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FIXED EXCHANGE RATES AND IMPLICATIONS FOR GLOBAL TRADE

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ABSTRACT

This article investigates a large body of economic literature on the relationship between fixed exchange rates and world trade. The main subject of the study is: the impact of exchange rate fluctuations on international trade. Trade deficits and surpluses are sometimes attributed to deliberately low or high exchange rates. The impact of exchange rate levels on trade has always been controversial, but a large body of existing empirical documents do not clearly indicate the impact of exchange rate changes on trade.

We have found that short-term exchange rate movements affect trade, but their effects have been difficult to interpret. In some cases, the impact is positive and the other impact is negative. These results are consistent with other studies. This result is concluded that the Impact of exchange rates does not seem to follow a specific pattern. At the division level, the impact of the volatility of negotiating rates of currency exchange rate is considered minimal. The volatility of the exchange rate is not a particularly powerful decision factor in the trading flow of driving between the US, Europe and China. Income is also a determining factor. When national income increases, internal imports also increases as purchasing power of domestic consumers rises. Similarly, revenues in foreign currency plays an important role in the determination of national exports.

Exchange rates play an important role in linking the country to the global supply chain. Exports generally contain a high import content, and the impact of depreciation of exchange rates and their impact on all finished products are complicated. If the depreciation of the exchange rate is the "cheap" export of the final product, they are imported as "more expensive" for domestic producers. Although the mechanisms of exchange rate coverage are available, they are probably small and medium or forbidden.

KEY WORDS

International Trade, Fixed Exchange Rate, Imports, Economy, Volatility.

INTRODUCTION

International trade has a rich history beginning with the replacement of barter by mercantilism in the 16th and 17th centuries. The 18th century saw a rise in liberalism. It was around the same time that Adam Smith, the father of economics, wrote his famous book "The Wealth of Nations" in 1776, where he identified the importance of specialization in production and gender and also international trade within this framework. David Ricardo developed the principle of comparative advantage, which is still valid today. All these economic thinking and principles have influenced each country's international trade policy. Although over

the past centuries, countries have signed a number of treaties to move towards free trade, in which countries do not impose tariffs on import duties and allow free trade in goods and services.

The gold standard or gold standard for exchange with a fixed exchange rate was common from about 1870 to 1914, before which many countries were bimetallic. The period between the two world wars was transitional, with the Bretton Woods system becoming the new fixed exchange rate regime after World War II. It was conceived with the intention of rebuilding war-torn countries after World War II through a series of currency stabilization and infrastructure lending programs. The early 1970s saw the collapse of the system and its replacement by a mixture of volatile and fixed exchange rates.

A key relationship between exchange rates and international trade is how exchange rate fluctuations affect the value of imported and exported goods. When it comes to exchange rates and international trade, a fall in exchange rates can affect the type or number of products a country can purchase. Such disparities in exchange rates and international trade can also result in trade imbalances between the two trading partners

This paper contributes to understanding the relationship between exchange rates and international trade by studying the effects of volatility and exchange rate misalignment on international trade and finding out whether Exchange rate misalignment affects trade policy decisions.

REVIEW OF LITERATURE

Klein, M. and Shambaugh, J., 2006. Fixed exchange rates and trade.

A classic argument in favour of fixed exchange rates is that they promote trade. Although one branch of research has always shown that the negative impact of exchange rate fluctuations on trade is small, a recent branch shows evidence of a huge positive impact of currency union on trade. This document helps to resolve this disconnection. Our results use a new classification based on the data of the fixed exchange rate system, which shows that the fixed exchange rate has a huge and significant impact on the bilateral trade between the base country and the countries linked to it. These results show that the exchange rate system has an economically relevant role in determining trade, because a large amount of world trade takes place between countries with fixed exchange rates.

Velasco, A., 1996. Fixed exchange rates: Credibility, flexibility and multiplicity.

This article investigates recent work on the sustainability of fixed exchange rates. Consider a dynamic version of the BarroGordon framework, where the level of the state variable (debt in this case) determines the government's revenue at any given time. Multiple balancing and self-actualizing operations are possible, but only with a certain level of indebtedness. Compared to node valuation, unexpected depreciation can increase or decrease expected depreciation in the future.

