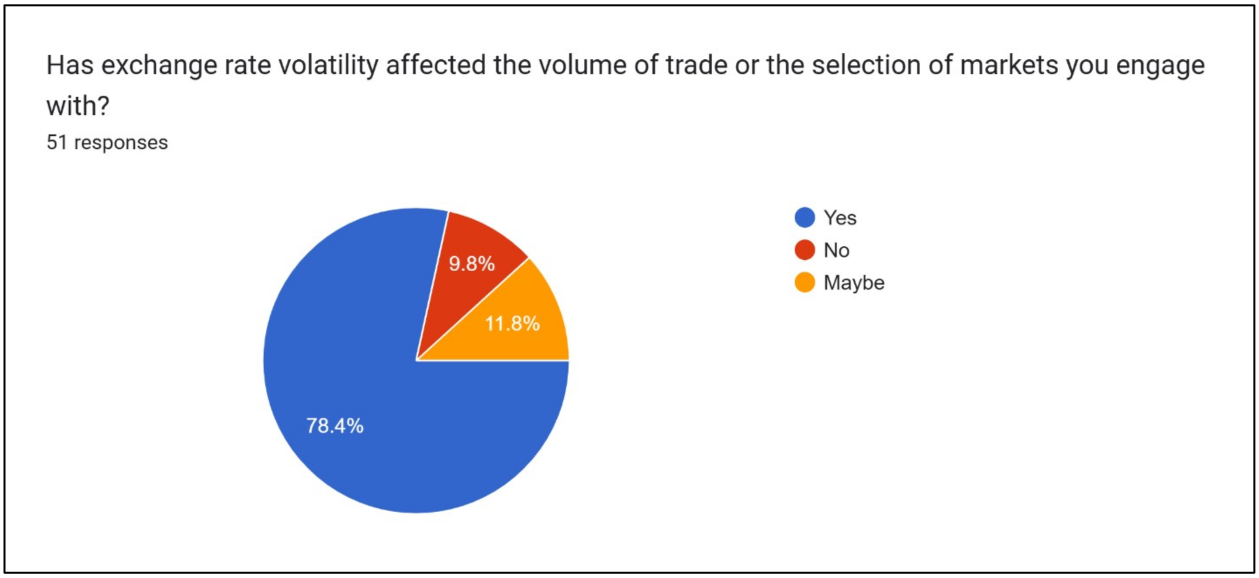
Graph 4 : Conversion amount influence on business operation

In Graph 4, 45.1% of the respondents responded that they have strongly agreed with this statement "Exchange rate volatility significantly impacts your business operations and decision making. 37.3% have agreed with the statement "Exchange rate volatility significantly impacts your business operations and decision-making. 9.8% of the respondent disagreed with the statement "Exchange rate volatility significantly impacts your business operations and decision making. 7.8% of the respondents responded neutral with the statement "Exchange rate volatility significantly impacts your business operations and decision-making while no one strongly disagreed with the statement "Exchange rate volatility significantly impacts your business operations and decision making.



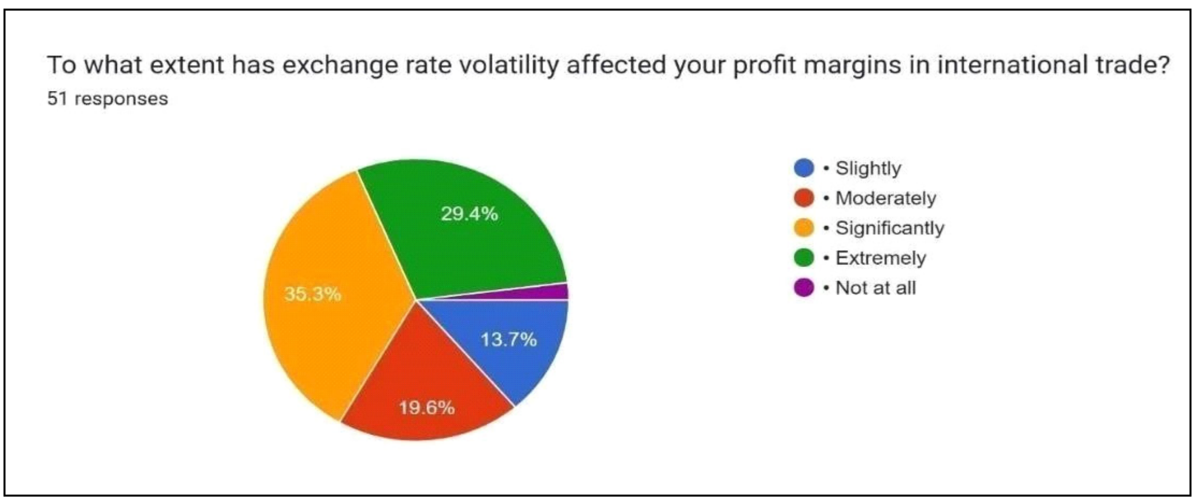
Graph 5 : Influence on pricing strategies

