

# Research on the Impact Mechanism of RMB Internationalization on the Price Resilience of Manufacturing Exports

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## Abstract

This article focuses on the impact mechanism of the internationalization of the RMB on the price resilience of manufacturing exports. Firstly, it expounds the process and current situation of the internationalization of the RMB, as well as the connotation and importance of the resilience of manufacturing export prices. Then, from multiple perspectives such as the exchange rate transmission mechanism, trade cost mechanism, international monetary power mechanism, and market expectation mechanism, an in-depth analysis is conducted on the specific paths through which the internationalization of the RMB affects the resilience of manufacturing export prices. Based on the research results, relevant policy suggestions are put forward to enhance the price resilience of manufacturing exports and promote the internationalization process of the RMB.

**Keywords:** Internationalization of the RMB; Manufacturing industry; Export price resilience; Influence mechanism.

## 1. Introduction

### 1.1 Research Background and Significance

As global economic integration progresses further and deeper, the international monetary system is experiencing far-reaching transformations. In this context, the internationalization of the Renminbi (RMB) has emerged as a crucial strategic option. The internationalization of the RMB not only elevates China's voice and influence in the international economic arena but also offers numerous advantages to Chinese enterprises, including mitigating exchange rate risks and cutting down on transaction expenses <sup>[1]</sup>.

As a pillar industry of China's economy, manufacturing plays a crucial role in economic growth, employment and foreign exchange earnings through exports <sup>[2]</sup>. In today's increasingly fierce global competition, the price resilience of manufacturing exports is of great significance for maintaining the international competitiveness of China's manufacturing industry and stabilizing economic growth. Export price resilience refers to the ability of manufacturing export prices to remain relatively stable or recover quickly in the face of external shocks <sup>[3]</sup>. When confronted with external shocks such as exchange rate fluctuations, changes in raw material prices, and variations in international market demand, manufacturing enterprises with high export price resilience can better cope with the challenges and maintain their market share and profit margins.

Exploring how the internationalization of the RMB influences the price resilience of manufacturing exports aids in gaining a more profound comprehension of the interplay between them and lays a scientific groundwork for formulating policies. By advancing the RMB's internationalization, we can bolster the resilience of manufacturing export prices, foster the sustainable progression of China's manufacturing sector, contribute to the continued refinement of the international monetary system, and spur steady global economic growth.

### 1.2 Review of Current Research Status at Home and Abroad

Scholars from both within China and abroad have carried out extensive research on the internationalization of the RMB. As for the driving forces propelling the RMB's internationalization, numerous scholars hold the view that the strengthening of China's economic prowess, along with the expansion of international trade and investment, are key factors driving the RMB's move towards internationalization <sup>[4]</sup>. With China's growing prominence in the global economic landscape, the international market's need for the RMB is steadily on the rise, thereby laying a robust economic groundwork for the RMB's internationalization.

Regarding the progression and present state of the RMB's internationalization, scholars have directed their attention to its advancements in areas such as cross-border trade settlement, capital account convertibility, and its role as an international reserve currency <sup>[5]</sup>. Over recent years, the internationalization of the RMB has secured a host of significant accomplishments, exemplified by the steady growth in the volume of cross-border trade settled in RMB and the RMB's inclusion in the Special Drawing Rights (SDR) currency basket. Nonetheless, it also encounters certain hurdles, including the necessity to further enhance the convertibility of the capital account and the lack of sufficient depth and breadth in the financial market.

When it comes to examining how the internationalization of the RMB influences China's economy, studies predominantly center on areas such as exchange rates, trade, and investment <sup>[6]</sup>. Certain scholars argue that the internationalization of the RMB has the potential to mitigate exchange rate risks and lower transaction costs for businesses, thereby fostering the growth of trade and investment. Conversely, other scholars highlight that the internationalization of the RMB could introduce certain risks, including heightened exchange rate volatility and erratic capital movements.

