

The Impact of RMB Exchange Rate Fluctuation on China's Air Conditioning Industry

Zerui Deng*

Guangdong Institute of Science and Technology Robotics Engineering Program Universities, Shenzhen, Guangdong, 523083, China

*Corresponding author's e-mail: Aa2035505211@outlook.com

Abstract: Based on the background of China's current trade with other countries is becoming increasingly close, the study of exchange rate stability on the impact of China's trade with other countries to promote China's economic stability has a certain theoretical significance. In the study of air conditioning industry import and export trade factors affecting the attention of the national exchange rate is very important, in the two countries trade relations, the exchange rate is a measure of the two countries to buy, sell the price of the product of the vital factors, exchange rate changes for the enterprise will bring a certain degree of impact, stabilization of the exchange rate for the promotion of our country and the trade of other countries in the long term and good cooperation has important practical significance. The air-conditioning manufacturing industry is a very representative research object. The cost-sensitive home appliance industry is a labor-intensive industry, which provides a huge number of jobs for China and creates a huge amount of foreign exchange income. At the same time, the home appliance industry, as a representative of China's manufacturing industry, faces industrial upgrading pressure and is in the maturity of a fully competitive industry, which has been severely impacted by exchange rate changes. It is of great significance to correctly measure and analyze the foreign exchange risk exposure of the import and export of the air-conditioning industry and its influencing factors. From a micro point of view, enterprises can be based on foreign exchange risk exposure situation targeted adjustment of financial strategies, strategies and management methods. From a macro point of view, the country can be based on the overall foreign exchange risk exposure characteristics of home appliances to formulate the correct macroeconomic policy.

Keywords: Renminbi Exchange Rate, Import and Export Trade, Renminbi Internationalization.

1. Introduction

Since the 21st century, under the impetus of the globalized economy, the direct trade exchanges between countries are very close, China has also entered a period of rapid development, foreign trade is very important to our country. Based on the research results so far, it can be seen that the exchange rate fluctuations on the import and export enterprises will have an impact on trade is a mother of doubt, China's export enterprises in the international market competitive advantage is generally reflected in the cost advantage, the current labor costs soaring also led to the enterprises to face the industrial chain to Southeast Asia and other countries to transfer the new challenges. In the case of fierce market competition, the negative impact of exchange rate changes on export enterprises will further weaken the cost advantage of China's export enterprises. As a representative export industry, the household appliance industry is one of the few Chinese industries with strong international competitiveness. In recent years, by the impact of global warming, the summer heat time increases year by year, air conditioning has been an indispensable household appliance in people's daily life, air conditioning export enterprises are also known around the world. At present, the exchange rate fluctuates frequently bilaterally, and the cost-sensitive home appliance export enterprises need to strengthen foreign exchange risk management. Based on the above realistic background, this paper chooses to refine the air-conditioning industry into the field of home appliances to do the study of exchange rate impact on enterprise value, in order to provide reference ideas for effective foreign exchange risk management by combining the macro-environment and enterprise performance indicators.

2. Literature Review

2.1. The formation process of China's current exchange rate system

China's current exchange rate system is a floating exchange rate system that is adjusted by the People's Bank of China (China's central bank) based on market supply and demand and movements in a basket of currencies by reference to a basket of currency exchange rates and market supply and demand. In order to further promote the market-oriented reform of the RMB exchange rate, China started to implement the exchange rate system with reference to a basket of currencies in 2005. The central bank guides the floating of the exchange rate by adjusting the median price of the RMB against the US dollar based on the exchange rate movements of the basket of currencies and market supply and demand [1,2]. Over the past few years, China has been gradually promoting the market-oriented reform of the RMB exchange rate, strengthening the market's role in determining exchange rate formation. However, the Chinese government still retains a certain amount of intervention power to prevent excessive volatility and maintain exchange rate stability. The objective of this exchange rate regime is to achieve gradual liberalization and marketization of the RMB exchange rate while maintaining relative stability of the exchange rate.