Obstfeld, M. and Rogoff, K., 1995. The Mirage of Fixed Exchange Rates.

This paper looks at the enormous difficulty of maintaining a fixed exchange rate in a world with ever-expanding global capital markets. Contrary to popular wisdom, the monetary authorities of industrialized countries easily have the resources to protect the exchange rate from almost any private speculative attack. However, if your commitment to using these resources lacks credibility in the market, the overall economic cost of defending the exchange rate can be very high. The Swedish and British crises in 1992 and the Mexican collapse in 1994-95 illustrate the dynamic interplay between credibility and commitment. The author also discusses some successful restorers.

Rajković, M., Bjelić, P., Jaćimović, D. and Verbič, M., 2020. The impact of the exchange rate on the foreign trade imbalance during the economic crisis in the new EU member states and the Western Balkan countries.

This paper examines the relationship between real exchange rates and foreign trade imbalances in the Western Balkans (WB) and Central and Eastern European (CEE) countries. During the recent global economic crisis, it is particularly important to examine the impact of exchange rates on trade balance. Countries have used a variety of monetary policy systems, and according to their choices, have different economic means to deal with the crisis. The purpose of the research is whether the depreciation and/or devaluation of the exchange rate can effectively and completely eliminate the negative effects of the global economic crisis, as well as the negative results of the resulting contraction of exports and economic activities. Our research results show that during the economic crisis, countries that use their own currencies cannot significantly adjust their trade deficits by devaluing their currencies. In addition, it is recommended that during the global economic crisis, the balance of payments deficit will no longer be significantly affected by the exchange rate. In this case, other factors play a more important role, such as public expenditure, followed by external demand and direct investment.

Hanson, G., 2012. The Rise of Middle Kingdoms: Emerging Economies in Global Trade.

This paper studies changes in international trade related to the integration of low- and middle-income countries into the global economy. A feature of the new business model is the expansion of South-South trade. China and India have strong demand for imported raw materials, which are used to build cities and factories. Industrialization throughout the South deepened the global production network and promoted trade in intermediate inputs. The second feature of the new trade model is the return of comparative advantage as an engine of world trade.

Gadbaw, R., 2010. Systemic Regulation of Global Trade and Finance: A Tale of Two Systems.

The recent financial crisis has put tremendous pressure on the global system that governs international finance and trade. These two important international regulatory systems were created after World War II to promote the growth and stability of the global economy and have been tested in unprecedented ways since the 1930s. This article attempts to analyze and compare their performance as regulators during the crisis. And concluded that when the financial system almost collapsed, the trading system performed quite well. This article attempts to explain this difference by looking at the nature of the rules and the institutions that govern them, and how they have evolved so differently over the past 70 years. The foundation for the success of the World Trade Organization (WTO) is the regulatory approach, which includes rules designed and tested in practice to integrate incentives with the public interest and prevent regulatory capture, as well as to ensure compliance, accountability and compliance Sexual self-enforcing dispute settlement mechanism. The article concludes that these disputes have provided important lessons for the reform of world economic, financial and trade management rules and systems, as well as the WTO's role in this reform.

Bussière, M. and Mehl, A., 2008. China's and India's Roles in Global Trade and Finance: Twin Titans for the New Millennium?

This paper analyzes the process of integration of China and India in the global economy. It does this by providing gravity model estimates to measure the overall degree of its trade intensity and the depth of bilateral trade links, as well as selected measures showing comparative advantages and economic distance. This article also reviews the main characteristics of the domestic economies of the two countries and their global integration, and analyzes the financial ties between the two countries and the rest of the world. Four main findings stand out. First, considering trade in goods, China's overall level of trade intensity is higher than fundamentals imply, while India is the opposite. Second, it appears that China's merchandise exports are increasingly competing with those of mature economies, while the technology content of Indian exports

remains low. Third, China's service exports tend to complement its merchandise exports, while India's exports only grow in deregulated sectors, such as information technology-related services.

