

# Research on the Influential Mechanism of RMB Exchange Rate on China's Export and Import Trade

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**Abstract:** Exchange rate (ExRate), as an economic lever, plays a role in price conversion in international cross-border trade activities, reflecting the relative prices of international commodity factors, and playing a connecting role in domestic and international markets. This is the most effective way to regulate international economic competition. The issue of the RMB ExRate has always been a focus of widespread attention, and its floating elasticity is gradually expanding. The influence of export trade is also intensifying with ExRate fluctuations. In today's world of economic globalization and regional economic integration, the economic integration between countries is becoming increasingly strong. Foreign trade plays a crucial part in a country's national economy, and the fluctuation of the RMB ExRate in China's foreign trade has a significant influence. ExRate fluctuations are an important factor affecting international trade, and how to respond to the influence of RMB ExRate fluctuations on China's export and import (exim) trade is a problem that we must pay attention to. Therefore, studying the influence of changes in the RMB ExRate on China's export trade has strong theoretical and practical significance. This article analyzes the RMB ExRate and exim trade situation in China in recent years, and then analyzes the influence of RMB ExRate fluctuations on China's exim trade, and proposes corresponding policy recommendations.

**Keywords:** RMB exchange rate, China's export and import trade, Influential mechanism.

## 1. Introduction

The ExRate is the ratio of currency exchange between countries around the world, and changes in ExRates have a direct influence on international trade. The ExRate of the RMB plays a huge regulatory part in China's exim trade. Therefore, studying the influence of changes in the RMB ExRate on China's exim trade has great and practical significance. Internationalization of the RMB means more market orientation, and the fluctuation of the RMB ExRate is becoming more frequent. The fluctuation of the RMB ExRate will have an influence on the exim of Chinese foreign trade enterprises [1]. In recent years, China's RMB ExRate has fluctuated relatively frequently, which has also had a certain influence on China's exim trade. With the acceleration of economic globalization, the RMB has also been influenced by the international market. In recent years, ExRate fluctuations have been relatively frequent [2].

The RMB ExRate is the ratio of the RMB to the legal tender of another country, representing the external value of the RMB. It is formulated by the State Administration of Foreign Exchange on the basis of independence and uniformity, with reference to the comparative level of domestic and foreign prices and the fluctuation of ExRates in the international financial market. Since the beginning of reform and opening up, China's RMB ExRate has undergone two ExRate changes. The first was the integration of the official and market ExRates of the RMB in 1994, and the RMB began to depreciate significantly; The second round was the new round of managed floating ExRate system reform in 2005 [3]. Due to the continuous depreciation of the RMB, there will be a further reversal in China's trade. Since the 1990s, China's trade income and expenditure deficit has gradually decreased, completing the transition from loss to profit. Since 1984,

China has gradually reduced the RMB ExRate, further optimizing China's long-term foreign trade deficit [4]. As China's external level continues to expand, the degree to which its economy is driven by exports has been continuously increasing. The growth of China's export trade is deeply influenced by the fluctuation of the RMB ExRate, so dealing with the negative influence of RMB ExRate fluctuations on China's economic growth has always been a key issue of concern for the government and scholars. The reason is that after China's accession to the WTO, which has changed the trade situation, and more domestic products have begun to move to the international stage. In particular, in the past decade, China has actively developed kindly trade exchanges with neighboring countries, carried out "the Belt and Road", and driven the rapid growth of China's export trade [5]. In this context, it is particularly important to study the growth and changes of China's exim trade under the influence of the RMB ExRate.

This article explores the significant constraints of the depreciation of the RMB ExRate on China's exim trade, and how to cope with the negative influence of the fluctuation of the RMB ExRate. It strengthens the strength of Chinese export enterprises to avoid foreign exchange risks and provides corresponding countermeasures for the Chinese government and export foreign trade enterprises.

