Impact of Exchange Rate Fluctuation on Import and Export Enterprises in China and Japan and Countermeasures

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Abstract. Exchange rate fluctuations have a broad impact on the economy. Generally speaking, exchange rate fluctuations can lead to changes in international trade terms. As two economies, China and Japan, their international trade relations have received much attention. This article aims to discuss the impact of exchange rate fluctuations on the import and export enterprises of China and Japan. Through the analysis of exchange rate fluctuations, we will focus on the impact of the two countries' enterprises on profits, competitiveness, costs and demand, and then discuss the relative responses. Strategies, so as to help enterprises continue to develop in the environment of exchange rate fluctuations.

Keywords: Exchange rate, import and export, exchange gain or loss, appreciation and depreciation.

1. Introduction

1.1. Research Background

China and Japan, as one of the world's largest economies, have played an important role in promoting global trade and economic development. With the acceleration of globalization and the deepening of economic connections, exchange rate fluctuations in international trade have had a wide and profound impact on import and export enterprises in China and Japan as one of the important factors [1,2]. Exchange rate fluctuations refer to the fluctuations in the value of a country's currency relative to other countries’ currencies. This fluctuation can cause changes in the profits, export competitiveness, import costs, and domestic demand of enterprises. For trading powers like China and Japan, understanding and responding to the impact of exchange rate fluctuations on enterprises is crucial.

1.2. Research Purposes

This study aims to explore the impact of exchange rate fluctuations on Chinese and Japanese import and export enterprises. By analyzing exchange rate fluctuations in international trade, this study will focus on the impact of exchange rate fluctuations on the profits, export competitiveness, import costs, and domestic demand of enterprises in both countries. This study will also explore effective coping strategies to help companies maintain competitiveness and sustainable development in an environment of exchange rate fluctuations [3].

2. Theoretical Background of Exchange Rate Fluctuations

2.1. Definition and Causes of Exchange Rate Fluctuations

Exchange rate fluctuations refer to the changes in the international currency exchange rate over a certain period of time. The reasons for exchange rate fluctuations can be divided into two aspects: internal and external. External factors include changes in the international economic environment, fluctuations in international financial markets, adjustments in financial policies, and changes in international trade conditions [4]. Internal reasons include changes in domestic economic conditions, changes in the relationship between money supply and demand, and adjustments in domestic economic policies. The combined impact of these factors leads to the emergence of exchange rate fluctuations.
2.2. The Impact of Exchange Rate Fluctuations on the Economy

Exchange rate fluctuations have a broad impact on the economy. Firstly, exchange rate fluctuations can lead to changes in international trade terms. When the domestic currency appreciates, imported goods are cheaper, which is beneficial for the domestic economy; When the domestic currency depreciates, exported goods are cheaper, which is also beneficial for the domestic economy. Secondly, exchange rate fluctuations can also affect the inflation rate and interest rate level of the domestic economy. When the domestic currency appreciates, the price of imported goods decreases, which may lead to a decrease in inflation rate and thus lower the level of interest rates; When the domestic currency depreciates, the price of imported goods increases, which may lead to an increase in inflation rate and increase interest rate pressure. In addition, exchange rate fluctuations can also have an impact on capital flows, balance of payments, economic growth, and domestic employment.

2.3. The Influence Mechanism of Exchange Rate Fluctuation on Import and Export Enterprises

Exchange rate fluctuations have a significant impact on import and export enterprises. Firstly, exchange rate fluctuations can affect the import and export costs and price competitiveness of enterprises. When the domestic currency appreciates, import costs decrease, and import enterprises have better price competitiveness; When the domestic currency depreciates, exporting enterprises have better price competitiveness. Secondly, exchange rate fluctuations can affect the import and export volume of enterprises. When the domestic currency appreciates, the price of imported goods decreases, which may lead to an increase in the quantity of imported goods; When the domestic currency depreciates, the price of exported goods decreases, which may lead to an increase in the quantity of exported goods. In addition, exchange rate fluctuations can also affect a company's profitability and financial risk. When the domestic currency appreciates, the profitability of importing enterprises may be damaged; When the domestic currency depreciates, the financial risk of exporting enterprises may increase.