In *Graph 5*, 37.3% of the respondents responded that the exchange rate volatility influences your pricing strategies for imports or exports significantly. 25.5 percentage responded that the exchange rate volatility influences your pricing strategies for imports or exports extremely. 19.6% responded that the exchange rate volatility influences your pricing strategies for imports or exports moderately. 17.6% responded that the exchange rate volatility influences your pricing strategies for imports or exports slightly.Whlie no one responded not at all.



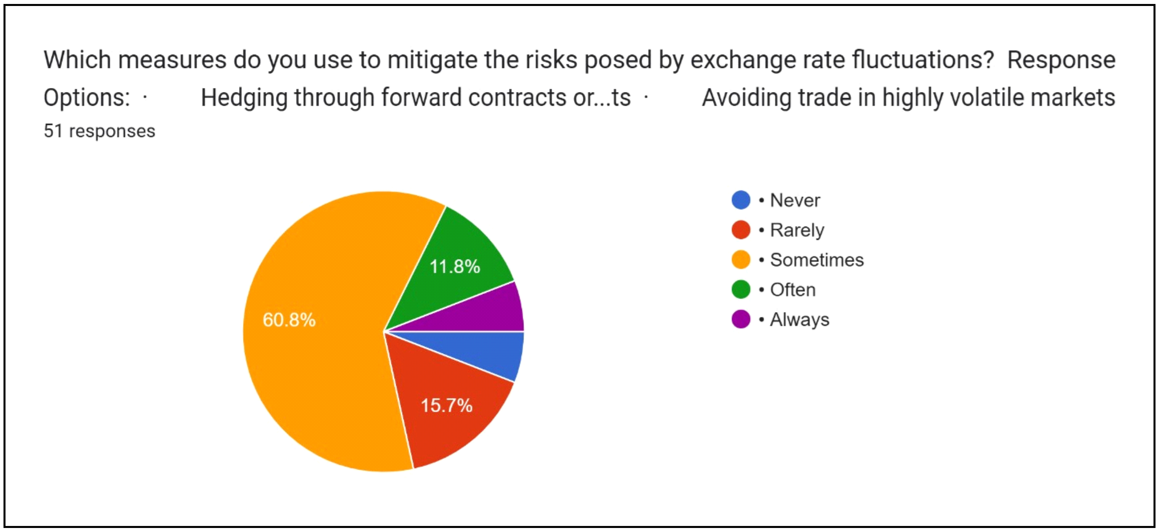
Graph 6 : Volume of trade or the selection of market

In *Graph 6*, 78.4% of the respondents responded YES, that the conversion amount fluctuation has pretentious the capacity of business or the selection of markets you engage with 9.8% responded NO that the conversion amount fluctuation has not pretentious the capacity of business or the selection of markets you engage with. 11.8% responded MAYBE exchange rate volatility has or has not affected the volume of trade or the selection of markets you engage with.



