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The Impact of RMB Exchange Rate Fluctuations on China's Export Trade in the Context of Sino-US Trade Friction

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ABSTRACT

Since 2018, the trade frictions between China and the United States have been escalating continuously, exerting a profound influence on China's foreign trade pattern and the stability of the RMB exchange rate. As a significant macro variable in international trade, the fluctuation of the RMB exchange rate not only directly determines the price competitiveness of export products but also affects the business decisions and market layout of enterprises through changes in cost allocation and profit margins. Against the backdrop of trade frictions, export enterprises are confronted with a more complex external environment, and exchange rate fluctuations have become a key factor restricting the scale and structure optimization of exports. Based on a review of relevant theories and literature, this paper analyzes the mechanism by which RMB exchange rate fluctuations affect China's export trade, with a focus on their impact paths in terms of international competitiveness, industrial structure adjustment, and policy responses. The research suggests that moderate exchange rate flexibility can help alleviate the impact of trade frictions, but excessive fluctuations may increase the uncertainty for export enterprises and hinder their long-term stable development. Therefore, under the context of Sino-US trade frictions, maintaining the basic stability of the RMB exchange rate, improving the exchange rate formation mechanism, and enhancing the competitiveness of export industries to strengthen the resilience of foreign trade are of great practical significance and policy reference value.

KEYWORDS

Sino-US trade frictions; RMB exchange rate fluctuations; Export trade; Industrial structure; International competitiveness

1 Introduction

Since the outbreak of the Sino-US trade friction in 2018, it has caused numerous impacts [1]. This trade dispute originated from the profound transformation of the global economic landscape and the escalation of contradictions between China and the United States in trade, technology, and politics. The two countries have repeatedly introduced tariff barriers and trade restrictions, leading to a decline in global trade growth. Specifically, the global industrial chain and supply chain have been impacted, further intensifying the instability of the global financial market and undermining investor confidence. As the world's second-largest economy and export power, China's approach to exports during the trade friction has led to multiple pressures on export enterprises, including rising costs and increased market uncertainty. During this process, the fluctuation of the RMB exchange rate has become a key factor affecting China's exports [2]. The exchange rate not only affects the international competitiveness of export goods but also directly influences the profits, cost allocation, and market layout of enterprises. Discussing the relationship between the RMB exchange rate and export trade in the context of the Sino-US trade friction has profound significance [3].

Most existing studies have explored the elastic effect of exchange rates on exports from a quantitative perspective, focusing on the promotion or inhibition of export scale due to the appreciation or depreciation of the RMB. In the special context of the Sino-US trade friction, a single quantitative analysis is insufficient to fully reveal the complex mechanisms behind exchange rate fluctuations. Factors such as trade protectionist policies, tariff barriers, and industrial chain transfers may mitigate or amplify the impact of exchange rate changes. It is necessary to conduct in-depth qualitative discussions on the impact path of RMB exchange rate fluctuations on China's export trade from both theoretical and practical perspectives, integrating macro and micro viewpoints [4].

This paper will take the Sino-US trade friction as the research background and conduct a systematic analysis of the impact of RMB exchange rate fluctuations on China's export trade. It will analyze the three levels of export scale, export structure, and export enterprises, and combine relevant cases of typical industries and enterprises to explore the transmission effects and differential impacts of exchange rate fluctuations at different levels. This paper will also sort out and evaluate the policy responses of the Chinese government in this regard, thereby providing certain theoretical references and practical inspirations for the risk management of Chinese export enterprises and the optimization of national macro policies.

2 Literature review

2.1 Research status of sino-us trade friction

Most scholars believe that the root cause of Sino-US trade friction is not merely the trade deficit issue. It reflects the contradictions between the two countries in terms of industrial chain division, technological innovation, and the international competition pattern at a deeper level. Some studies indicate that the US measures such as imposing tariffs and restricting Chinese enterprises from entering the US market aim to curb China's upward trend in the global value chain, posing potential risks of rising costs and order loss for Chinese export enterprises [5]. Most existing studies focus on the direct impact of the friction on the scale of bilateral trade, but pay relatively limited attention to the key variable of exchange rate.

2.2 Research on the relationship between rmb exchange rate and export trade

Regarding the relationship between the RMB exchange rate and export trade, scholars have formed different views. Traditional theories assert that RMB depreciation can enhance the price competitiveness of export goods, thereby promoting the expansion of export scale; RMB appreciation will weaken the export advantage and curb the export scale [3]. Recent studies have found that the impact of exchange rate on exports shows industry differences and time lag effects. Some high-tech industries are not very sensitive to exchange rate changes, while labor-intensive industries show a stronger dependence. The scale of enterprises, the level of internationalization, and risk management capabilities also affect the actual impact of exchange rate fluctuations on exports [6].