Vidya, C. and Prabheesh, K., 2020. Implications of COVID-19 Pandemic on the Global Trade Networks.

This article measures the trade linkages between countries before and after the COVID19 outbreak, and predicts the future direction of trade. Using commercial network analysis and artificial neural networks, our research results show that: (1) After the outbreak of COVID19, the commercial interconnection, connectivity and density between countries have dropped sharply. (2) Significant changes in the commercial network structure (3) China's "central" position in the commercial network is not affected by the epidemic. (4) By December 2020, trade in most economies will drop sharply.

Gagnon, J., 1993. Exchange rate variability and the level of international trade.

Theoretical research shows that under reasonable assumptions, exchange rate fluctuations should restrain the level of trade. This document constructs a theoretical model designed to exaggerate the negative impact of exchange rate fluctuations on trade in order to calibrate the upper limit of the potential size of this impact. Numerical analysis shows that the impact of exchange rate fluctuations currently observed between industrial countries on the level of trade is negligible. This result is robust to a wide range of parameter values and reasonable expansion of the model.

Shambaugh, J., 2004. The Effect of Fixed Exchange Rates on Monetary Policy.

To study how a fixed exchange rate affects monetary policy, this article classifies countries as pegged or untied, and examines whether pegged countries should track changes in the interest rate of the base country. Although recent research suggests that all countries, not just linked countries, lack freedom of exchange, there is evidence that linked countries follow benchmark interest rates more than unrelated countries. This study uses actual behavior rather than stated identities to classify regimes; broadens the sample to include base currencies other than the US dollar; examines the impact of capital controls and other control variables; carefully consider the time series properties of the data; and uses cointegration and other levels of relationship analysis to provide additional insights.

RESEARCH METHODOLOGY:

This paper carefully analyses the implications of Fixed Exchange Rates on Global Trade. The article has been written purely on the basis of Secondary Data collection (Secondary data is data that has been collected through primary sources and is available for researchers to use in their own research at any time. It is a type of data that has been collected in the past) with qualitative approach. The data has been collected from various research papers, articles, Journals and International Monetary Fund website

DATA ANALYSIS:

The economic crisis has affected the impact of discrimination in the global economy and its trade, significantly changing the employer. In the low-employed context associated with the recession, some policy makers want to stimulate their export and want to improve their trade and the balance of the current account. Political managers who are interested in implementing such policies are looking at the movement of exchange rates. In short, the expenses of depreciation of currencies in the country are cheaper and more expensive. However, in the reality of the globalized economy, the industry is vertically integrated, and the exported product contains most of the imported parts. Therefore, imported components are more expensive for certain exporters and are not necessarily replaced by internal productive products.

In addition, exchange rate levels have a significant impact on debt services and foreign investment flows. The expenses of depreciation of the currency of the country mean that the value of nominal value of the debt in foreign currency is increasing compared to local currencies resources, but the local government has reduced the value of foreign creditors. Increase. Investment in teams is especially important for the large-scale economy that attracts foreign investors when the currency is in disuse. If depreciation is the result of the loss of economic confidence, foreign investors can invest.

Changes in exchange rates affect specific national companies. Companies face many risks, especially when they are involved in economic and commercial risks, which is determined by macroeconomic situations that are difficult to manage exchange rates and their volatility. Risk management tools help companies reduce the impact of such risks. These technologies to ensure that exchange rate risks may not cover all financial and commerce services. In addition, such tools may not be available for all companies, and costs they use can be particularly important in small businesses and high-volatility situations. Since the beginning of the floating rate in 1973, the theoretical and empirical documents analysed the impact of exchange rates and the impact of change rate volatility. The consensus has not been achieved for the impact of the volatility of exchange rates for trade in large-scale literary objects. With respect to the level of exchange rate, there is a general understanding of the directionality of the impact of export exchange rates, but empirical research finds some different results for the impact on trade. Thus, until today, the relevant studies have not suggested a clear relationship. This may be due to the fact that, for example, the lack of degradation of the products or segments in some studies, the study period, and some studies examine only short effects.