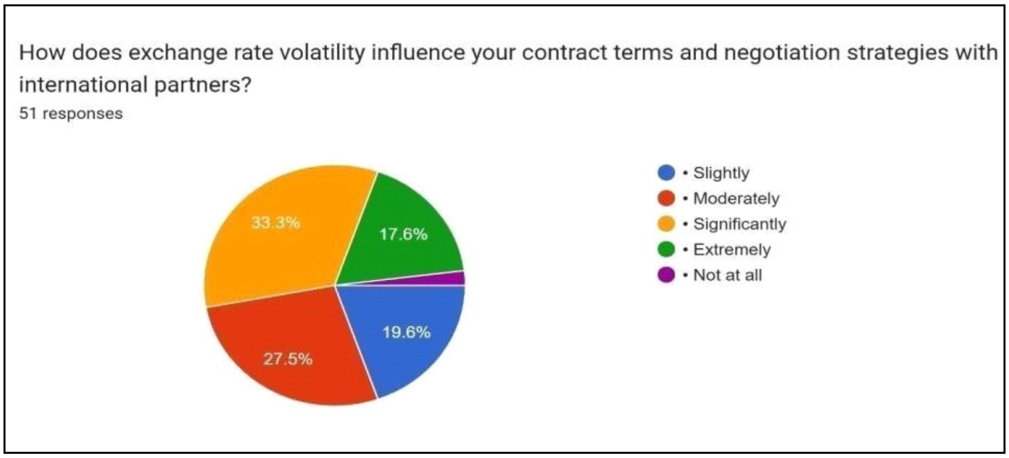
Graph 7 : Profit Margin

In *Graph 7*, 35.3% of the respondents responded that the exchange rate volatility affected their profit margins in international trade significantly. 29.4% of the respondents responded that the exchange rate volatility affected their profit margins in international trade extremely. 19.6% of the respondents responded that the exchange rate volatility affected their profit margins in International trade moderately at 13. 7 percentage of the respondents responded that the exchange rate volatility affected their profit margins in international trade slightly .2% of the respondents responded that the exchange rate volatility affected their profit margins in international trade not at all.



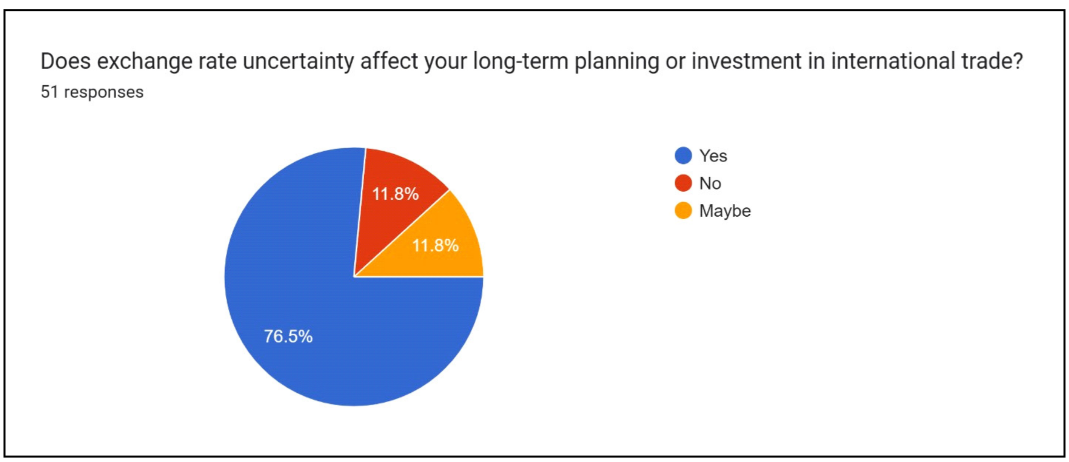
Graph 8 : Mitigating the risk posed by exchange rate fluctuation

In *Graph 8*, 60.8% of the respondents responded that they sometime they use the above measures to mitigate the risks posed by exchange rate fluctuation. 15.7% responded that they rarely they use the above measures to mitigate the danger associated with exchange rate frequent variations. 11.8% responded that they often use the above measures to mitigate the danger associated with exchange rate fluctuation. 5.8% responded that they never use the above measures to mitigate the dangers involved in exchange rate fluctuation. 5.8% responded that they always use the above measures mitigate the danger associated with exchange variations.