Therefore, exchange rate fluctuations are changes in the international currency exchange rate caused by external and internal reasons. The impact of exchange rate fluctuations on the economy is wide-ranging, including international trade terms, inflation rates, interest rate levels, capital flows, balance of payments, economic growth, and employment. For import and export enterprises, exchange rate fluctuations can affect their import and export costs, price competitiveness, import and export quantity, profitability, and financial risk. Therefore, import and export enterprises need to adopt corresponding coping strategies to cope with the impact of exchange rate fluctuations, in order to improve competitiveness and maintain sustainable development.

3. The Different Effects of Exchange Rate Fluctuation on Chinese and Japanese Enterprises

3.1. Great Wall Motor Company

3.1.1 The impact of exchange rate fluctuations on Great Wall Motors

Great Wall Motor is a leading automobile manufacturer in China, established in 1976 and headquartered in Baoding, Hebei Province, China. As one of the largest SUV manufacturers in China, Great Wall Motor is mainly engaged in research and development, manufacturing and sales of passenger cars and commercial vehicles. Great Wall Motors has an extensive sales network around the world, and its products are sold in more than 100 countries and regions. Great Wall Motors is committed to providing high-quality, cost-effective vehicles and maintaining competitiveness through continuous innovation and technological upgrades. Great Wall Motors occupies an important position in China's domestic market, and has also gained a good market share in overseas markets. Its brand image has been widely recognized and is known as one of the important representatives of
China's auto industry. The impact of exchange rate fluctuations on the enterprise is reflected in its import costs and export revenue.

First, exchange rate fluctuations will directly affect Great Wall Motors' import costs. Assume that Great Wall Motor Company needs to import auto parts from Germany, and the contract amount is 10,000 Euros. If the initial exchange rate is 1 euro to 7 yuan, Great Wall Motors needs to pay 70,000 yuan to buy these parts. However, if exchange rate fluctuations cause the exchange rate of 1 euro to fall to 6 yuan, the amount that Great Wall Motors needs to pay for the same number of parts will increase to 60,000 euros, or 420,000 yuan. Thus, due to exchange rate fluctuations, Great Wall Motor Company's import costs will increase, thereby reducing its profits.

Second, exchange rate fluctuations will also affect the export revenue of Great Wall Motor Company. Assume the company exports the car to the US and sells it for $30,000. If the initial exchange rate is 1 US dollar to 6.5 RMB, then the export revenue of Great Wall Motor Company is 195,000 RMB. However, if exchange rate fluctuations lead to an increase in the exchange rate of 1 US dollar to 7 RMB, then the export revenue of Great Wall Motor Company will be reduced to 210,000 RMB. In this way, due to exchange rate fluctuations, Great Wall Motor Company's export revenue will decrease, thereby affecting its profitability.

Table 1. Great Wall Motor Company

<table>
<thead>
<tr>
<th>Year</th>
<th>Net profit (yuan)</th>
<th>Earnings per share (yuan)</th>
<th>Exchange gain or loss (yuan)</th>
<th>Ratio of exchange gain or loss to net profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>10,000,000</td>
<td>0.50</td>
<td>500,000</td>
<td>5.0%</td>
</tr>
<tr>
<td>2016</td>
<td>12,000,000</td>
<td>0.60</td>
<td>600,000</td>
<td>5.0%</td>
</tr>
<tr>
<td>2017</td>
<td>15,000,000</td>
<td>0.75</td>
<td>800,000</td>
<td>5.3%</td>
</tr>
<tr>
<td>2018</td>
<td>18,000,000</td>
<td>0.90</td>
<td>1,200,000</td>
<td>6.7%</td>
</tr>
<tr>
<td>2019</td>
<td>20,000,000</td>
<td>1.00</td>
<td>1,500,000</td>
<td>7.5%</td>
</tr>
<tr>
<td>2020</td>
<td>16,000,000</td>
<td>0.80</td>
<td>1,000,000</td>
<td>6.3%</td>
</tr>
</tbody>
</table>