DIRECT LINKS VERSUS INDIRECT LINKS

This section focuses on the direct link between the exchange rate and trade, especially the controversial question of whether exchange rate uncertainty will reduce the dynamics of international trade. When exchange rate volatility increased after the end of the gold exchange standard, this particular topic seemed to be the main focus of the academic community (IMF, 1984).

Policy makers have been concerned about the impact of exchange rate imbalances, especially as the IMF has ruled out competitive devaluation. 3 Since the 1990s, this issue has become more prominent in economic debates. At that time, the exchange rate continued to deviate from its equilibrium value, whether correct or incorrect, and was suspected of being the source of the global current account. imbalances. From a macroeconomic perspective, changes in the exchange rate can have a strong impact on the economy because they can affect the structure of production and investment, lead to an inefficient allocation of domestic absorption and foreign trade, affect labour markets and prices and modify external accounts. Therefore, changes in the exchange rate affect international trade directly and indirectly. Indirect links are difficult to separate from macroeconomics, they are difficult to describe, and they are difficult to test empirically because they have second, third, or fourth round effects. Therefore, the exchange rate is often considered as an external (exogenous) variable in the model.

Exchange rates and trade: what does the theory tell us?

The theoretical foundations analyses the impact of currency devaluation on trade around the Jcurve effect and the Marshall Lerner condition.

The phenomenon of J curve shows that after the depreciation of the national currency, the trade balance will improve after the deterioration. At the time of depreciation, there is a price effect due to the increase in the price of imported goods. Due to some delays in the transactions ordered a few months ago, the value of imports will increase in the short term. Later, when traders have some time to change their investment strategy, they will integrate the lost competitiveness with foreign-produced goods. This triggers a quantitative effect: imports are reduced, while local production can increase to meet demand. In this way, the adjustment of the volume of transactions is slower than the change in relative price. The final long-term

effect is expected to be a net improvement in the trade balance. This phenomenon is called the J-curve effect, because when a country's net trade balance is plotted on the vertical axis and time on the horizontal axis, the trade balance's reaction to depreciation or devaluation resembles a curve with the letter J.

The Marshall-Lerner condition is cited as a technical reason why a country's currency depreciation does not need to immediately improve its balance of payments. This condition stipulates that for currency depreciation to have a positive impact on the trade balance, the sum of the absolute value of export and import price elasticities must be greater than one. As the exchange rate depreciation or depreciation means that export prices fall, so the export volume will increase. At the same time, the prices of imported goods have risen and demand has decreased.

The net effect of these two phenomena—more exports at lower prices and fewer imports at higher import prices—depends on the elasticity of import and export prices. If export commodities are price elastic, the increase in demand will be greater than the fall in prices and total export earnings will increase. Similarly, if imported goods are elastic, total import spending will decrease.

4.3 SPECIFICITIES IN AGRICULTURE

Many theoretical studies attribute the impact of exchange rate fluctuations on trade to the degree of risk aversion of companies. Therefore, some of the main characteristics of the different sectors - such as price fluctuations, trade barriers, homogeneity of commodities, and the size and scope of firms - may imply different effects of exchange rates and their fluctuations on the exchange rate. Commerce.

Price fluctuations can be one of the main sources of risk in agricultural trade. Many production decisions are made before the product is sold, and the price of the final product often has a certain degree of uncertainty (OECD, 2009a). Exchange rate fluctuations will further affect the transmission of world prices to domestic prices. Some authors (Carter and Pick (1989)) pointed out that most of the world's grain trade is denominated in US dollars. If exporters and importers are outside the market, this may incur additional transaction costs. Commodities are priced in U.S. dollars.

EXCHANGE RATE REGIMES

Since its creation in 1999, the euro has always been a floating currency. Benassy Quéré (2009)and others believe that the U.S. dollar has enjoyed reserve currency status since the end of World War II. Since the abolition of the dual exchange rate system in 1994, the Chinese renminbi (hereinafter referred to as the renminbi) has been described as a managed float (OECD, 2009b). However, in the first half of the 2000s, the renminbi was actually pegged to the U.S. dollar. In July 2005, the RMB appreciated 2.1% against the US dollar, and the allowed daily fluctuation range expanded to + / 0.3%. The Chinese authorities announced that the value of the renminbi would be determined relative to a basket of currencies consisting of the US dollar, the euro, the Korean won and the Japanese yen, but did not provide clear information about the weight of each currency in the basket.