## 2. The Influence of RMB ExRate Changes on China's Exim Trade

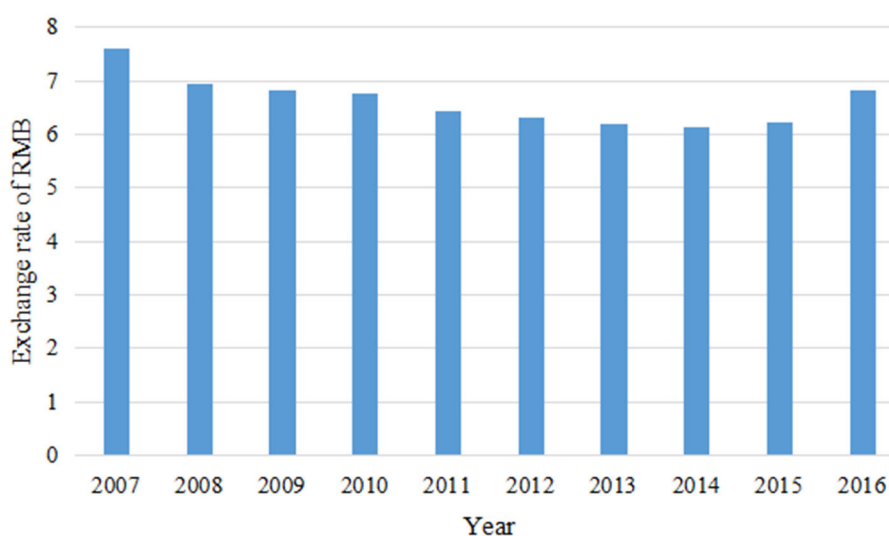
Normally, changes in the RMB ExRate can be divided into two forms: appreciation and depreciation of the RMB. Therefore, it is necessary to analyze the influence of changes in the RMB ExRate on China's exim trade from these two aspects. The RMB ExRate and exim trade situation in China from 2011 to 2017 are shown in Table 1.

**Table 1.** China's RMB ExRate and exim trade situation from 2011 to 2017

Target	2017	2016	2015	2014	2013	2012	2011
RMB to USD ExRate (USD=100 yuan)	675.18	664.23	622.84	614.28	619.32	631.25	645.88
Total exim volume (million US dollars)	4107031	3685557	3953033	4301527	4158993	3867119	3641864
Exim balance (million US dollars)	419427	509705	593904	383058	259015	230309	154897

Since China implemented the reform and opening up policy in 1978, especially after joining the WTO in 2001, the level of China's economic growth has continuously improved, and the degree of opening up to the outside world has gradually

deepened, bringing strong impetus to China's export trade and promoting the overall expansion of China's cross-border trade scale. (See Figure 1)

**Figure 1.** Trend chart of China's RMB ExRate changes from 2007 to 2016

## 2.1. The Influence of RMB Appreciation

Firstly, there is a positive influence. Due to its labor-intensive nature, China has a significant advantage in developing labor-intensive industries that cannot be ignored. After the appreciation of the RMB, labor-intensive enterprises gradually shifted from China to Southeast Asia, Africa and other regions, which prompted investors to invest in China towards high-tech, leading to a shift in China's industrial structure from export-oriented to domestic demand-oriented. This is more beneficial than harmful for China's industrial structure adjustment [6]. The appreciation of the RMB has led to a lack of technological content. Companies that rely solely on labor resource exports have their profits compressed to zero and are eliminated due to bankruptcy. Capital is profit driven and then shifts to companies that can bring them profits. High tech companies are undoubtedly a good choice. The high-tech industry continues to grow and promote industrial upgrading. The appreciation of the RMB means that China's economic growth situation has improved, and a good economic growth situation can attract more investment that is beneficial to the Chinese economy, thereby attracting more international funds. Funds have certain benefits for the stability of the stock market and real estate. Trade partner countries have reduced imports, increased exports, reduced trade deficits, and alleviated trade conflicts. Countervailing and anti-dumping inquiries against China by trading partner countries will also decrease, developing a advantageous international trade environment [7].

Meanwhile, the appreciation of the RMB will also have a negative influence on China's exim trade. Once export enterprises survive in the market, they will be confronted with the risk of ExRate fluctuations. Export enterprises need to purchase materials when processing products. At this time, they purchase them in RMB, and after the product procurement is completed, they need to sell it to the international market in US dollars. With the appreciation of the RMB, the profits of export enterprises will be affected. The appreciation of the RMB has been impacted, leading to a decline in the efficiency of export enterprises and even bankruptcy. On the other hand, the price of imported goods decreases and imports increase, leading to foreign goods seizing the domestic market and causing some similar industries to be eliminated due to lack of competitive advantage, resulting in employment problems. The appreciation of the RMB, which means that a certain amount of foreign currency is exchanged for less RMB, means that the cost of foreign direct investment increases. These foreign investors may switch to other countries for these new investment costs, which will cause China to miss out on many foreign investors who are preparing to invest in China.