2.2. Recent changes in exchange rates

Since the 21st century, China's foreign trade has boomed rapidly. As Chinese enterprises enter the international market, the data on exchange gains and losses involved in their income statements have gradually increased. The main situation can be divided into two kinds: one is in the process

of foreign exchange purchase and settlement, due to the difference between the purchase price and settlement price and the intermediate price, resulting in exchange gains and losses; the second is at the end of the period when the carry-over, bank deposits, accounts receivable, accounts payable and other currency accounts due to the end of the period translation exchange rate and the beginning of the period of the exchange rate of the difference between the changes in the exchange rate, which in turn formed exchange gains and losses. Due to the large impact of exchange rate fluctuations on the income statement of enterprises, in recent years, exchange gains and losses have been one of the important issues of concern to enterprises. Since May 2020, the U.S. dollar exchange rate has been falling, fluctuating downward from the level of 7.1316 to 6.44 in January 2021. Since 2021, the U.S. dollar exchange rate has been hovering around 6.4. However, since April 2022, the US dollar exchange rate bottomed out, continued to rise and at one point exceeded 7.3. The RMB, as well as other currencies such as the Japanese yen, the British pound, and the euro, also experienced severe depreciation as a result of the US dollar's continued interest rate hikes and the disruption of the global market due to the New Crown Epidemic, etc. The US dollar's exchange rate has been in decline since April 2022, but it is now at its lowest level in the world.

3. The Impact of RMB Exchange Rate Fluctuations on China's Air-conditioning Industry

3.1. The positive impact of RMB exchange rate fluctuations on China's air conditioning industry

3.1.1. Positive impact of RMB appreciation on air-conditioning industry

When the RMB appreciates, the cost of imported raw materials and equipment may decrease, which helps to reduce the production cost of import and export enterprises, which is a great opportunity for enterprises relying heavily on imported raw materials and is conducive to the sustainable development of enterprises. At the same time, as the cost of imports decreases, enterprises can more easily introduce advanced technology and equipment to improve the quality and competitiveness of their products. In addition, due to higher export prices, enterprises also have more profit margins to spend on research and development of new products and technologies. In addition, the appreciation of RMB can also bring a certain degree of relief to the pressure of foreign debts of import and export enterprises. The appreciation of RMB can make the principal and interest of foreign debt relatively reduced. Repaying foreign debt when RMB appreciates reduces the cost on the one hand, and on the other hand, by taking the initiative to repay the foreign debt, the enterprise can show its good credit and financial status. This helps to improve its credit rating and reputation, which in turn reduces borrowing costs and obtains more favorable financing conditions [3].

3.1.2. Positive impact of RMB depreciation on the air-conditioning industry

The depreciation of RMB will lead to a relative reduction in the price of exported air-conditioning products, thereby increasing the competitiveness of Chinese air-conditioning manufacturers in the international market. Lower prices may

attract more overseas consumers to purchase Chinese-made air-conditioning products, thereby increasing the volume of exports. In addition, the depreciation of RMB will increase the prices of imported air-conditioning products, which may prompt domestic consumers to prefer buying domestically manufactured air-conditioning products, thereby stimulating demand in the domestic market. This could help boost the sales and market share of domestic air-conditioning manufacturers.

3.2. The negative impact of RMB exchange rate fluctuations on China's air conditioning industry

3.2.1. The negative impact of RMB appreciation

In contrast to the positive impacts of RMB appreciation, the negative impacts of appreciation are also very numerous. First of all, RMB appreciation will make the price of exported air-conditioning products relatively higher, which may weaken the competitiveness of Chinese air-conditioning manufacturers in the international market. The higher prices may cause overseas consumers to switch to air-conditioning products from other countries, thus reducing the export volume of Chinese air-conditioning products. At the same time, the appreciation of RMB may lead to a decrease in the prices of imported air-conditioning products, which may make domestic consumers more inclined to purchase imported products rather than domestically produced air-conditioning products [4]. This may lead to a decrease in demand in the domestic market, causing sales pressure on domestic air-conditioner manufacturers and a decrease in market share.

3.2.2. Negative impact of RMB depreciation

The depreciation of RMB will lead to an increase in the price of imported air-conditioning raw materials and components, as more RMB will be required to purchase the same amount of foreign currency. This will increase the production cost of air-conditioner manufacturers. At the same time, the depreciation of the RMB will lead to an increase in the prices of imported equipment and technology, which may increase the production costs of air-conditioner manufacturers. Firms may have to bear higher procurement costs, which reduces their profit margins.

