

Industrial Upgrading Makes Chinese Exports Less Susceptible to a Stronger Yuan



Summary:

- Despite the RMB's persistent appreciation since mid-2025, Chinese exports have maintained solid global competitiveness and continued to surge.
- This export resilience is driven by well-calibrated, long-term industrial policies that have structurally transformed China's manufacturing base and altered how trade flows respond to currency fluctuations.
- Shifting global market share toward high-tech manufacturing, deep integration of the domestic supply chain, and export price adjustments provide Chinese exporters with cushion against currency headwinds.

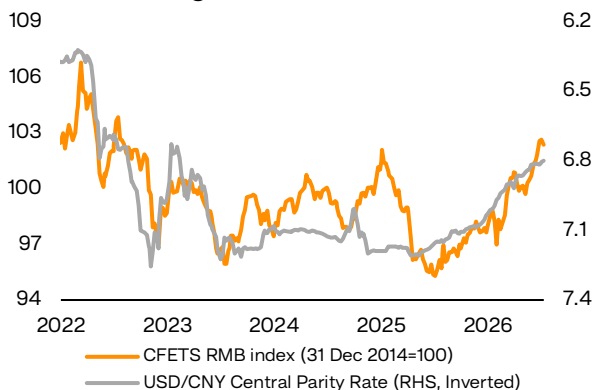
Export resilience amid a strengthening currency

The continuous strengthening of the RMB since mid-2025 has defied conventional expectations regarding export competitiveness. In May 2025, the USD/CNY fixing rate stood at 7.18, before appreciating to 6.80 in mid-July 2026. Similarly, the CFETS RMB index, a trade-weighted basket tracking major foreign currencies, rose from 96.0 in May 2025 to 102.4 in mid-July 2026, marking a 6.7% appreciation. The primary drivers behind this uptrend include a consolidation of the USD, alongside accelerating currency conversion by Chinese exporters capitalising on a structurally widening goods trade surplus. Moreover, ongoing RMB internationalisation continues to expand its global usage, as evidenced by a steady rise in transactions through the Cross-Border Interbank Payment System (CIPS). Ordinarily, such a domestic currency appreciation would elevate export prices relative to foreign peers, thereby dampening an economy's external trade competitiveness.

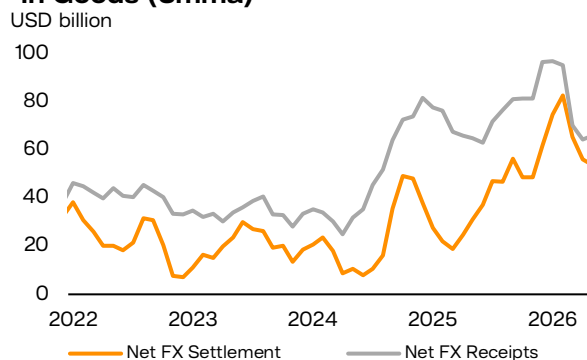
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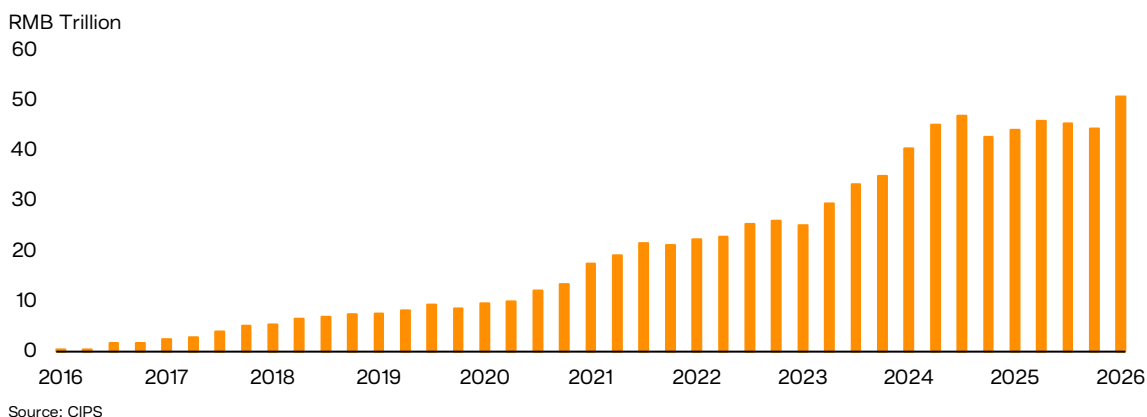
RMB Exchange Rate