Since 2005, huge current account surpluses and capital inflows, especially increased foreign direct investment, have created pressure for the renminbi to appreciate. To prevent this from happening, the People's Bank of China sold the renminbi, resulting in a substantial increase in foreign exchange reserves, most of which are denominated in US dollars. The policy of gradual appreciation of the renminbi against the US dollar, which started in 2005, was abandoned in July 2008.

Therefore, since August 2008, the appreciation of the renminbi has stagnated and the exchange rate against the US dollar it has remained basically stable, returning to an effective parity.

BILATERAL CHANGES IN THE EXCHANGE RATE

The first years after the establishment of the euro in January 1999 were characterized by a depreciation of the currency relative to the US dollar. Since then, its exchange rate against the US dollar has tended to appreciate: it has risen 35% since 2002, from 1.127 euros to the dollar in February 2002 to 0.732 euros in June 2009. Figure 1 shows the exchange rate of the euro against the dollar for the last five years.

Figure1 shows the euro to US dollar swapping scale throughout the previous five years.

Source: IMF

The dollar appreciated against the Chinese yuan by 11% from USD 0.136 per yuan in January 1999 to USD 0.121 in June 2005. Since July 2005, the dollar depreciated by 26% to USD 0.153 per yuan in December 2008. The first six months of 2009 saw a new depreciation in the real exchange rate of the yuan (by 2%) which has motivated authorities in some countries as well as international bodies to pressure the Chinese authorities to allow their currency to appreciate in order to help resolve world trade imbalances. The yuan depreciated by about 6 % relative to the euro in real terms over the first six-month period of 2009.

Figure 2. Real exchange rate of the US dollar relative to the yuan

source: IMF

THE UNCERTAINTY GENERATED BY EXCHANGE RATE RISKS

As explained in the first study of the International Monetary Fund (1984) on this subject, in principle, exchange rates can affect trade in many ways. The real exchange rate is the relative price of tradable products relative to non-tradable products. It has a potentially powerful influence on the incentives to allocate resources (such as capital and labour) between sectors that produce tradable and non-tradable products. The real exchange rate is also an indicator of actual competitiveness. It reflects the relative price, cost, and productivity of a particular country relative to the rest of the world.

After three decades of relatively stable nominal and real exchange rates under the Bretton Woods system, the increase in exchange rate volatility since the early 1970s has triggered a rich and lively debate about the channels through which this increase in volatility may affect the economy. The real economy. When the gold trading standard determines the exchange rate, the business community negotiated a substantial reduction in border protection, and the business community's concerns were particularly strong. At the request of the then GATT Director General (on behalf of the General Council), the IMF studied the impact of increased exchange rate volatility on world trade. Although there is little evidence that increased exchange rate volatility has a negative impact on world trade, a study by the International Monetary Fund in 1984 clearly established the channels through which such increased volatility may affect trade. For example, he described how the continuous imbalance between the exchange rate and the level that reflects inflation or cost differences can send incorrect price signals, which may disrupt international trade flows; if inconsistencies can change investment decisions and lead to resource transfers between economic sectors, This transfer is not justified by relative cost and productivity differences, so how does it cause adjustment costs to the economy and improper resource allocation; and how imbalances undermine the level of protection against foreign competition provided by price-based trade restrictions, resulting in offset trade Restrictions to protect the pressure of the current supply model.