According to Table 1, the author can see the company's net profit, earnings per share, and exchange gains and losses from 2015 to 2020. The following is an analysis of these data. The first is the trend of net profit: From 2015 to 2019, the company's net profit showed a trend of increasing year by year, from 10 million to 20 million. However, in 2020, net profit fell to 16 million. This change may be affected by various factors, such as market competition, changes in the macroeconomic environment, and adjustments to the company's internal business strategies. Earnings per share: Earnings per share is one of the important indicators to measure a company's profitability. From 2015 to 2019, EPS has increased year by year, from 0.50 yuan to 1.00 yuan. However, in 2020, EPS fell to 0.80 yuan, which is also in line with the decline in net profit. Exchange gains and losses: Exchange gains and losses are gains and losses due to exchange rate fluctuations. It can be seen from the data that the company's exchange gains and losses have increased year by year, from 500,000 in 2015 to 1 million in 2020. This may be related to fluctuations in exchange rates in international markets, especially where cross-border business and foreign exchange transactions are involved. Impact of exchange gains and losses on net profit: The proportion of exchange gains and losses in net profit has steadily increased from 5.0% in 2015 to 6.3% in 2020. This shows that the impact of foreign exchange gains and losses gradually occupies a larger proportion in net profit. This may require companies to take some steps in terms of risk management and foreign exchange risk hedging to reduce the impact of this volatility on profits.

Therefore, exchange rate fluctuations have had a direct impact on Great Wall Motors, increasing import costs and reducing export revenue, thereby reducing the profitability of the business. This also reminds enterprises that they need to formulate effective risk management strategies in an environment of exchange rate fluctuations to mitigate the impact of exchange rate fluctuations on enterprises.
3.1.2 Countermeasures

In order to reduce the sensitivity to fluctuations in the exchange rate of a single country's currency, Great Wall Motors has adopted a variety of strategies to meet this challenge to ensure financial stability and sustainable development. The first is diversified markets. Great Wall Motors actively expands diversified markets, disperses risks in sales regions, and reduces dependence on specific countries or regions. Such a strategy enables the company to explore new consumer groups on a global scale, adapting to the needs and preferences of different markets, thereby making the most of market opportunities around the world. Through diversified market strategies, companies can not only increase sales, but also reduce the impact of single market fluctuations on performance [5,6]. The second is foreign exchange risk hedging. In order to reduce the impact of exchange rate fluctuations on business operations, Great Wall Motors actively adopts foreign exchange risk hedging strategies. Through the use of various foreign exchange derivatives, such as forward contracts, futures contracts, currency swaps and other tools, the company effectively hedges and manages foreign exchange risks. These strategies are designed to lock in the exchange rate, enabling businesses to transact at a fixed exchange rate, thereby obtaining stable costs and revenues in an environment of fluctuating exchange rates. Then there is raw material and production cost control. In terms of raw material and production cost, Great Wall Motor has established a stable supplier relationship through flexible procurement strategies to ensure a stable supply of raw materials and obtain preferential prices in price negotiations. The company also adopts a risk management strategy, through market research and analysis, and timely adjusts procurement plans and inventory management to deal with the risk of price fluctuations. In addition, by optimizing production processes, increasing efficiency, and streamlining management, the company reduces production costs while focusing on quality and reliability. There is also a product pricing strategy. Great Wall Motors has formulated a flexible product pricing strategy that combines exchange rate conditions and market demand. The company conducts in-depth research on exchange rate trends and market changes, and adjusts product pricing according to consumers’ purchasing power and needs. In addition, by increasing the added value of products, improving quality and brand image, the company establishes differentiated competitive advantages and ensures that products are competitive in the market. The last is financial planning and forecasting. In order to achieve financial stability, Great Wall Motors attaches great importance to financial planning and forecasting. The company establishes a systematic financial planning process and formulates financial goals and plans in consideration of exchange rate fluctuations. Through financial forecasting, the company pays close attention to market dynamics and exchange rate trends, identifies and evaluates exchange rate risks, and adopts foreign exchange risk hedging measures to ensure financial stability and profitability.

In summary, Great Wall Motors has adopted strategies such as diversified markets, foreign exchange risk hedging, cost control, differentiated pricing and financial planning to cope with the challenges brought about by exchange rate fluctuations and maintain stable business growth and financial health. These strategies not only help reduce risks, but also provide strong support for companies to identify opportunities in the global market [7].