Net FX Settlement and Receipts of Trade in Goods (3mma)

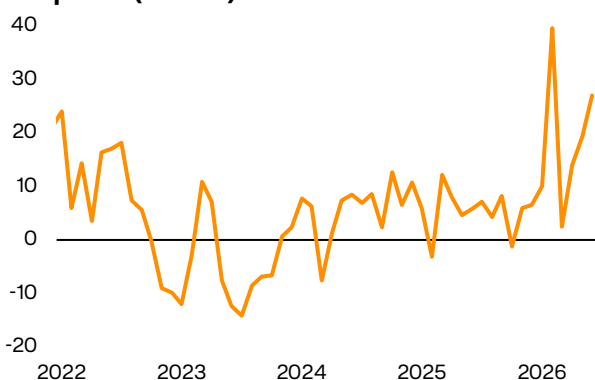


Quarterly Transactions on CIPS

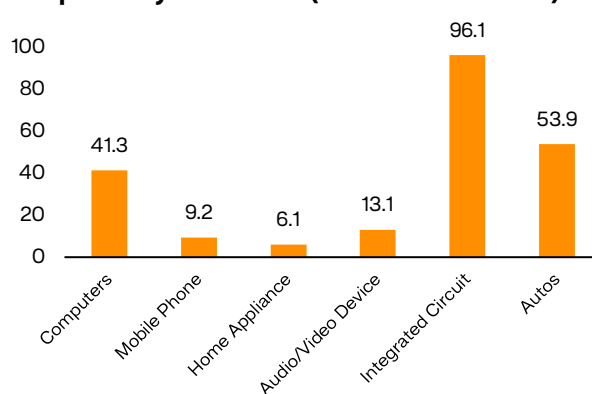


Chinese exports have remained robust despite persistent currency headwinds. Defying conventional exchange rate pressures, export growth reached 5.4% year-on-year (YoY) in 2025, supported by supply chain resilience and trade diversification. This upward momentum accelerated further, with exports surging 17.6% YoY in H1 2026. Specifically, electronics and machinery exports emerged as the paramount growth engines, with exports of integrated circuits, automatic data processing machines and autos surging by 96.1% YoY, 41.3% and 53.9% in H1, respectively. This strong pace was boosted by the AI upcycle and solid electric vehicle sales amid an expedited global energy transition.

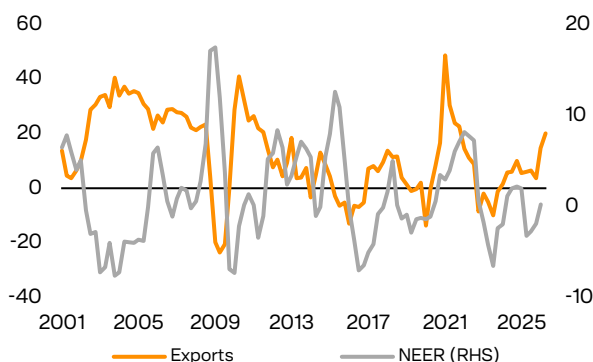
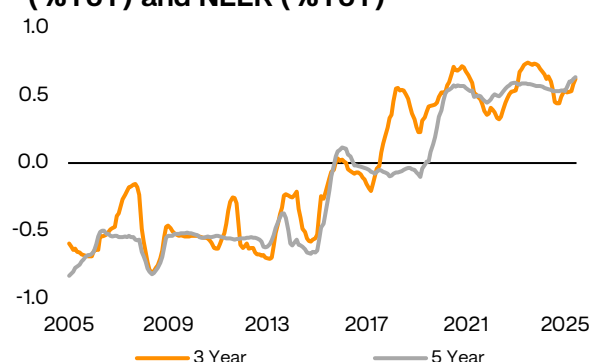
Exports (%YoY)



Exports by Products (%YoY in H1 2026)



The once negative correlation between the Chinese exchange rate and exports has shifted fundamentally. During the early phases of exchange rate reform and RMB internationalisation starting in 2005, an inverse relationship between Chinese exports and the RMB was widely observed. According to our estimates, this correlation between export growth and nominal effective exchange rate (NEER) changes held steady at around -0.6 prior to 2015. Over the past decade, however, the historical relationship has severed, pivoting toward a positive correlation. While it remains challenging to isolate a single event as the sole catalyst for this structural turning point, the persistent implementation of dedicated industrial policies since the 2010s has likely contributed to the shift.

