

The Influence of RMB Appreciation on China's Export Trade

Zhang Lingying

Shandong Technology and Business University, Finance Teaching and Research Office, Yantai 264005,
Shandong China

309199768@qq.com

Keywords: RMB; exchange rate; export trade

Abstract: under the background of economic globalization and regional economic integration, economic integration is becoming stronger among countries. Export trade plays an important role the national economy of a country, while the fluctuation of RMB exchange rate has a crucial influence on China's export trade. In the context, according to the specific situation of China's economy at present stage, the paper starts with the fluctuation of exchange rate to put forward a series of countermeasures and suggestions for the change of China's export trade caused by RMB appreciation for a long time.

1. Introduction

Since China joined the World Trade Organization (WTO), RMB appreciation has an increasing influence on China's import and export trade. As a major industrial country with rapid economic development, China plays a crucial role in the world economy. In order to realize the stable development of import and export trade, China have to establish a reasonable mechanism to solve problems caused by RMB appreciation, greatly adjust the structure of export products, and upgrade and transform some low-tech enterprises, so as to reduce the pressure brought by RMB appreciation and ensure steady and rapid economic development^[1].

2. An Overview of Relevant Theories

2.1 Exchange Rate

Exchange rate refers to the conversion rate or price comparison between two currencies. Its change directly affects a country's balance of international trade, in which exchange rate has a function to regulate the value of currencies between buyers and sellers. If the exchange rate of a currency decreases, namely, the ratio of this currency to other currencies declines, the export trade of the country will be promoted, while the import one will be limited; otherwise, if the exchange rate of a currency increases, or rather, the ratio of this currency to other currencies rises, the export trade of the country will be limited, while the import one will benefit from it. The fluctuation of a country's foreign exchange market will has a huge influence on its international trade, including the change of economic structure and the adjustment of production layout^[2].

2.2 RMB Appreciation

RMB appreciation means the improvement of RMB in purchasing power. That is to say, the same amount of RMB can buy more foreign products than in the past. There are many reasons for RMB appreciation. The leading causes in China are the increase of foreign exchange reserves and the imbalance of international payments, while external pressure is primarily from a series of developed countries such as the United States. They contend that some developing countries like China deliberately manipulate the exchange rate of their currencies in order to earn money. The exchange rate of our currency is lower than its real value to improve the export competitiveness of China, especially RMB.

2.3 Export Trade

Export trade refers to the trading activity that products are produced or processed in a country and then shipped to overseas markets for sale. Since 1978, although China's export trade has developed rapidly, the structure of export commodities is relatively single, mainly focusing on low-tech rough-wrought products. Those products are limited in profit space and weak market competitiveness. Therefore, the fluctuation of exchange rate increases business risks of such enterprises. Meanwhile, the fluctuation can also influence China's economic development in many aspects such as the turnover and volume of export trade, which will affect China's balance of export trade^[3].

3. The Influence of RMB Appreciation on China's Import and Export Trade

3.1 Positive Influences

At present, China is at the stage of industrialization. It is necessary for enterprises to increase investments of labor forces, raw materials, and production materials, in order to realize the scale production of China's sustainable development strategy. The positive influences of RMB appreciation on China's import and export trade mainly include: firstly, RMB appreciation can reduce relative prices of foreign exchanges, which will greatly lower costs of labor forces, raw materials, and production materials. Secondly, it will promote the adjustment of trading structure. Labor intensive products account for the vast majority of China's import and export trade, with high consumption of raw materials but low prices. Compared with foreign market economy, RMB appreciation can promote the rapid and steady development of China's market economy. Thirdly, it can improve import and export trading conditions of China's traditional import and export trading market. China's trade surplus causes the huge imbalance of import and export trade, which results in the in-correspondence between China's commodity prices and the costs of labor forces and raw materials. RMB appreciation can effectively raise prices of our products to increase price profits of our enterprises. Fourthly, it can reduce trade disputes. Since the reform of China's foreign exchange policy, the market competitiveness of its international trade has been improved, while our conflicts with our trading partners are also increasing. However, RMB appreciation can effectively alleviate those trade conflicts, and improve China's bad image of trade protectionism in views of other countries, as well as help restrain the excessive growth of China's trade surplus. Last but not least, it is conducive to optimize the structure of China's export commodities. For a long time, our export trade is not very reasonable in its structure of products, because a majority of export enterprises belong to cheap processing manufacturing industry, lack of high-level export enterprises. Many of those enterprises depend on the support of foreign technologies and brands, which transfers most profits of China's export trade processing to foreign enterprises. However, RMB appreciation can intensify competition among export enterprises, eliminate some foreign trade enterprises with low technology, added value and management level, stimulate continuous progress of our enterprises, enhance their brand strength and core competitiveness of products, strengthen their anti-pressure abilities, optimize the structure of export products, and reduce vicious low-price competitions among domestic enterprises in export trade, in order to make Made in China go out better. Therefore, RMB appreciation plays an important role in stimulating the innovation and upgrading of China's export products^[4].