2.3 research gaps and innovation points

Although many empirical studies have been conducted on the relationship between the RMB exchange rate and exports, most of them adopt quantitative methods and lack qualitative analysis of the mechanism in the complex international context. Under the special context of Sino-US trade friction, the role of exchange rate is not only the transmission at the price level but also constrained by multiple factors such as tariff policies, market structure adjustment, and enterprise strategic choices [7]. It is necessary to explore from a qualitative perspective, combining theoretical discussion and case analysis, to more comprehensively clarify the multi-dimensional impact of RMB exchange rate fluctuations on China's export trade.

3 Theoretical framework and analytical approach

3.1 balance of payments theory

According to the relevant theories of balance of payments, exchange rate is a key means to adjust the balance of payments. If a country's currency depreciates, the prices of its export commodities in the international market will relatively decline, which can boost the export volume and thereby improve the balance of payments situation. In the current context of trade frictions between China and the United States, the depreciation of the RMB should enhance China's export competitiveness. However, due to the additional tariffs imposed by the United States, the depreciation effect has been weakened to a certain extent [5, 8], and the improvement in exports does not match the theoretical expectations.

3.2 elasticity theory and trade protectionism

Elasticity theory indicates that the impact of exchange rate changes on trade balance is determined by the price elasticity of import and export demand. If export demand is elastic, currency depreciation will significantly boost exports [9]; conversely, the promoting effect on exports will be limited. The trade frictions between China and the United States have increased the uncertainty of exports, causing the price elasticity of export demand in some industries to decline, thereby reducing the transmission effect of RMB exchange rate changes. Moreover, the rise of trade protectionism means that relying solely on exchange rate policy is insufficient to fully counteract the adverse impacts of frictions [4].

3.3 analytical approach

This paper will rely on the above theoretical framework to develop an analytical model of the transmission path of "exchange rate fluctuations - export scale - export structure - enterprise behavior", and analyze the multi-dimensional effects of RMB exchange rate fluctuations on China's export trade in the context of Sino-US trade frictions.

4 Analysis of the impact of rmb exchange rate fluctuations on china's export trade

4.1 Impact on export volume

A depreciation of the RMB can lower the selling price of export goods in the international market, thereby enhancing the competitiveness of Chinese goods in the US and other markets [2]. However, the depreciation effect does not take immediate effect, and there is often a certain time lag in its transmission. Enterprises may not be able to quickly adjust their production and sales plans in the short term, so changes in export volume will take some time to become apparent. The high tariffs imposed by the US have largely offset the positive effects of RMB depreciation, preventing some export enterprises from benefiting from it. Although RMB depreciation has a certain promoting effect on export volume, the impact has been significantly weakened due to the Sino-US trade friction.

4.2 Impact on export structure

The fluctuations in the RMB exchange rate not only affect the export volume but also have a significant impact on the export structure. In terms of product structure, low-value-added labor-intensive products are more sensitive to exchange rate fluctuations, while high-tech products are relatively more stable [6]. RMB depreciation has to some extent promoted the export of labor-intensive products, but these products are always faced with highly intense international competition and low added value. High-tech industries, on the other hand, can benefit from their technological advantages and brand effects, and the impact of exchange rate fluctuations is relatively limited overall.

In terms of market structure, the Sino-US trade friction has pushed Chinese export enterprises to accelerate the diversification of their market layout. RMB depreciation has highlighted the price competitive advantage of products in emerging markets, driving enterprises to explore new markets in Southeast Asia, Africa, and Latin America, and reducing their dependence on the US market [5]. This trend is conducive to the optimization of China's export regional distribution and enhances its ability to resist risks.

4.3 Impact on export enterprises

The differences in the impact of RMB exchange rate fluctuations on different types of enterprises are quite obvious. Large state-owned enterprises and multinational companies generally have strong risk management capabilities and can use hedging measures such as hedging and cross-border production layout to mitigate exchange rate risks. However, small and medium-sized enterprises, due to their limited funds and technology, are unable to effectively avoid the adverse effects caused by exchange rate fluctuations and are more vulnerable to shocks.

Exchange rate fluctuations also affect the strategic decisions and confidence of enterprises. Some enterprises increase their export volume during periods of RMB depreciation and actively explore new sales channels; while others, due to concerns about escalating frictions and policy uncertainty, adopt a wait-and-see attitude. Exchange rate fluctuations are not only economic variables but also influence the export behavior of enterprises through psychological expectations.