## 2.2. The Influence of RMB Depreciation

Firstly, there is a positive influence. The depreciation of the RMB is beneficial for exports. Particularly for labor-intensive enterprises, the depreciation of the RMB has improved the international competitiveness of their goods. This in turn

increased the export trade volume, resulting in a trade surplus. China's exports are mainly labor-intensive industries, and the decline in the RMB ExRate has driven export trade, thus promoting the growth of labor-intensive industries in China. The depreciation of the RMB will further cut the cost of foreign investment in China, increase profit margins and levels, lower investment risks, and greatly increase the expected value of investment returns. This will greatly increase the enthusiasm of foreign investment, leading to a large amount of foreign investment flowing into China [8].

The depreciation of the RMB will also have a negative influence on China's exim trade. When the RMB is in a depreciating state, it means that the price of imported goods from foreign countries will increase, and those enterprises engaged in exim trade will spend more costs to import goods, which will have a certain degree of inhibition on China's import trade. The depreciation of the RMB results in a relative appreciation of the assets of the investing country. Obtaining the same assets means that enterprises will have to pay an additional cost, and therefore, enterprises will choose to reduce their investment. Thirdly, trade friction intensifies and the international environment deteriorates. The depreciation of the RMB has led to an increase and decrease in the prices of exported goods, a surge in demand for Chinese exported goods, an increase in trade surplus between China and its trading partners, and exacerbation of trade friction between China and other countries [9].

### **3. Policy Suggestions on Dealing with the Influence of RMB ExRate Changes on Export Trade**

#### **3.1. Strengthen Guidance for Enterprises to Reasonably Avoid ExRate Risks**

Enterprises should further understand the foreign trade situation of some countries, strengthen the regions and scope of foreign trade, improve the diversification of international trade markets, gradually disperse the foreign trade risks caused by ExRate changes, and reduce the losses caused by ExRate changes. On the premise of gradually increasing export commodities, we should focus on the domestic market, research and expand the goods needed in the domestic market, gradually increase market share, and strengthen the core competitiveness of enterprise growth.

The primary task of financial service innovation is the innovation of products and services, and more financial products should be provided to the market as soon as possible to meet the needs of customers. Convenient and efficient financial services should be provided to avoid ExRate risks and create value for customers, providing high-quality services for them. In this way, on the one hand, product innovation can attract high-quality customers from abroad, and on the other hand, customers' loyalty and dependence on themselves can be strengthened through differentiated service levels and higher service quality.

#### **3.2. Encourage Enterprises to Strengthen Technological Innovation and Promote the Transformation and Upgrading of Trade Structure**

The government should encourage enterprises to strengthen technological innovation by formulating corresponding preferential policies, improving the

technological content of products and production efficiency through technological innovation, thereby reducing production costs. The reduction of production costs can adjust export prices accordingly. The government should adjust its attraction policies for foreign-funded enterprises, provide more preferential policies to private enterprises, and promote their continued growth. When the RMB ExRate appreciates, the foreign exchange prices of China's technology intensive products can maintain a certain advantage, which can stabilize the trade market space. When the RMB depreciates, it can promote the growth of export trade and thereby expand the trade surplus [10]. The government should encourage enterprises to innovate independently and provide corresponding subsidies for their research and growth, in order to accelerate the technological innovation level of Chinese export enterprises' products, improve the international competitiveness of export products, and accelerate the transformation of export products into technology intensive and capital intensive.

## **4. Conclusions**

From the influence of the RMB ExRate on China's exim trade, it can be seen that the rise and fall of the RMB ExRate will have an influence on China's exim. When the ExRate rises, it is beneficial for imports, but unfavorable for exports. When the ExRate decreases, it presents the opposite situation. The fluctuation of the RMB ExRate not only has a significant influence on China's exim trade, but also has significant implications for the stability of people's lives, the sustained, rapid and healthy growth of the national economy, and the stability of global finance. Starting from reality, keeping up with the times, and formulating scientific response strategies play an important role in promoting the growth of China's exim trade, enhancing international competitiveness, and promoting the sustainable stability of the Chinese economy. Maintaining the stability of the RMB ExRate not only helps to enhance China's national image, but also helps China to participate more widely in international affairs, laying a stable foundation for communication and dialogue between China and other countries, and is conducive to the stability of China's economy. In order to maintain the stability of the Chinese economy and the sustained and healthy growth of exim trade, the central bank should not solely consider the influence of ExRate fluctuations when adjusting ExRates, but also consider the time lag of policy formulation, so that ExRate policies can work together with other economic policies to promote the stable growth of the national economy. The Chinese economy is in a stage of rapid growth and transitioning towards high-quality growth, which has strongly promoted the stable growth of the Chinese economy. This provides strong support for the internationalization of the RMB and is the pillar and fundamental driving force for the internationalization of the RMB.

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