Exports and NEER YoY Growth

Rolling Correlation Between Exports (%YoY) and NEER (%YoY)


Successful industrial policies have forged a highly competitive export landscape

Strategic industrial initiatives aimed at moving up the value chain have reinforced China's export resilience. As early as 2010, the State Council issued the "Decision on Accelerating the Cultivation and Development of Strategic Emerging Industries". This blueprint identified seven strategic emerging industries¹ and manifested China's ambition to transition from a low-cost assembly hub into a sophisticated high-tech manufacturing powerhouse. Building upon this institutional framework, the 12th, 13th, 14th and ongoing 15th Five-Year Plans (FYP) have consistently prioritised industrial upgrades, development of emerging sectors and technological self-sufficiency. These sustained policy pivots have successfully re-engineered the nation's manufacturing profile and expanded its global market share, explaining why the export sector has become increasingly immune to the impacts of currency appreciation.

Table: Key Policies on Industrial Transformation and Upgrading

Date	Policy / Event	Description
Oct 2010	Decision on Accelerating the Cultivation and Development of Strategic Emerging Industries	The first national framework for developing seven strategic emerging industries, which laid the foundation for the nation's industrial transformation.

¹ The seven emerging industries includes energy-saving and environmental protection, new-generation information technology, biotechnology, high-end equipment manufacturing, new energy, new materials, new-energy vehicles.

Mar 2011	The 12 th Five-Year Plan (2011-2015)	The first Five-Year Plan to explicitly emphasise both "the transformation and upgrading of traditional manufacturing" and "the cultivation of strategic emerging industries".
Mar 2016	The 13 th Five-Year Plan (2016-2020)	Centred on "innovation-driven development" and promoted intelligent manufacturing, strengthened the industrial foundation, and aimed to increase the contribution of strategic emerging industries to 15% of GDP by 2020.
Mar 2021	The 14 th Five-Year Plan (2021-2025)	Promoted manufacturing toward high-end, intelligent and green development. Advanced supply chain resilience and industrial foundation reengineering, and modernised industrial chains.
Mar 2026	The 15 th Five-Year Plan (2026-2030)	Build a modern industrial system with advanced manufacturing through upgrading traditional sectors and expanding emerging industries, as well as greater self-reliance in science and technology.

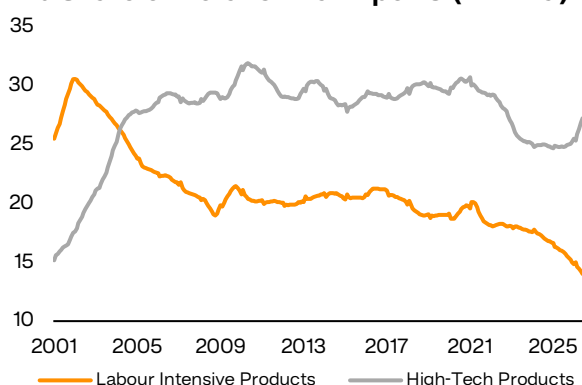
Source: BEA Economic Research

The structural drivers neutralising currency pressures

1) Pivoting away from low-end manufacturing has reduced the price sensitivity of exports

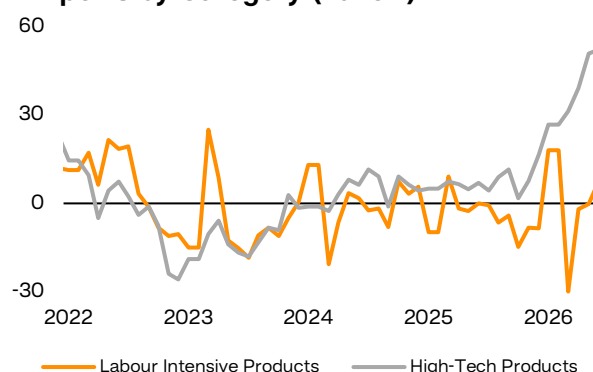
According to our calculations, the share of traditional labour-intensive products² in China's total exports declined from around 30% in the early 2000s to 14% by June 2026, while the share of advanced high-tech products rose from 18% to 27%. This structural upgrade means that high value-added products now account for a larger share of China's export profile. Low value-added exports are highly sensitive to currency appreciation because they compete in crowded markets with razor-thin profit margins. In contrast, high-tech products are heavily differentiated and possess fewer direct substitutes, enabling producers to absorb currency shocks or pass increased costs onto end-users without losing market share. This divergence is clearly illustrated by recent data: high-tech exports expanded by a strong 38.5% YoY pace in H1 2026, whereas growth in labour-intensive shipments remained a mere 1.4%.