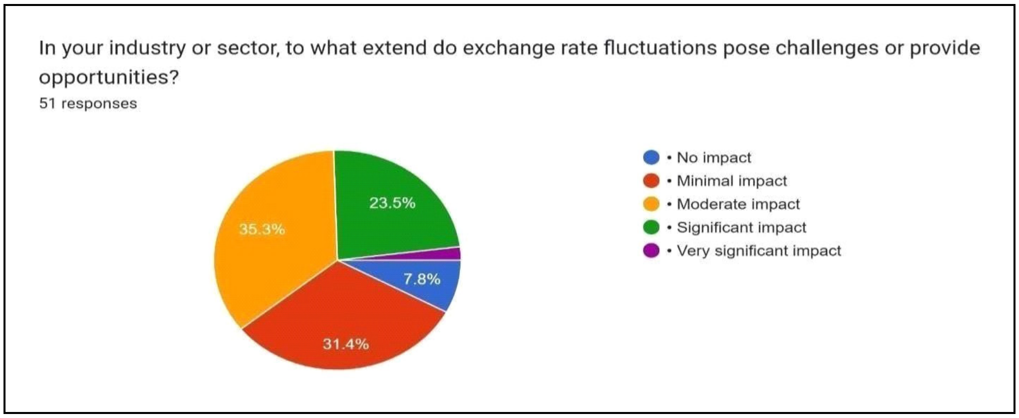
Graph 9 : Contract negotiation strategies

In *Graph 9*, 33.3% of the respondents responded that the exchange rate volatility significantly influence their contract terms and negotiation strategies with international partners. 27.5% of the respondents responded that the exchange rate volatility moderately influence their contract terms and negotiation strategies with international partners. 19.6% of the respondents responded that the exchange rate volatility slightly influence their contract terms and negotiation strategies with international partners. 17.6% of the respondents responded that the exchange rate volatility extremely influence their contract terms and negotiation strategies with international partners. 2% of the respondents responded that the exchange rate volatility not at all influence their contract terms and negotiation strategies with international partners.



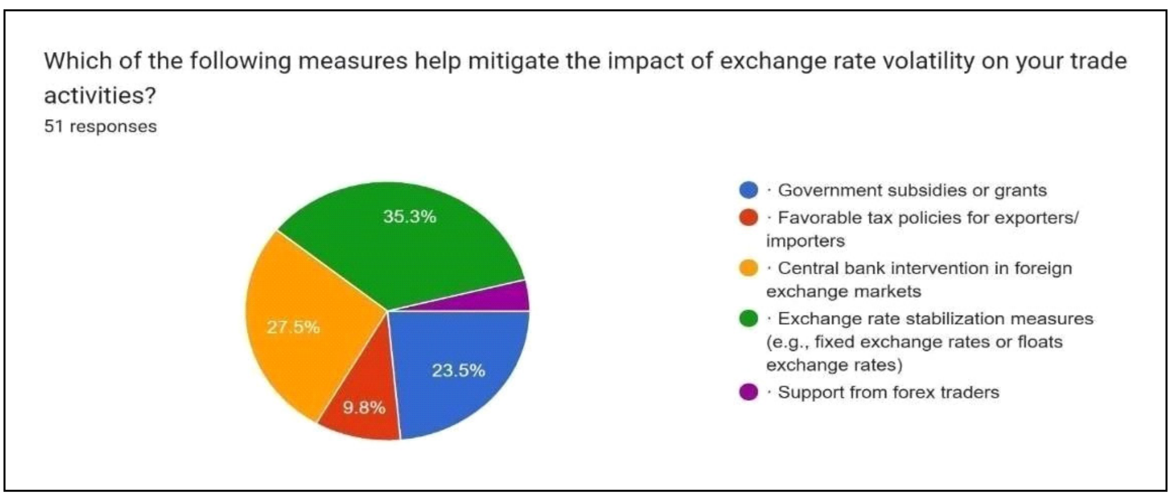
Graph 10 Long term planning or investment

In *Graph 10*, 76.5% of the respondents responded YES, that the exchange rate uncertainty has affected their long-term planning or investment in international trade. 11.8% of the respondents responded NO, that the exchange rate uncertainty has not affected their long-term planning or investment in international trade. 11.8% of the respondents responded MAYBE the exchange rate uncertainty has or has not affected their long-term planning or investment in international trade.