### 1.2.1 Research on the Resilience of Manufacturing Export Prices

In terms of the resilience of manufacturing export prices, scholars focus on the factors influencing export price fluctuations, the maintenance of export price competitiveness, and strategies for responding to external shocks, etc. <sup>[7]</sup> Exchange rate fluctuations are one of the important factors influencing the export prices of the manufacturing industry. Many studies have shown that exchange rate fluctuations can have a significant impact on the pricing strategies, market shares and profits of export enterprises <sup>[8]</sup>.

In addition to exchange rate fluctuations, factors such as production costs, market demand, and technological innovation can also affect the resilience of manufacturing export prices. Changes in production costs will directly affect a company's pricing decisions, while changes in market demand will influence the selling price and quantity of products. Technological innovation can enhance the quality and added value of products, strengthen the market competitiveness of enterprises, and thereby increase the resilience of export prices.

## 2. The Process and Current Situation of the Internationalization of the RMB

### 2.1 The Meaning and Motivating Factors Behind RMB Internationalization

RMB internationalization pertains to the trajectory where the RMB transcends national borders, circulates overseas, and gains widespread acceptance as a pricing, settlement, and reserve currency on the global stage. Key motivators encompass the bolstering of China's economic prowess, the expansion of international trade and investment, and the imperative to diminish exchange rate risks and transaction costs, among others. As the world's second-largest economy and the preeminent trading nation, China's vast economic scale and trade volume furnish a robust economic underpinning and practical necessity for RMB internationalization. Concurrently, as Chinese enterprises expedite their global expansion, the demand for utilizing the domestic currency for international settlement and investment is escalating daily.

### 2.2 The Evolutionary Path of RMB Internationalization

The internationalization of the RMB has traversed several developmental stages, commencing with its utilization in border trade, progressing to cross-border trade settlement, and culminating in the convertibility of the capital account. In 2009, China initiated a pilot program for cross-border trade settlement in RMB, signifying a tangible stride forward in RMB internationalization. Subsequently, the RMB's stature within the international monetary system has progressively ascended, with its application scope in trade settlement, investment, reserves, and other domains continually broadening. In 2015, the RMB's inclusion in the Special Drawing Rights (SDR) currency basket marked a pivotal juncture in its internationalization, further elevating its international standing and recognition.

### 2.3 Evaluation of the Current State of RMB Internationalization

Presently, the RMB has emerged as the fifth-largest payment currency, the third-largest trade financing currency, and the fifth-largest foreign exchange trading currency globally. The RMB's sway within the international monetary system is gradually intensifying. An increasing number of countries and regions have incorporated the RMB into their foreign exchange reserves, and trade and investment activities settled in RMB with China are also on an upward trajectory. Nevertheless, RMB internationalization still confronts certain hurdles, such as the necessity to further augment the

convertibility of the capital account, the inadequate depth and breadth of the financial market, and intense competition among international currencies. Compared to major international currencies like the US dollar and the euro, the RMB's share and influence within the international monetary system still exhibit a substantial disparity.

### **3. The Connotation and Influencing Factors of the Resilience of Manufacturing Export Prices**

#### **3.1 The Connotation of the Resilience of Manufacturing Export Prices**

The resilience of manufacturing export prices refers to the ability of manufacturing export prices to remain relatively stable or quickly return to a reasonable level in the face of external shocks such as exchange rate fluctuations, changes in raw material prices, and variations in international market demand. High export price resilience helps manufacturing enterprises maintain market share, ensure profit margins and enhance international competitiveness. In the context of globalization, manufacturing enterprises are confronted with a complex international market environment and numerous uncertain factors. The resilience of export prices has become an important guarantee for the survival and development of enterprises.

#### **3.2 Factors Affecting the Resilience of Manufacturing Export Prices**

Exchange rate variations have a direct bearing on the price competitiveness of exported goods. Should the domestic currency strengthen, export product prices effectively climb, potentially triggering a reduction in export volumes. Conversely, when the domestic currency weakens, export product prices comparatively decrease, fostering an environment conducive to boosting exports. Nonetheless, unduly volatile exchange rates amplify the currency risk borne by enterprises, complicating their ability to precisely forecast costs and profits, and consequently undermining the stability and robustness of export pricing.