% Share of Total China Exports (12mma)



Source: CEIC, BEA Economic Research

Exports by Category (%YoY)



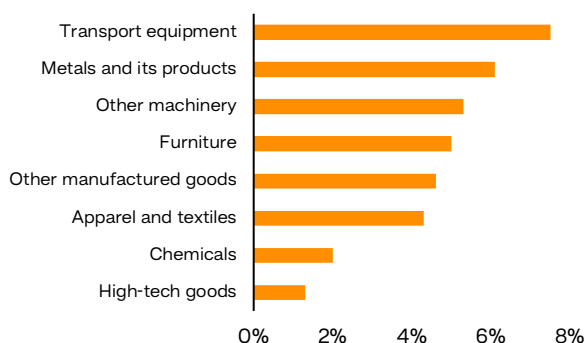
Note: January-February combined
Source: CEIC, BEA Economic Research

² Labour-intensive products include garments, textiles, furniture, suitcases, handbags, footwear, plastic articles and toys.

2) Growing global presence across the value chain renders Chinese goods highly indispensable

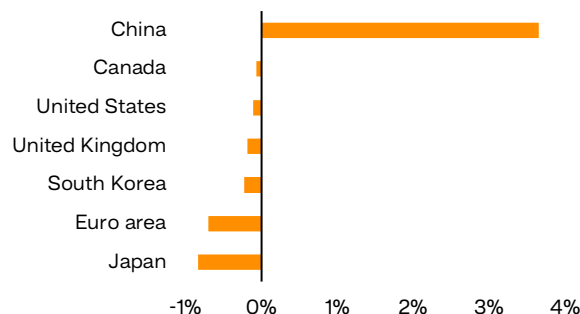
The transition toward higher value-added industries has not come at the expense of lower-end market segments. According to recent research published by the Federal Reserve³, China gained global export market share across nearly all manufacturing sectors over the past decade. From 2017 to 2024, China's global export share in transport equipment and high-tech exports increased by 7.5 percentage points (ppt) and 1.3 ppts, respectively. At the same time, the nation continued to gain global market share in other mature, low-value-added sectors such as apparel & textiles (+4.3 ppts), furniture (+5.0 ppts) and metals (+6.1 ppts). Aggregately, China's total share of global exports expanded by 3.7 ppts over the period. China's growing prominence in global merchandise trade has enhanced the competitiveness of its exports. Given the limited availability of short-term alternatives for many products, exchange rate fluctuations may have a relatively muted impact on China's export performance.

Ppt Change in China's Sectoral Share of World Exports from 2017 to 2024



Source: FEDS Notes

Ppt Change in Countries' Share of World Exports from 2017 to 2024



Source: FEDS Notes

3) Rising domestic value-added (DVA) provides Chinese exporters with greater buffers

Beyond just moving up the value chain, China has vastly improved its domestic production self-sufficiency. According to research by the Stanford Center on China's Economy and Institutions⁴, China's DVA in exports rose from 66% in 2007 to 76% in 2020. This shift was accompanied by a sharp structural decline in processing trade (where components are imported, assembled, and re-exported), which fell from 41% to 23% of total exports. In alignment with the national objectives to develop strategic emerging industries, targeted sectors such as information and communications technology (ICT), machinery, chemicals, and transportation equipment recorded notable DVA gains. By sourcing components domestically rather than relying on foreign imports, manufacturers have established highly integrated and predictable local supply chains. Moreover, as these higher-DVA goods usually command wider profit margins than traditional low-cost assembly processing,

³ de Soyres, François, Ece Fisgin, Mike Liu, and Eva Van Leemput (2026). "China's Trade Dominance and the Role of Industrial Policies," FEDS Notes. Washington: Board of Governors of the Federal Reserve System, March 23, 2026, <https://doi.org/10.17016/2380-7172.4018>.