Among all these transmission channels, the first theoretical analysis and models of exchange rate and international trade relations (1970s and 1980s) mainly focused on the commercial risks involved in international transactions and the inconsistency caused by short-term or long-term uncertainty. Certainty. Term fluctuations. How this uncertainty affects trade decisions, expected profitability, and ultimately the allocation of resources between tradable and non-tradable goods and services, is the main focus of attention. A seminal article by

Clark (1973) provides a simple but relatively well-known example of how exchange rates affect commercial companies. He describes a hypothetical case of a company producing a single product that does not include imported products under perfect competition. The investment is completely used for the export market. The company only pays in foreign currencies, so its exports in domestic currency depend on the (unpredictable) level of exchange rates. In this model, the company is assumed to be small and has limited opportunities for currency hedging. In addition, because the cost of adjusting its production level based on factors other than demand is high, it is also assumed that its production will not change due to favourable or unfavourable changes in export profitability caused by exchange rate changes. The uncertainty of future exchange rates directly translates into the uncertainty of future income in local currency. Therefore, the relevant company must determine the export level that includes this uncertainty. If a company is considered to maximize profit and has a risk aversion greater than zero, the first condition for the company's production is that its marginal revenue exceeds its marginal cost to offset the exchange rate risk it bears. Therefore, in this case, the variability of the company's income depends entirely on the exchange rate, and the exchange rate fluctuates greatly and its average level does not necessarily change, resulting in a decrease in production and exports, which reflects a lower risk exposure. exchange rate. Rate risk. In other words, this basic model was later perfected by Hooper and Kohlhagen (1978), which established a rather negative relationship between exchange rate fluctuations and international trade.

In the studies conducted in the 1970s and 1980s, the view that increased exchange rate volatility would adversely affect the volume of international trade was relatively common (except Clark, Hooper, and

Kohlagen, see also Baron (1976)), Cushman (1983), Gros (1987), De Grauwe and Verfaille (1988), Giovannini (1988) and others, in a period of greater volatility (IMF, 1984). However, these conclusions are based on relatively strict assumptions, which have been carefully reviewed and relaxed by other authors, especially the assumption of perfect competition, the important role of denominated currencies, the absence of imported inputs, a high degree of aversion to risk and the absence of exchange. rate coverage, financial tool. This has led to a more complex multinational model with diversified companies, in which the relationship between exchange rates, commodity supply and trade decisions has become more diffuse.

For example, in the presence of imported inputs, the import entry in the country where the exporter is disapproved, and in importing the exporter entry, the contract for the supply of export is lower. In addition, it may take into account the possibility that companies that face effectively for short-term fluctuations, and larger companies can evolve in a multi-traine environment, and there is a total profitability or the effects of fluctuations. In the other direction they are compensated. The extent to which companies can assign their achievements between national and foreign markets (and international markets), and it is also important to avoid corporate risks on price uncertainty. These LED factors suggested that the link between the greater volatility of the exchange rate and the decrease in commercial flow are no more robust than it appeared for the first time. On the other hand, there is a concept that the coefficient of currency affected by the affected exchange rate is not completely rejected, and in some cases it is relevant. For example, although many exporters can different exchange risks by mixing the invoice of the region and foreign currency (in accordance with market power), exporters still face risk: the invoice faces pricing risk. When the national currency is charged, it is faced with an amount of risk (the amount required is unknown because the price facing the buyer has been uncertain). Therefore, not only income becomes uncertain, but also the cost of manufacturing (Baron, 1976).

In some models, the effects of the growing volatility of trade rates change rates depend to a large extent on the level of risk avoidance of merchants (from Grauwe, 1988). (Dellas and Zilberfarb, 1993). It is less likely that risk traders are affected by the uncertainty of exchange rates, but risk risk is different. Before, for the adventurers of very risks, export exported may be responsible for increasing volatility to compensate for the expected decline of income per unit exported. As of Grauwe (1988), "exporters can be unfortunate unfortunate by the volatility of exchange rates, but may decide that they will be more exported." In this particular case, he emphasizes that the control of the income effect on the alternative effect has a positive relationship between the fluctuation of the exchange rate and the amount of trade. The presence of the positive relationship between this was later confirmed by Block Flow and (Eckwert (1999) responds flexibly to changes in exchange rates and reassigning the product between markets accordingly, only companies can do. These actions can optimize the benefits of increased volatility increase, but it only works if the corporate problem has a large domestic market in local government, and in the domestic market you can trust. As the authors indicate, the "export strategy is as an option, since the internal market is what is the real exchange rate that has been made. Internal prices are "actual export option attack". However, the most volatile exchange rates also mean the risk of greater exposure to international companies with this effect that operate in the opposite direction. The authors have signed a net impact of the network. The uncertainty of the export uncertainty in the moderator of the uncertainty of the exchange rate depends on the degree of avoidance of relative risks of the company.