5 Case analysis

5.1 Industry cases

The electronic information industry is a key pillar of China's exports. Its products have high technological content and a global layout. The depreciation of the RMB is conducive to enhancing its price competitiveness in the international market. However, due to the additional tariffs imposed by the United States on certain high-tech products, the export of the electronic information industry has fallen into a "double squeeze" situation. The leading enterprises in this industry, with their efficient R&D and market expansion capabilities, can adopt strategies such as relocating production bases and developing alternative markets to mitigate the adverse effects [5].

The textile and garment industry is a typical labor-intensive industry, and the impact of exchange rate fluctuations on it is particularly significant. The depreciation of the RMB can rapidly enhance its competitiveness in the international market and increase the number of export orders. However, the added value generated by this industry is not high, making it vulnerable to fluctuations in international demand and tariff barriers [6]. Some small and medium-sized enterprises, unable to effectively pass on costs to cope with rising tariffs, are facing survival difficulties.

5.2 Enterprise cases

Large manufacturing enterprises such as exporters of home appliances and mechanical equipment generally have sufficient funds and international experience. They can rely on financial derivatives to hedge against exchange rate risks and proactively explore emerging markets to reduce their reliance on exports to the United States. Under the background of RMB depreciation, such enterprises generally gain a relative advantage.

Small and medium-sized export enterprises are in a difficult situation. They have shortcomings in financing channels, risk management, and market development. Although the depreciation of the RMB may lead to a short-term increase in orders, the uncertainties caused by trade frictions and tariff pressures often prevent them from continuously benefiting. Some small and medium-sized enterprises have to rely on transformation and upgrading and increasing product added value to explore new survival areas [6].

6 Policy environment and regulatory measures

6.1 Orientation of rmb exchange rate policy

The Chinese government has been promoting the market-oriented improvement of the RMB exchange rate formation mechanism and enhancing the flexibility of the RMB exchange rate. Against the backdrop of the Sino-US trade friction, this policy orientation is beneficial for alleviating external shocks and enhancing the adaptability of market entities. The stability of the RMB exchange rate remains an important goal of the policy to prevent significant fluctuations in the exchange rate from causing shocks to the economic operation [7].

6.2 Support measures of macro policies

To address the risks brought about by trade frictions and exchange rate fluctuations, the Chinese government has introduced a series of supporting policies. In terms of finance, it has carried out tax reduction and export rebate work for export enterprises; in terms of finance, it has broadened the scope of credit support and assisted banks in providing foreign exchange risk management tools to small and medium-sized enterprises; in terms of trade, it has guided enterprises to diversify their export markets and supported them in participating in international exhibitions and exploring markets along the Belt and Road Initiative. These measures have to some extent mitigated the negative effects caused by exchange rate fluctuations.

6.3 Policy evaluation and shortcomings

China's policy measures have achieved certain results in stabilizing market expectations and supporting enterprises. However, there are still some limitations in the policies. Some small and medium-sized enterprises have poor awareness and usage of foreign exchange risk management tools, and the policy effects have not been fully covered. The policies have mainly focused on short-term relief, and more efforts are needed to enhance the long-term competitiveness of enterprises and promote the upgrading of export product structures. The Sino-US relationship is complex and uncertain, which requires the policies to be more flexible to make timely adjustments in response to changing circumstances.

7 Conclusion and implications

7.1 Main conclusions

This paper, through qualitative analysis, finds that against the backdrop of the Sino-US trade friction, the impact of RMB exchange rate fluctuations on China's export trade shows multi-level characteristics. RMB depreciation has, to a certain extent, driven the expansion of export scale, but its effect has been significantly weakened by tariff barriers. In terms of the structure of export goods, low-value-added products have benefited more, while high-tech products have been relatively less affected. RMB exchange rate fluctuations have promoted the diversification of export markets [5]. As for the group of export enterprises, large enterprises can effectively cope with challenges through risk management and strategic adjustments, while small and medium-sized enterprises face greater challenges [6].

7.2 Practical implications

Chinese export enterprises need to enhance their risk management capabilities, actively utilize financial tools to guard against exchange rate risks, and at the same time, accelerate industrial upgrading, increase the added value of their products, and reduce dependence on a single market [1]. The government should further optimize the foreign exchange market mechanism, promote the effective connection between policies and enterprise demands, and especially strengthen assistance to small and medium-sized enterprises.

7.3 Research limitations and prospects

This study adopts qualitative research methods, focusing on mechanism analysis and case studies, lacking specific quantitative verification. Future research can combine empirical models to conduct in-depth tests on the quantitative relationship between exchange rate fluctuations and export trade, thereby making the conclusions more universal and operational.

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