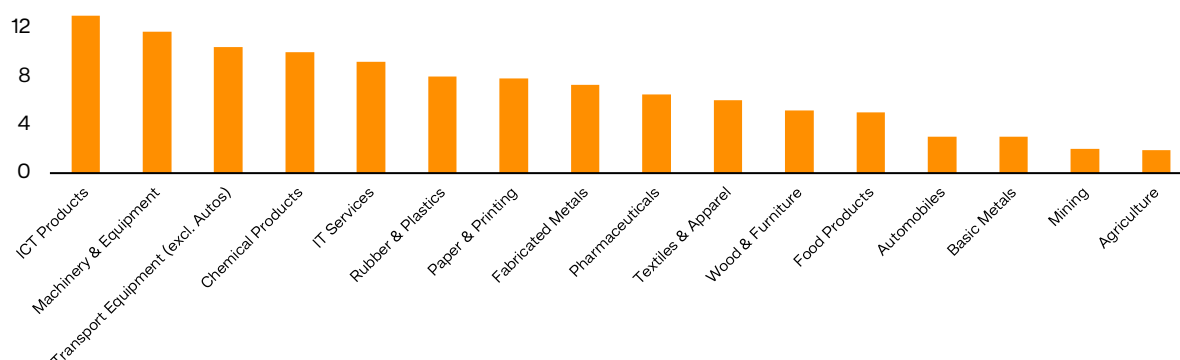
⁴ Kun Cai, Zhi Wang, Shang-Jin Wei (2025). "[From Made in China to Made by China: Industrial Policy and the Rise of China's Domestic Value Added](#)". Stanford Center on China's Economy and Institutions, December 1, 2025

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producers possess greater financial buffers. This allows them to absorb a temporary margin squeeze, enabling them to keep foreign-currency prices stable during periods of RMB appreciation.

% Change in Domestic Value-Added in Exports from 2007 to 2020

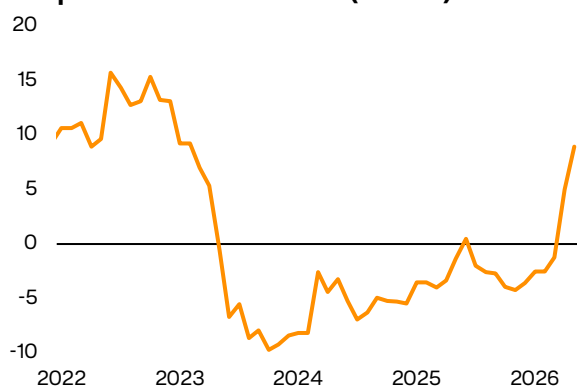


Source: Stanford Center on China's Economy and Institutions

Furthermore, the increase in DVA reflects China's transformation from a traditional processing and assembly hub into a powerhouse of homegrown global brands. Industry leaders in consumer electronics (e.g., Xiaomi, Huawei), new-energy vehicles (e.g., BYD), home appliances (e.g., Haier) and consumer goods (e.g., Pop Mart) now command stronger global recognition. This rising brand influence fosters deep consumer loyalty and enhances pricing power, which reduces the price elasticity of demand and further insulates Chinese exports from adverse currency impacts.

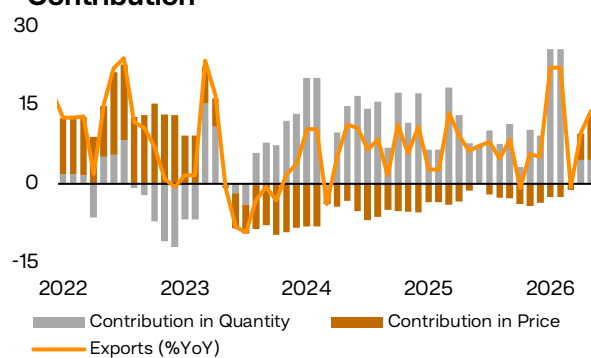
4) Export price adjustments offset the impact of a stronger RMB

Export Unit Value Index (%YoY)



Note: Average for and January February
Source: CEIC, BEA Economic Research

Exports %YoY Growth and its Contribution



Note: Average for January and February
Source: CEIC, BEA Economic Research

Conventionally, the pass-through of a stronger currency translates into higher foreign-currency export prices. However, Chinese export prices have continued to moderate gradually through the recent period of RMB appreciation⁵, declining by 10.5% from 2022 to 2025 based on our estimates. This pricing dynamic indicates that the stellar performance of China's nominal exports has been

⁵ While overall export price growth has turned positive since April 2026 due to the surging global oil and chip prices, prices for most exported goods outside these sectors, such as textiles & apparel and autos, continued to moderate.