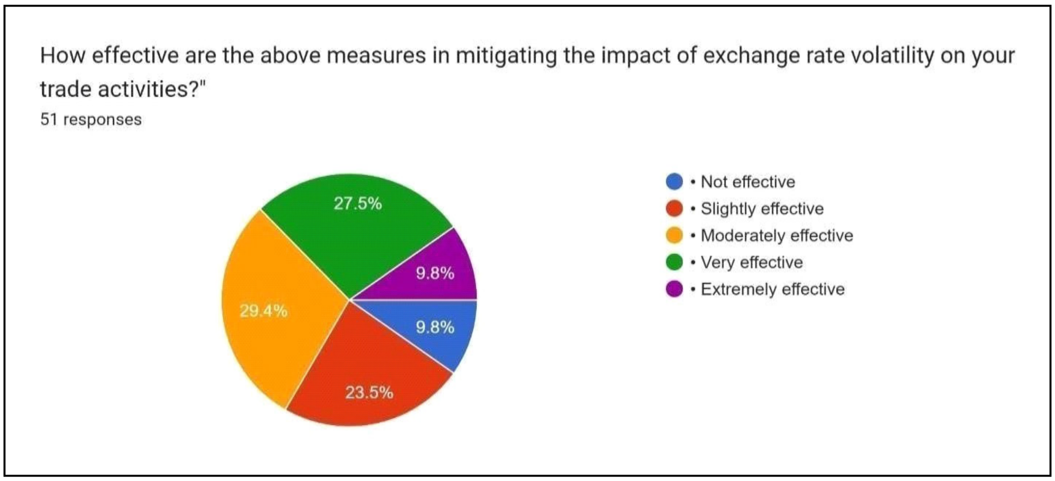
Graph 11 : Exchange rate fluctuation

In Graph 11, 35.3% of the respondents responded that the exchange rate fluctuations pose challenges or provide opportunities moderate impact. 31.4% of the respondents responded that the exchange rate fluctuations pose challenges or provide opportunities minimal impact. 23.5% of the respondents responded that the exchange rate fluctuations pose challenges or provide opportunities significant impact. 7.8% of the respondents responded that the exchange rate fluctuations pose challenges or provide opportunities no impact. 2% of the respondents responded that the exchange rate fluctuations pose challenges or provide opportunities very significant impact.



Graph 12 : Impact of exchange rate on trade activities

In *Graph 12*, 35.3% of the respondents responded that the Exchange rate stabilization measures (e.g., fixed exchange rates or floats exchange rates) measures help alleviate the influence of conversion rate fluctuations on your business undertaking. 27.5% of the respondents responded that the Central bank involvement in foreign exchange markets measures help mitigate the impact of exchange amount instability on your trade activities. 23.5% of the respondents responded that the Government subsidies or grants measures help mitigate the impact of exchange amount instability on your trade activities. 9.8% of the respondents responded that the Favourable tax policies for exporters/importers measures help mitigate the impact of exchange rate volatility on your trade activities. 3. 9% of the respondents responded that the Support from forex traders measures help mitigate the impact of exchange rate instability on your business activities.



Graph 13 : impact of exchange rate volatility on trade

In Graph 13, 29.4% of the respondents responded that the above measures in reducing the result of conversion amount fluctuation on your business activities moderately effective. 27.5% of the respondents responded that the above measures in lessen the influence of exchange rate volatility on your trade activities very effective. 23.5% of the respondents responded that the above measures in lowering the result of conversion amount on your business activities slightly effective. 9.8% of the respondents responded that the above measures in reducing the influencing of exchange rate volatility on your trade activities extremely effective. 9.8% of the respondents responded that the above measures in lessen the result of conversion amount on your business activities not effective.

FINDINGS AND DISCUSSION

The findings of this research cover residents of Pleebo City, Maryland County, Liberia, considering the sample size of fifty-one (51) people, thirty-five (35) males and sixteen (16) females. People were contacted to conduct this survey on the impact of exchange rates volatility on international trade, Pleebo City, Maryland County in Liberia using an online survey form to gather the data.