3.2 Negative Influences

RMB appreciation makes the development of market economy have a clearer objective. The world's hot money is characterized by strong concealment, great liquidity, and big short-term profits. Given the good economic prospect of RMB appreciation, a great deal of hot money from the world pours into the mainland market of China, which results in the lack of domestic currency, the rise of commodity prices, the rapid growth of virtual economy, and the slow development of real economy. As a large number of foreign capital flow in and the share of foreign exchanges increases, it is more difficult for China's central bank to control its economy, which increases the uncertainties in

financial market.

Given the vast territory of China, different regions have an obvious difference in their resources and environments. However, the development of foreign trade economy further expands the difference, and that of economic development among different regions. With the rise of RMB exchange rate, the production cost of enterprises increases, while the efficiency of labor and resource intensive export enterprises decreases, and so do the income of local residents and employment opportunities. However, RMB appreciation has no effect on technology-intensive export enterprises, which further widens the income gap among different regions and occupations in China, not conducive to social stability, harmony and development..

Affected by the financial crisis of 2008, European countries have not recovered from it for a long time, so they hope to relieve the current crisis through lowering commodity prices. At present, the rapid appreciation of RMB makes the cost of foreign investment continuously increase, which affects the competitiveness of enterprises in the world market, reduces efficiency, and greatly influences the enthusiasm of foreign-funded enterprises, so foreign investment decreases year by year. Furthermore, due to RMB appreciation, the profit of domestic investment is not high. Therefore, many enterprises are forced to shift their investment in profitable areas. Foreign trade enterprises reduce their capital stock, which seriously affects their development speed and planning.

4. Countermeasures and Suggestions for the Influences of RMB Appreciation on Import and Export Trade

4.1 The Level of Government

Internationally, the development of China's financial market is still in a critical period for the reform of exchange rate rules, and it will take a long time to achieve market-oriented floating exchange rate rules. With the steady rise of RMB exchange rate, we need to establish and improve rules for the management of floating exchange rates. The establishment of hardware, software and credit systems in the market will reduce the impact of RMB appreciation on foreign exchange market, prevent bubble economy, lose the opportunities of hot money's short-term speculation profiteering, and improve the capability of foreign exchanges to control risks. Meanwhile, we should stick to the thought of gradual change, grasp the current development trend of China's financial market, strengthen the enduring capability of foreign trade enterprises, and flexibly control the changes of RMB exchange rate^[5].

Low-tech industries have been greatly affected by RMB appreciation, such as product processing industry, light industry, garment industry, etc. However, the large industries with low elasticity of demand for products are not impacted by the fluctuation of RMB exchange rate. Therefore, we can improve the technology and management of enterprises with the potential of development, speed up their upgrade and transformation through their merger and restructuring, gradually strengthen their capability of survival, and enhance the competitiveness of their products in the market. The structure of foreign trade should be tilted towards innovative industries, and the structure of export should be changed, in order to transform China's industry to the world's one.

RMB appreciation brings unprecedented pressure to foreign trade export, which forces foreign trade enterprises to reduce or stop production. That requires us to transform the method of economic development that takes domestic demand as the main body and technology and innovation as the guidance, in order to reduce the influence of foreign trade on enterprises and the fluctuation of RMB exchange rate on import and export trade.