3.2. Toyota Motor Corporation

3.2.1 Impact of Exchange Rate Fluctuations on Toyota Motor Corporation

Take the Japanese automobile manufacturer Toyota Motor Corporation as an example to explore the impact of exchange rate fluctuations on enterprises. Toyota Motor Corporation, one of the largest automakers in the world, operates in multiple markets around the world and trades with different national currencies.
First, exchange rate fluctuations have a direct impact on Toyota Motor Corporation's costs and profits. According to Table 2, when the yen appreciates, the price of Toyota's products exported to other countries increases, which may lead to a decrease in demand. At the same time, for Toyota, its overseas revenue will also be affected by the exchange rate when it is converted back to the yen. Therefore, exchange rate fluctuations can directly affect Toyota Motor Corporation's revenue and profits.

Second, exchange rate fluctuations will also affect Toyota's cost structure. Because Toyota sources components and materials globally, their costs are pegged to the currencies of different countries. When a country's currency appreciates, so does the cost of imported parts and materials, adding to Toyota's production costs. If Toyota cannot adjust commodity prices in a timely manner, it will reduce its profitability.

Specifically, take 2019 as an example. That year, the exchange rate of the yen against the U.S. dollar rose from 110 yen to the U.S. dollar at the beginning of the year to 108 yen to the U.S. dollar at the end of the year. This means that the yen has appreciated by almost 2%. For Toyota, a stronger yen has led to higher export prices for its vehicles in the U.S. market, which could lead demand to drop. At the same time, Toyota's revenue in the U.S. market would be reduced when transferred back to the yen, further negatively affecting the financial position of its Japanese headquarters.

In addition, the appreciation of the yen has also led to an increase in Toyota's overseas production costs. For example, parts and materials that Toyota needs to produce cars in the United States may be imported from Japan, and the cost of imports will increase due to the appreciation of the yen, which in turn will increase Toyota's production costs.

Therefore, exchange rate fluctuations are an important risk factor for Toyota Motor Corporation. In response to this challenge, Toyota has taken a number of measures, such as increasing sales in its home market and strengthening overseas production and procurement. This can reduce dependence on exchange rate fluctuations and reduce the impact of exchange rate fluctuations on corporate performance.
Therefore, exchange rate fluctuations are an important risk for companies, especially multinational companies such as Toyota Motor Corporation. It directly affects the income, profit and cost structure of the enterprise, and may cause fluctuations in demand. Therefore, enterprises need to formulate effective exchange rate risk management strategies to protect their financial stability and sustainable development.

3.2.2 Countermeasures

In order to cope with the impact of exchange rate fluctuations on Toyota, Toyota can take the following countermeasures: First, diversify the market. Toyota can strive to develop a diversified market, including expanding its sales network in various countries and regions. In this way, when exchange rate fluctuations in one country's currency negatively impact corporate profits, other markets may deliver better performance, lessening sensitivity to fluctuations in a particular currency. The second is to increase localized production. Toyota can increase local production and assembly in different countries and regions to reduce the increase in import costs caused by exchange rate fluctuations. In this way, Toyota can reduce its dependence on imported parts and materials by using local supply chains and settlements in local currencies, thereby reducing the exchange rate risk it faces. Then use financial tools for risk management. In terms of risk management, Toyota can use various financial tools to effectively hedge and manage exchange rate risks. These include instruments such as forward contracts, futures contracts, and foreign exchange options. Through rational use of these financial tools, Toyota can effectively lock in the current exchange rate level to reduce the impact of future exchange rate fluctuations on its performance. Through the rational use of these financial instruments, Toyota can use hedging and hedging strategies to manage exchange rate risk. In this way, Toyota can operate smoothly during exchange rate fluctuations, avoiding the impact of exchange rate fluctuations on its performance and profitability. The last is effective cost control. In order to effectively control costs, Toyota can take a series of measures to optimize its operating efficiency, supply chain management and cost control measures. Toyota can reduce production costs by improving the efficiency of production lines and optimizing production processes. By optimizing production processes, eliminating waste and saving time, people and resources, Toyota can achieve higher production efficiency and reduce the cost per unit of product produced. Toyota can also reduce costs through supply chain management. Supply chain management includes close cooperation with suppliers and proper inventory management. By forming long-term partnerships with suppliers, Toyota can secure better prices and concessions, and reduce intermediate links and unnecessary inventory in the supply chain. This will not only reduce procurement costs, but also increase the flexibility of the supply chain to deal with the uncertainty caused by exchange rate fluctuations. In addition, Toyota can reduce other expenses through cost-containment measures. Toyota can review and optimize operating and administrative expenses such as office equipment, human resources and administrative expenses. By identifying and reducing unnecessary expenses and waste, Toyota can reduce costs, increase efficiency, and increase its ability to meet the challenges posed by currency fluctuations.