Based on gender collected data, it shows that more males participated in the research then the females, the males constituted 68.6% while the females constituted 31.4% of the total sample size, totaling 100%.

With respect to the age range on the research conducted in Pleebo City, Maryland County, Liberia on the effect of conversion amount on global business, males and females in Pleebo City, Maryland County, Liberia from the age 18-29,58%. are males and females. From the age 30-40, 25.5%. are males and females. From the age 41-49, 7.8%. are males and females. From the age of 52 and above are females, totaling 7.8%. Constituting a total of 100% of the respondents both males and females.

The results/findings show that 68.6 % of the total respondents are very aware of exchange rate volatility on international trade. 21.6% of the total respondents are aware of exchange rate volatility on international trade. 7.8% responded not aware of exchange rate volatility on global business,2% responded not very aware of exchange rate instability on global business.

The results/findings show that 68.6 % of the total respondents are very aware of conversion degree instability on global trade. 21.6% of the total respondents are aware of conversion degree on global trade. 7.8% responded not aware of conversion degree on global trade,2% responded not very aware of conversion degree on global trade.

The outcomes display that 45.1% of the total respondents strongly agreed with this statement.

“Exchange rate volatility significantly impacts your business operations and decision making. 37.3% have agreed with the statement “Exchange rate volatility significantly impacts your business operations and decision-making. 9.8% of the respondent disagreed with the statement “Exchange rate volatility significantly impacts your business operations and decision making. 7.8% of the respondents responded neutral with the statement “Exchange rate volatility significantly impacts your business operations and decision-making while no one strongly disagreed with the statement “Exchange rate volatility significantly impacts your business operations and decision-making.

The results/findings show that 37.3% of the total respondents responded that the exchange rate volatility influences your pricing strategies for imports or exports significantly. 25.5% responded that the exchange rate volatility influences your pricing strategies for imports or exports extremely. 19.6% responded that the exchange rate volatility influences your pricing strategies for imports or exports moderately. 17.6% responded that the exchange rate volatility influences your pricing strategies for imports or exports slightly.Whlie no one responded not at all.

The results/findings show that 78.4% of the total respondents responded YES, that the exchange rate volatility has pretentious the capacity of trade or the selection of markets you engage while 9.8% responded NO that the exchange rate volatility has not affected the volume of trade or the selection of markets you engage with. 11.8% responded MAYBE exchange rate volatility has or has not affected the volume of trade or the selection of markets you engage with.

The results/findings show that 35.3% of the total respondents responded that the exchange rate volatility affected their profit margins in international trade significantly. 29.4% of the respondents responded that the exchange rate volatility affected their profit margins in international trade extremely. 19.6% of the respondents responded that the exchange rate volatility affected their profit margins in international trade moderately. 13.7% of the respondents responded that the exchange rate volatility affected their profit margins in international trade slightly.2% of the respondents responded that the exchange rate volatility affected their profit margins in international trade not at all.

The results/findings show that 60% of the total respondents responded that sometime they use the measures to mitigate the risks posed by exchange rate fluctuation. 15.7% responded that they rarely use the measures to mitigate the risks posed by exchange rate fluctuation. 11.8% responded that they often use the measures to mitigate the risks posed by exchange rate fluctuation. 5.8% responded that they never use the measures mitigate the dangers stood by exchange rate instability. 5.8% responded that they always use the measures mitigate the danger stood by exchange rate instability.

The results/findings show that 33.3% of the total respondents responded that the exchange rate volatility significantly influence their contract terms and negotiation strategies with international partners. 27.5% of the respondents responded that the exchange rate volatility moderately influence their contract terms and negotiation strategies with international partners. 19.6% of the respondents responded that the exchange rate volatility slightly influence their contract terms and negotiation strategies with international partners. 17.6% of the respondents responded that the exchange rate volatility extremely influence their contract terms and negotiation strategies with international partners.2% of the respondents responded that the exchange rate volatility not at all influence their contract terms and negotiation strategies with international partners.