Facing RMB appreciation, the government should adjust relevant import and export rates, reduce export rebate rates and certain subsidies of some export enterprises, and slow down our exports, relieve export pressure, as well as provide certain support of tax reduction for transformation and upgrading of export trade enterprises, in order to promote their innovative development. Meanwhile, the government should learn to make use of huge foreign exchange reserves to import all kinds of technologies and resources needed for the development of domestic production, which can not only relieve the influence of RMB appreciation caused by huge foreign exchanges, but also enhance

China's comprehensive strength, and strengthen the international competitiveness of export trade enterprises.

4.2 The Level of Enterprises

Export trade enterprises need to increase investment in scientific and technological research, improve the technical content of advanced products and the proportion of advanced scientific and technological products, and transform the mode of producing low-end products. Meanwhile, they also need to introduce more foreign high-end equipment and advanced technologies, speed up technological upgrade and transformation, invent high-tech products, improve the technical content of products, and reduce the influence of export products in the world. With the gradual progress of the liberalization of exchange rate rules, it is difficult for export enterprises to control the fluctuation of RMB exchange rate in the short term, which increases the risk of exchange rate in financial activities in the world trade. Under the background of economic globalization, export trade enterprises need to improve their brand consciousness and meet various demands of the market. They should strengthen their technological development, improve the technical content of products, and establish their own advantages of export brands, facing various differences of export, in order to strengthen their influences in the world market. Meanwhile, they need to reasonably make use of financial leverage, develop world universal platforms, and expand overseas assets through mergers and acquisitions. They also need to take advantage of overseas resources to prevent that the fluctuation of domestic exchange rate impacts the prices of import and export products.

Faced with the pressure of export trade, domestic export trade enterprises need to know transformation and upgrading, rather than simply depending on low prices to expand the international market; know to enhance their competitiveness with technology and strength, by which resist external competitive pressure and the influence of turbulence in foreign exchange market. At the same time, they should not excessively rely on the development of foreign trade economy, and need to pay attention to the expansion of domestic market, strengthen their domestic competitive strength, learn to innovation and development, and transform the current model of export trade dominated by low-end manufacturing to one led by high-tech export industry, in order to enable our industrial development to utilize international resources better, and promote the steady and continuous development of our economy.

5. Conclusion

Exchange rate refers to the price of one currency compared with another, which is an important leverage and variable that determines and leads the market. In the past, China did not open up to the world in a wide range of areas, so the effect of market mechanism was not obvious, and the effect of exchange rate looked less important. However, at present, the influence of fluctuation of exchange rate on our foreign trade and economic activities has become a problem that cannot be ignored.

References

- [1] Wei Shu. The Fluctuation of RMB Exchange Rate and Its Influence on Import and Export [J]. *Taxpaying*, 2019, 13(17): 228.
- [2] Liu Xinyu, Wang Shaoqing. The Analysis of the Influence of RMB Appreciation on Import and Export Trade [J]. *National Circulation Economy*, 2019(15): 17-18.
- [3] Yang Fuyu. The Influences and Countermeasures of RMB Exchange Rate Fluctuation on Import and Export Trade [J]. *Chinese Collective Economy*, 2019(11): 17-18.
- [4] Li Baotong. The Influences and Countermeasures of RMB Appreciation on China's Import and Export Trade [J]. *China Journal of Commerce*, 2019(01): 96-97.
- [5] Dai Zongqun. The Influence and Development Strategy of Import and Export Trade under the

Background of RMB Appreciation [J]. *Taxpaying*, 2018, 12(23): 160-161.

[6] Wang Rong. The Analysis of the Influence and Countermeasures of RMB Appreciation on Import and Export Trade [J]. *Modern Marketing (Wealth Creation Information Edition)*, 2018(08):33.

[7] Yang Bin, Zhou Ying. The Influence and Countermeasures of RMB Exchange Rate Fluctuation on Import and Export Enterprises. [J]. *Modern Finance*, 2018(06):34-36+33.

[8] Wang Fei, Dong Hongfei. The Study on the Influence of RMB Appreciation on China's Import and Export Trade [J]. *Commercial Culture*, 2018(09): 17-18.