Some assumptions that foreign exchange rate affects trade if the company cannot adjust production and factor input according to the fluctuation of exchange rate rates. The author Gros, (1987) and Grauwe, (1992) work in the case of a broader spectrum than that described by Clark. According to the price of the world, if it can adjust the production factor up and down, it is actually the possibility of selling more, the international price of the foreign currency is high (at the limit established by the production capacity of the element " Flexible ") If such a price is low, less. However, it is less likely that risk of risk of risk for the uncertainty of the profits is less likely to cause less risk of deterioration of more risks, even in the context of the uncertainty of the benefit, which is less likely to cause less Deterioration of benefits. Stresses the deterioration of profit (the opportunity created. The variability of the price will compensate the uncertainty about profitability).

Some recent theoretical models of hysteresis in the world trade, with a high variability of the uncertainty associated with exchange rates, in the presence of cost of "sinking", the intrusion decision or retirement of the commercial market can affect (especially Dixit , 1989; Krugman, 1986, France, 1991). The concept of "sunken" cost is related to fixed costs related to the configuration of the production network of export products, marketing tools and distribution infrastructure, and fits well with the new reality of the latest commercial patterns. In the presence of such costs, companies tend to be less reactive to shorten exchange rates in a single "Waitandsee". However, these fluctuations are deep and long, and the incentives were in the market to have a great stay of the international market for companies that have not yet been included, and for a company that has already been invested. In other words, exchange rates encourage companies to inertia.

Some models emphasize the effects of fluctuations in the composition than the total volume of transactions. Kumar (1992) is vague for the relationship between fluctuations in the exchange rate and commercial overprints, but fluctuations have a great impact on anal trade. The logic of the discussion is that the risk of exchange rates acts as a "tax" on the comparative advantage of the export sector for the national department. As comparison benefits decrease, commercial countries will reduce the economy of commercial countries, and governance trade will increase at the expense of trade. In this model, the exchange rate risk reduces net trade, which is the difference between total trade and intra industry trade.

For research on exchange rate fluctuations and trade flows, see IMF (2004). The survey updates the previous survey completed in 1984 and therefore incorporates the results of two decades of improvements in estimation techniques, data, and theory. It makes it possible to explore the impact of exchange rate fluctuations on trade from several new dimensions, for example, by type of fluctuation (short-term and long-term, actual and nominal, and other characteristics), by country group (useful by region and income). Level) and type of trade (using classification data for different types of goods). The IMF's conclusion that "there is no obvious negative correlation between total exchange rate fluctuations and total trade" is not fundamentally different from the 1984 study, but it has been enriched by consideration of bilateral trade. As pointed out, "When we turn to bilateral trade, we find evidence that exchange rate fluctuations tend to reduce trade, (although) this negative impact is not as powerful as an alternative method of controlling factors that may affect trade."

When examining the relationship between exchange rate fluctuations and trade, the IMF examined the time paths of the two variables and found no obvious (negative) correlation. From 1970 to 2000, world trade grew steadily, while the trajectory of exchange rate fluctuations was not easy. From the early 1970s to the late 1980s, exchange rate volatility showed an upward trend, then tended to decline, and there was strong regional expansion, such as the transition economies of Eastern Europe (199094) and the 1997 Asian crisis98. The study (page 44) noted that negative associations in this case “may not reflect causation, but rather the performance of a set of common factors that increase currency volatility and reduce trade. For example, Asia The crisis caused a sharp drop in imports from the affected countries and exchange rate fluctuations, but the decline in domestic demand was the most important factor in reducing imports, not currency fluctuations. Similarly, the disintegration of the Soviet Union caused a wide range of currency mismatches in many transition economies, leading to a sharp decline in production and trade, and many exchange rates that are an important part of the support for transformation have undergone tremendous changes. To estimate the specific impact of exchange rates on trade flows, it is necessary to consider the individual effects of myriad factors that determine the level of imports and exports. "The IMF uses gravity models to test other factors. Determinants of trade patterns other than exchange rates, such as distance / geography Location, GDP (or demand), and many other factors that can affect transaction costs associated with bilateral trade. The Monetary Fund wrote: "Trade economics Latest scientific advances indicate that a given increase in transaction costs (exchange rate fluctuations are a component) may have a greater negative impact on trade in differentiated products than on trade in homogeneous products. total, it is estimated. The results show that this theory is not robust a priori. ”The IMF's impact on flu Exchange rate fluctuations vary from country to country, because it recognizes that hedging opportunities are less developed in developing countries. and therefore may be related to reduced trade in these countries. This proposition once again proved to be less reliable when performing quantitative tests. However, the study shows with relative strength that the members of the monetary union tend to negotiate more with the central results of the IMF,