The results/findings show that 76.5% of the total respondents responded YES, that the exchange rate uncertainty has affected their long-term planning or investment in international trade. 11.8% of the respondents responded NO, that the exchange rate uncertainty has not affected their long-term planning or investment in international trade. 11.8% of the respondents responded MAYBE the exchange rate uncertainty has or has not affected their long-term planning or investment in international trade.

The results/findings show that 35.3% of the total respondents responded that the exchange rate fluctuations pose challenges or provide opportunities moderate impact. 31.4% of the respondents responded that the exchange rate fluctuations pose challenges or provide opportunities minimal impact. 23.5% of the respondents responded that the exchange rate fluctuations pose challenges or provide opportunities significant impact 7.8% of the respondents responded that the exchange rate fluctuations pose challenges or provide opportunities no impact. 2% of the respondents responded that the exchange rate fluctuations pose challenges or provide opportunities very significant impact.

The results/findings show that 35.3% of the total respondents responded that the Exchange rate stabilization measures (e.g., fixed exchange rates or floats exchange rates) measures help reducing the effect of exchange rate volatility on your trade activities. 27.5% of the respondents responded that the Central bank intervention in foreign exchange markets measures help mitigate the effect of exchange rate volatility on your trade activities. 23.5% of the respondents responded that the Government subsidies or grants measures help mitigate the impact of conversion amount changes on your trade activities. 9.8% of the respondents responded that the favorable tax policies for exporters/importers measures help mitigate the impact of exchange rate volatility on your trade activities. 3. 9% of the respondents responded that the Support from forex traders measures help mitigate the impact of exchange rate volatility on your trade activities.

The results/findings show that 29.4% of the total respondents responded that the above measures in mitigating the influence of conversion amount instability on business activities moderately effective. 27.5% of the respondents responded that the above measures in mitigating the effect of conversion amount instability on business activities very effective. 23.5% of the respondents responded that the above measures in lowering the influence of conversion amount instability on business activities slightly effective . 9.8% of the respondents responded that the above measures in reducing the influence of conversion rate volatility on trade activities extremely effective. 9.8% of the respondents responded that the above measures in leveraging the influence of conversion amount on your business activities not effective.

CONCLUSION

This paper investigates the impact of exchange rate volatility on international trade, accessing how government, forex traders, businesses can align together to institute policies to mitigate the challenges pose on international trade as a result of the constant instability of conversion rate.

Based on empirical results, they show that the conversion amount instability plays a crucial role on international trade, leading to a lot of economic challenges such as: unemployment leading to poor living conditions, drug abuse, inflation, income inequality, geopolitical tension and trade imbalance(more imports then exports).These results have also shown that the exchange rate volatility has significantly affected several key areas like: Profit margin, imports, exports, contract negotiation, trade volume and market selection etc.

Considering these results, it is necessary that government put in place strategy policies both domestic and international to help mitigate exchange rate volatility. For example, introducing soft commodities (agriculture products) to be sold in kilogram scale in Liberia, by doing so, the country can maintain a fixed pricing across the Nation. This has worked in Country like India. Businesses and forex traders can also consider hedging measures to mitigate the conversion rate volatility on global business and aligning with the Central Bank of Liberia (CBL) exchange rate policy.

SUGGESTIONS

Promoting Currency Stability

The central bank bas a financial institution that controls monetary flow within a country needs to set standards to promote and ensure currency stability on the exchange markets. By doing so, the exchange rate volatility on international trade can be mitigated and promote trade and commerce.

Policies Implementation

It can be recall that most counties, most especially African countries have failed in implementing exchange rate policies. For instance, In Liberia, it is observed that forex traders do not align with the central bank of (CBL) exchange rate policy, leading to fluctuation in the exchange. By carefully implementing policies, the conversion rate fluctuation on global business can be mitigated.

Educational programs and awareness on Financial Understanding

Providing educational programs, awareness to forex traders, businesses, government entities, by doing this this, entities can gain full understanding on exchange rate volatility on international trade.

Regional Integration

Regional trade agreements or currency union, like the Euro, can help mitigate exchange rate volatility.

Encouraging more exports than import (FDIs)

By producing more goods and services within a given country and exporting, them to another country can boast domestic currency and stable the exchange rate.

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