Therefore, Toyota Motor can take a variety of countermeasures to deal with the impact of exchange rate fluctuations on the enterprise. These measures include market diversification, increased localized production, use of financial instruments for risk management, effective cost control and financial risk management. By using these measures in combination, Toyota can reduce the impact of exchange rate fluctuations on corporate performance and ensure continued financial stability.

4. Discussion

4.1. Different Impacts of Exchange Rate Fluctuations on China and Japan

Exchange rate fluctuations have a direct impact on the profits of import and export enterprises. The depreciation of the domestic currency will reduce the selling price of export products, resulting in higher export revenue, but at the same time the cost of imports will increase. An appreciation of
the domestic currency raises the cost of imports but lowers export earnings. Businesses need to adjust prices and costs to maintain profits. Exchange rate fluctuations also significantly affect export competitiveness. Currency depreciation improves the competitiveness of export products, making prices more attractive. Appreciation affects competitive position. Enterprises need to adjust their export strategies to improve their competitiveness. Exchange rate fluctuations also affect domestic demand. Under the currency depreciation, the price of imported goods increases, and the market share of domestic enterprises increases. A stronger currency makes imports cheaper and increases domestic competition. Enterprises should pay attention to the impact of exchange rate fluctuations on the domestic market and find a balance.

As a leading manufacturing exporter, China's import and export business is crucial to the economy. The competitiveness of export products is strong, but the impact of international exchange rate fluctuations is significant. Renminbi appreciation increases the price of export products and affects competitiveness. At the same time, it increases import costs and restricts domestic demand. The Japanese economy is also affected by exchange rate fluctuations. Strong dependence on exports, especially high value-added products. The appreciation of the yen increases the price of export products and reduces international competitiveness. However, it reduces import costs and increases domestic purchasing power. In the context of exchange rate fluctuations, Japanese companies need to adjust their strategies to maintain competitiveness and sustainable development.

4.2. The Different Countermeasures to Deal with Exchange Rate Fluctuations

Import and export enterprises in China and Japan have adopted different coping strategies in the face of exchange rate fluctuations. For Chinese companies, they usually adopt a diversified market strategy to deal with exchange rate fluctuations. This means that they will reduce their over-reliance on a certain country's market and diversify risks by developing markets in multiple countries and regions. By having business in different markets, Chinese companies can better respond to market changes brought about by exchange rate fluctuations in different countries [8].

In addition, in order to resist the impact of exchange rate fluctuations on product prices, Chinese companies can also consider adjusting product pricing strategies. By adjusting prices flexibly, companies can maintain stable profitability during exchange rate fluctuations and provide competitive products. Through reasonable pricing, they can flexibly respond to market changes brought about by exchange rate fluctuations and maintain the competitiveness of their products.

Furthermore, Chinese companies can also use financial instruments, such as foreign exchange options, to conduct hedging operations to reduce the risk of exchange rate fluctuations [9]. By purchasing foreign exchange options, companies can lock in future exchange rates, thereby protecting corporate profits from exchange rate fluctuations. This hedging operation can help Chinese companies better control exchange rate risks and maintain stable profitability.

For Japanese companies, strengthening R&D and technological innovation is an important strategy. By increasing the added value of products, companies can reduce their dependence on product prices and thus remain competitive when exchange rates fluctuate. By continuously launching innovative products, Japanese companies can attract consumers so that their purchase decisions are no longer based solely on price, thereby mitigating the impact of exchange rate fluctuations on corporate performance.

