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Thesis Title: The Effects of Exchange Rates on China's International Trade

Abstract:

This paper theoretically and empirically analyzes how exchange rates affect on China's exports and imports. Guided by theories, empirical analysis has been conducted from two aspects: First, the impact of real exchange rate changes on China's bilateral trade. Second, the impact of real exchange rate changes on different industries. With respect to the aggregate-level analysis, this part estimates the effect of movements and fluctuations in real exchange rates on China's bilateral trade. The results show that exchange rates have negative effects on exports to GDP ratio, whereas the responsiveness of imports is not significant. Furthermore, this paper finds that the relationship between the volatility of exchange rates and trade is very slight. On the disaggregated level, primary products are less responsive to exchange rates than manufactory products. The results show that an appreciation of exchange rates has reduced various industries' exports; however, it also lessens the imports of some manufactory products. The possible explanation for this finding is that the appreciation will lessen final products' exports, thus indirectly lower the demand for raw materials and intermediate products' imports. Besides, higher income stimulates the demand of various manufactory and primary products.