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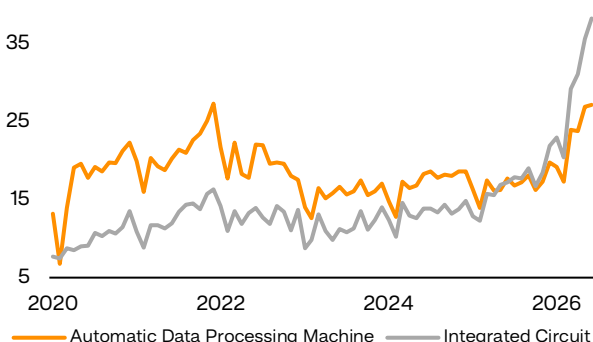
primarily volume-driven. In particular, China's structural manufacturing advantages, such as highly efficient supply chains and massive economies of scale, have significantly optimised its cost structure. These efficiencies allow Chinese exporters to adjust final prices downward to offset currency appreciation and maintain profitability, effectively neutralising the exchange rate effect and ensuring Chinese exports remain attractive globally.

Structural drivers in place to further propel export growth

The export outlook remains sanguine. China's exports are poised for sustained expansion and remain a leading global force. First, the current export growth trajectory is underpinned by deeply entrenched structural advantages, such as a highly comprehensive supply chain and broad-based manufacturing competitiveness. Second, China remains uniquely positioned to capture global tailwinds, including the AI upcycle and the rapid global energy transition, both of which will continue to drive demand for advanced chips and new energy exports. Third, as more Chinese enterprises expand outward direct investment across the global value chain, these strategic moves will likely enhance supply chain resilience and unlock broader, more diversified access to international markets.

Tech Exports

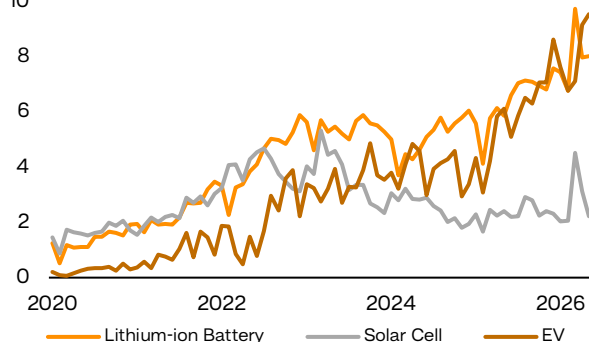
USD billion



Source: CEIC

"New-Trio" Exports

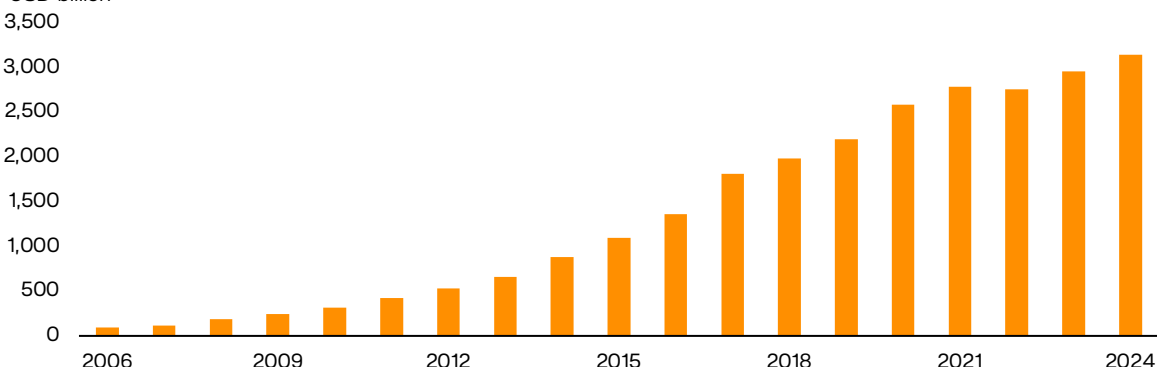
USD billion



Source: CEIC

Outward Direct Investment (Stock)

USD billion



Source: CEIC

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