which confirms the results of Rose (1999). As noted, "the gains from improved trade in currency unions clearly outweigh those from reduced exchange rate fluctuations and will remain unchanged over time." Overall, the IMF concluded that "for both general trade and classified trade, there is empirical evidence that the negative impact of exchange rate fluctuations on trade is usually small, but this evidence is not overwhelming across different standards. empirical. It is not reliable.

In describing and calculating the impact of exchange rate fluctuations on trade flows, no basic estimation method and theoretical models were found to be "superior" to other methods. In the general equilibrium framework, the complex interaction of all the main macroeconomic variables is considered in a multinational environment. In such a model, all the effects of exchange rate changes are tested, even if they cancel each other out. In partial equilibrium models, the direct impact of exchange rate changes can only be tested on another variable (trade level), regardless of whether volatility affects other variables that affect trade. Bacchetta and Van Wincoop (2000) used a general equilibrium model to examine the impact of fluctuations on trade and welfare levels in the context of fixed and flexible arrangements. An interesting result illustrates the complexity of the relationship between exchange rate and trade. A country's currency stimulus causes its exchange rate to depreciate, which may not have much impact on trade, because exchange rate depreciation, on the one hand, reduces imports. However, on the other hand, the increase in domestic demand associated with monetary stimulus may stimulate imports in a compensatory campaign. Of course, the net effect will depend on a set of variables, from the elasticity of import demand to supply-side factors, such as the willingness or ability of domestic producers to adjust prices in response to supply depreciation. Similarly, standard macroeconomic theory describes the J-curve effect of exchange rate depreciation (usually in sufficient detail to determine the actual impact of exchange rate depreciation. Changes in the nominal exchange rate will depend on a complex set of variables. This may or may not prompt domestic companies to increase exports or domestic consumers to increase imports. These variables include the degree of imported inflation, whether the exporting company accepts prices or the price setting mechanisms of firms, and so on).

CONCLUSION:

The analysis was carried out in the context of a large amount of existing literature, which inspired many choices regarding its methods; confirming many of the results found in the literature. This study found that the impact of exchange rate fluctuations on trade is minimal at the sectoral level, and exports are more sensitive to changes in exchange rate levels than imports. In addition, the impact of exchange rates on agricultural exports will be more pronounced than manufacturing. One of the reasons may be that agricultural products are more homogeneous than manufactured products, which makes it easier to change suppliers. In addition, compared with manufacturing, the price transmission mechanism of agriculture may be different. The impact of exchange rates on trade must be considered in the context of continuous supply chain integration. Exports usually contain a higher import component, so the impact of exchange rate depreciation or appreciation on any finished product is complicated.

Although exchange rate hedging mechanisms are available, they may not be easily available to some, especially small and medium-sized companies, because they may not understand the long-term visibility of their exchange rate needs. The explanation of trade patterns through changes in the exchange rates of all countries and all sectors is not particularly strong and clear. Many factors determine the extent of the impact of exchange rates on trade: product-level price elasticity, income elasticity, product homogeneity, ease of changing suppliers, price transmission mechanism, etc. Many factors suggest that exchange rates are part of a larger picture of the determinants of trade flows.

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