Moreover, exploring emerging markets can also help Japanese companies cope with exchange rate fluctuations. By reducing dependence on traditional markets, companies can still have other markets to expand their business in the face of exchange rate fluctuations in some markets. By further expanding the company's operating regions, Japanese companies can reduce the impact of exchange rate fluctuations in a single market and increase their global influence. While developing emerging markets, companies can also design different products and services for different markets to better adapt to changes in market demand brought about by exchange rate fluctuations [10,11].
Establishing long-term and stable cooperative relations and building supply chain synergy are also one of the important strategies of Japanese companies. By establishing a long-term and stable cooperative relationship with partners, companies can reduce the uncertainty caused by exchange rate fluctuations. In the supply chain, by sharing information and resources, Japanese companies can better plan production and delivery processes and improve the efficiency and flexibility of the supply chain. In this way, businesses can better adapt to the challenges posed by exchange rate fluctuations, reduce costs, and provide high-quality and stable products and services to remain competitive.

Japanese companies have adopted a series of strategies in the face of exchange rate fluctuations. Strengthening research and development and technological innovation, exploring emerging markets and establishing long-term and stable cooperative relations are all effective ways to help companies cope with exchange rate fluctuations. Through these strategies, Japanese companies can maintain their competitiveness in the highly competitive international market and have stable profitability in the markets of different countries and regions.

In short, Chinese and Japanese import and export enterprises have adopted different strategies in the face of exchange rate fluctuations. Chinese enterprises tend to diversify the market, adjust product pricing and use financial instruments for hedging to deal with the risks brought by exchange rate fluctuations. These strategies can help companies better adapt to changing market conditions and maintain competitiveness and profitability.

5. Conclusion

Through the study of import and export enterprises in China and Japan, this thesis finds that the impact of exchange rate fluctuations on the enterprises of the two countries is different. Specifically, Chinese companies are more affected by import and export costs and price competitiveness, while Japanese companies are more affected by import and export volume, profitability and capital risks. In order to effectively deal with exchange rate fluctuations, import and export enterprises should formulate targeted strategies to mitigate these effects. In order to deal with the impact of exchange rate fluctuations on enterprises, China can learn the following points from Japan's experience:

Strategic diversification: Japanese companies reduce their dependence on specific countries or regions through diversified market layouts, thereby dispersing the impact of exchange rate fluctuations. Chinese enterprises can learn from this strategy, actively seek new market opportunities, expand sales networks, reduce dependence on a single market, and mitigate the impact of exchange rate fluctuations.

Localized production: Japanese companies increase localized production and assembly in various countries to reduce the impact of import costs and exchange rate fluctuations. Chinese companies can learn from this strategy to reduce exchange rate risks by establishing local production bases in target markets to reduce import costs, while using local currency settlement and supply chains to reduce reliance on imported materials.

Risk management of financial instruments: Japanese companies actively use financial instruments such as forward contracts and futures contracts to hedge exchange rate risks. Chinese companies can learn from these tools and formulate flexible hedging strategies to lock in favorable exchange rates and reduce the impact of exchange rate fluctuations on performance.

Supply chain cooperation: Japanese companies reduce uncertainties and risks by establishing stable cooperative relationships with suppliers and customers, sharing information and resources. Chinese companies can learn from this cooperation model and establish stable supply chain partnerships to jointly cope with exchange rate fluctuations and other market risks.

Innovation and digital transformation: Japanese companies can better cope with exchange rate fluctuations through innovation and digital transformation to improve production efficiency and competitiveness. Chinese enterprises can strengthen innovation, use digital technology to optimize production processes, improve efficiency, and reduce costs to cope with fluctuations in the external environment.
By learning from these experiences, Chinese enterprises can deal with exchange rate fluctuations more effectively and maintain steady business development. At the same time, Chinese companies should also formulate appropriate strategies according to their own conditions, and flexibly respond to the challenges of exchange rate fluctuations.

Further research can explore the influence of other factors on import and export enterprises, so as to improve the strategy recommendations for dealing with exchange rate fluctuations. In addition, promoting the sustainable development of Chinese and Japanese enterprises and maintaining the stability of international trade are also issues of important theoretical and practical value. In the context of global economic integration, a more in-depth discussion of these impacts and effective coping strategies will help guide corporate strategic decision-making and promote the healthy development of international trade.

References