Changes in production costs will affect a company's pricing strategy. The increase in raw material prices, the rise in labor costs and other factors will all lead to the rise in production costs. If enterprises cannot fully pass on the cost increase to export prices, it will compress their profit margins, reduce their risk resistance capacity and the resilience of export prices.

The international market demand determines the selling price and quantity of the products. When international market demand is strong, enterprises can raise export prices and increase profits. When international market demand is weak, enterprises may have to lower prices to maintain market share, which poses a challenge to the resilience of export prices.

Technological innovation can enhance the quality and added value of products, enabling enterprises to gain an advantageous position in market competition. Enterprises with technological innovation capabilities can better cope with external shocks, enhancing their ability and resilience to adjust export prices by improving product performance and reducing production costs.

Industrial competitiveness is a comprehensive concept, encompassing aspects such as industrial scale, industrial concentration, and industrial supporting capacity. Regions or industries with strong industrial competitiveness can form industrial cluster effects, reduce production costs, improve production efficiency, and enhance the stability and resilience of export prices.

### **4. Mechanism Analysis of the Impact of RMB Internationalization on the Resilience of Manufacturing Export Prices**

#### **4.1 Exchange Rate Transmission Mechanism**

The internationalization of the RMB makes the RMB exchange rate more market-oriented, and its fluctuations may be more frequent and intense. Reasonable exchange rate fluctuations can play the role of a price signal, guiding manufacturing enterprises to optimize resource allocation and enhance production efficiency. When the RMB depreciates, export enterprises gain a price advantage and their export volume increases. At the same time, enterprises are aware of exchange rate risks and will strengthen cost management, improve product quality, enhance risk resistance capabilities, and thereby increase the resilience of export prices. However, excessive exchange rate fluctuations will increase the exchange rate risks of enterprises, leading to unstable export prices. To avoid risks, enterprises may adopt financial derivatives for hedging, but this will increase transaction costs and have a negative impact on the resilience of export prices.

#### **4.2 Trade Cost Mechanism**

The internationalization of the RMB can reduce the trade costs of manufacturing enterprises. Settlement in RMB can reduce the number of exchange rate conversion links, lower exchange rate risks and transaction costs. In traditional international settlements, enterprises need to first convert their domestic currencies into international currencies such as the US dollar, which not only increases the risk of exchange rate fluctuations but also involves multiple exchange fees. However, RMB settlement can avoid these problems and reduce financial costs. In addition, the internationalization of the RMB promotes trade facilitation, enhances trade efficiency, and reduces logistics costs, etc. Trade costs have decreased, manufacturing enterprises have reduced their costs and expanded their profit margins, and their ability and resilience to adjust export prices have been enhanced. When facing external shocks, they have more room to adjust prices and maintain market share.

#### **4.3 International Monetary Power Mechanism**

The internationalization of the RMB has changed the pattern of the international monetary system and enhanced China's say and influence in international monetary affairs. Having the right to issue international currencies can bring seigniorage income and reduce international financing costs, etc. For manufacturing enterprises, the internationalization of the RMB offers more financing channels and more favorable financing conditions. As the international acceptance of the RMB increases, enterprises can more easily obtain RMB loans for expanding production, technological innovation, etc. A reduction in financing costs enhances the financial strength and risk resistance of enterprises, enabling them to better cope with external shocks and improve the resilience of export prices.

#### **4.4 Market Expectation Mechanism**

The internationalization of the RMB influences how market participants perceive and anticipate the currency's future, as well as the prospects for manufactured export goods. As this process advances, trust in the RMB among market players grows, leading to an uptick in demand for RMB-denominated assets. This trend is beneficial for maintaining a stable RMB exchange rate and supporting steady export pricing within the manufacturing sector. When the market anticipates that the RMB will remain stable or appreciate, investors are more inclined to retain RMB assets, curtailing selling activities and thereby helping to stabilize the exchange rate.