4. How to Deal with The Impact of Exchange Rate Fluctuations on The Air Conditioning Industry

4.1. Financial hedging

The use of financial instruments can help effectively reduce the impact of exchange rate fluctuations on the air conditioning industry, foreign exchange risk is mainly divided into transaction risk, translation risk and economic risk. Transaction risk is denominated in foreign currency in the process of transaction, due to the settlement and the signing of the contract when the bilateral exchange rate is different and the existence of risk. For the transaction risk, you can use forward foreign exchange transactions to protect, foreign exchange futures trading, borrowing, foreign exchange options trading and so on to prevent risk [5]. Translation risk is due to the exchange rate fluctuations between different currencies and the resulting loss or risk of funds translation. For the translation risk can take diversified funds, balance sheet protection method, contract protection method and so

on to avoid the risk. Economic risk refers to the impact of exchange rate fluctuations on a company's costs or revenues. For economic risk, diversification of funds, investment and so on can be used to avoid the risk.

4.2. Business Hedging

In the economic hedge can be internationalized to foreign exchange risk management to reduce the adverse impact of exchange rate fluctuations on financial performance. Air-conditioning manufacturers can choose to invest directly in overseas, but also in the form of technical cooperation in overseas factories, but also in overseas sales branch structure. On the one hand, in overseas sales, the currencies of various countries can be received, increasing currency diversification, which can significantly reduce the translation risk caused by exchange rate changes. In addition, overseas manufacturing bases, in addition to selling products to local residents, can also be sold to neighboring countries, reducing the difficulty of responding to emergencies, but also at the same time reduces the economic risks arising from exchange rate changes.

4.3. Internationalization of RMB

The internationalization of RMB can reduce the foreign exchange risk of enterprises and individuals in international trade and investment. When the RMB is widely used in international payments and settlements, it can reduce the dependence on other currencies and reduce the risk of exchange rate fluctuations. The internationalization of the RMB is a general trend and effective measures must be taken to vigorously promote it. The reduction of two-way fluctuations in the RMB exchange rate and the internationalization of the RMB are closely related, at the same time, we should also continue to optimize and enhance China's foreign exchange reserves, on the basis of which we can enhance China's influence in the international arena, China has more and more power of speech in the world, it will attract other countries to invest in China, so that China is more attention.

5. Conclusion

For the current stage of the global economic market, the RMB exchange rate change is not only a challenge, but also an opportunity. In the face of exchange rate changes, enterprises should find their own strategies to cope with them. The internationalization of RMB is a general trend, and

effective measures must be taken to vigorously implement it. RMB exchange rate fluctuations in both directions to reduce the internationalization of the RMB there is a close link, at the same time, should also continue to optimize and enhance China's foreign exchange reserves, on this basis can enhance China's influence in the international arena, China has more and more of the world's right to speak, will attract investment from other countries, so that China more attention. Secondly, from all aspects to increase the innovation of enterprises, and constantly improve the value of China's import and export enterprises in the original. In our country's long history of development, often at a disadvantage, generally due to the reliance on our cheap labor, so the product price is low, relying on the low price advantage among the fierce competition in the international market, such competitiveness is undoubtedly untenable, not conducive to the sustainable development of enterprises. Therefore, we should encourage enterprises to standardize their export policies. Enterprises also need to establish the concept of currency neutrality, the dollar exchange rate up and down with a certain degree of cyclicity, stability is the main tone, can not only consider the currency unilateral expectations, do not produce the exchange rate "gamble" mentality, the need to strengthen the "preservation of" rather than "value-added". The basic concept of "value preservation" rather than "value appreciation" should be strengthened.

References

- [1] Zhang, Y. (2021) Study on the risk impact of exchange rate fluctuation on home appliance export enterprises in China. Thesis of South China University of Technology, 74.
- [2] Chen, P. Research on the impact of exchange rate changes on the high-quality development of home appliance enterprises—Take Haier Zhijia and Sichuan Changhong as examples. Thesis of Zhejiang Gongshang University, 75.
- [3] Zhang, Y. The impact of RMB exchange rate changes on China's import and export trade. *National circulation economy*, 2263 (31): 54-56.
- [4] Zhao, S. (2023) The influence of two-way exchange rate fluctuation on import and export enterprises and its countermeasures. *Guangxi Quality Supervision Guide*, 237 (09): 175-176.
- [5] Li, Y. (2019) Case analysis of the impact of foreign exchange risk management on the financial performance of Gree Electric Appliances. Thesis of South China University of Technology, 80.