Simultaneously, the internationalization of the RMB shapes market expectations regarding manufactured export products. Should the market foresee that this process will bolster the global competitiveness of China's manufacturing industry, export goods will become more appealing, and their pricing will exhibit greater resilience. For example, some international buyers might be willing to accept higher export prices, driven by their positive outlook on the growth potential of China's manufacturing sector amidst the backdrop of RMB internationalization.

### **5. Policy Recommendations**

#### **5.1 Steadily Advance the Process of Internationalization of the RMB**

Persist in boosting the utilization of the RMB in cross-border trade and investment activities, and broaden the reach and magnitude of RMB settlement. Facilitate the RMB's convertibility within the capital account framework and elevate its standing within the international monetary system. Foster closer collaboration with global financial entities like the International Monetary Fund and the World Bank, engage actively in shaping international monetary regulations, and cultivate a supportive international milieu for the internationalization of the Chinese RMB.

#### **5.2 Strengthen Exchange Rate Risk Management**

Manufacturing firms ought to heighten their vigilance towards exchange rate risks and put in place a comprehensive system for managing such risks. They should intensify their research and assessment of exchange rate movements, judiciously employ financial derivatives for hedging purposes, and thereby mitigate the repercussions of exchange rate volatility on their operations. The government, on its part, should refine the exchange rate determination mechanism, uphold the fundamental stability of the RMB exchange rate at a rational and balanced level, and curb the adverse effects of excessive exchange rate fluctuations on businesses. Concurrently, it should bolster training and provide guidance to enterprises on exchange rate risk management to enhance their proficiency in this area.

### 5.3 Reduce Trade Costs

Further simplify trade procedures and enhance the level of trade facilitation. Strengthen infrastructure construction, improve logistics efficiency and reduce logistics costs. Promote trade liberalization and regional economic cooperation, and reduce trade and tariff barriers. Strengthen communication and coordination with trading partner countries, jointly create a fair, just and transparent trade environment, and create conditions for manufacturing enterprises to reduce trade costs.

### 5.4 Enhance the Competitiveness of the Manufacturing Industry

Boost investment in technological advancements within the manufacturing sector, incentivize enterprises to engage in technological research, development, and innovative endeavors, thereby elevating product quality and augmenting value-added. Intensify efforts in brand development, nurture a selection of Chinese brands with global clout, and elevate the international stature and recognition of China's manufacturing industry. Facilitate the structural transformation of the manufacturing sector, foster the growth of emerging industries and high-end manufacturing, and bolster the sector's overall competitiveness. Reinforce the development of industrial clusters, enhance the supportive capabilities of industries, drive down production costs for enterprises, and boost production efficiency.

## 6. Conclusion

This paper, through theoretical analysis, deeply explores the influence mechanism of the internationalization of the RMB on the price resilience of manufacturing exports. The research results show that the internationalization of the RMB has a significant impact on the resilience of manufacturing export prices, mainly functioning through pathways such as the exchange rate transmission mechanism, trade cost mechanism, international monetary power mechanism, and market expectation mechanism. The improvement of the internationalization of the RMB can enhance the price resilience of manufacturing exports to a certain extent, but it also faces some challenges and problems.

The research in this article is mainly based on theoretical analysis and lacks the support of empirical research, which may have certain limitations. Future research can combine empirical data to further verify the impact mechanism of the internationalization of the RMB on the price resilience of manufacturing exports. At the same time, in-depth research can be conducted on the differences in the export price resilience of manufacturing in different industries and regions due to the internationalization of the RMB, providing more targeted suggestions for policy-making. In addition, with the continuous changes in the international economic situation and the ongoing advancement of the internationalization process of the RMB, it is necessary to constantly track and study, and promptly adjust and improve relevant policies and measures.

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