The Effect of Real Effective Exchange Rate on Bilateral Trade between China and the EU

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Abstract: In order to maintain its pace of economic and export growth, China has the ability to influence the development of the domestic currency, supporting its own international trade positions and making significant changes to its structure. Thanks to its absorption capacity, China is safeguarded against such changes and can effectively react to the trade policy of the US. These processes have more severe impact on countries whose foreign trade exposure is high. Our article aims to describe the current trends in the bilateral trade between the PRC and the EU and test how it’s influenced by the real effective exchange rate of China. This analysis utilized ARDL bounds testing procedure and ECM model where the trade balance is a function of exchange rate and domestic and foreign income. We suggest that the decrease in China’s international price competitiveness is a reflection of its rising non-price competitiveness and that the latter currently plays a more dominant role in shaping China’s trade flows.

Keywords: ARDL test, ECM model, exchange rate, REER, EU Trade balance

JEL Classification codes: E59, F01, F47, G10, O23

INTRODUCTION

Developments in the world economy have been taking on a new dimension since the end of the millennium. The very nature of international business is rapidly changing, but the emergence of new countries in international competition is outstanding. With the onset of the 21st century, the Chinese economy expanded massively, and even though several experts have already shifted the focus on the prospects of the Indian economy, China's dominance will be even stronger and will have far-reaching implications not only for Asia, but all other parts of the world economy as well, and this fact is increasingly reinforced. Indeed, views on the Chinese economy vary, but the facts remain. After reserving the spot as the world's largest trader, and together with the rest of the Greater China (Hong Kong, Singapore, Taiwan and Macau) the largest foreign investor, it's taking over even more leadership positions and is becoming a decisive economic element of the globe. As far as the production of consumer goods and lower technologies is concerned, it seemed that multinational corporations active in China's territory served only a temporary role by using its comparative advantages to strengthen their imminent positions on international markets. However, China has, in a relatively short period of time, capitalized on a long-term development strategy mainly concentrated on infrastructure development and investment in science and education, and dynamically transformed its industrial output towards the expansion of high technology and services. It turns out that its overall focus on modern technology and the conceptual formation of strong intellectual and technical background is internally so precise and so consistent that, if major nationwide economic reforms in other countries won't occur, China will become a world leader in this area as well. The country's enormous stock of potential domestic demand resulting from the growth of the still low GDP per capita (only 14.8 per cent of the US in PPP
terms) and the huge supply of cheap and productive labor, create not only significant reserves for potential economic growth for decades ahead, but also increase its strategic attractiveness for foreign investors and traders. With a population of approximately 1.41 billion, China accounts for about 18.5% of humanity (World Bank, 2019).

The deepening of the integration processes in Asia, which is also a factor in the increasing use of the yuan in international trade settlements, has rightfully caused "wrinkles" on the faces of the most prominent European and American politicians. Former US president, Barrack Obama, aware of what the rise of the Chinese yuan meant to the US and the stability of international trade denominated in $, tried to mitigate the risks arising from such trade promotion in Asia. He decided to counteract with the Asia-Pacific Economic Cooperation (APEC) which would put long-term trade deal in place. He also proposed the Trans-Pacific Partnership (TPP), which would become the world's largest trade agreement and counterweight China's economic dominance in Asia. The new president, Donald Trump, halted this project in 2017, and decided to use the economic power of the US to promote its potential in bilateral negotiations with each country. This decision, on the other hand, has relaxed the decision-making process in the countries that originally wanted to defy China's expansion with the original TPP, further linking them not only with China's economy, but also with the Chinese Yuan.

China's influence on overall direction as well as the speed of globalization of the world economy is not only immense, but now takes on a completely new dimension. Since 2009, it has been the world's largest exporter and the world's second largest importer of goods and one of the largest foreign investment recipients. Since 2016, when the international trade growth began to decline, Greater China has become the world's largest trader, while attacking the top position in case of FDI inflows and outflows. The increasing use of the Chinese yuan (¥) in international trade settlements has become an accompanying phenomenon in the emergence of China (note: Since October 1, 2016, Chinese renminbi was included in SDR basket as fifth currency). Since 2018, most of the international trade transactions with more than 20 Asian countries (as well as Australia) have been settled in this currency, and this holds true even in case of oil and natural gas trade with Russia. This tendency may increase stability in bilateral trade operations and reduce the risks resulting from currency pair volatility. While the share of Chinese yuan in the volume of global international settlements is still not so significant, this trend is stable and its possible impact on the so far unshakeable position of the $ is considerable.

**Fig. 1  USD/CNY exchange rate (weekly frequency - W1)**

![USD/CNY exchange rate](image)

Source: Investing.com (2018)
Yuan (¥), unlike the US dollar ($), with its global position, has the advantage that the ¥ exchange rate is under full control of the national bank, the People’s Bank of China, and therefore the development of the exchange rate is driven not only by the state of the domestic economy, but effectively by the business interests of the country abroad. This is evidenced by the fact that since 2005, the exchange rate of ¥ against $ and even against other currencies of developed market economies steadily strengthened. However, since Q2 of 2018, due to the decline in its foreign trade and problems arising from changes in trade policy of the US, the exchange rate of ¥/$ continually declined. By the end of 2018, its exchange rate has fallen to its lowest level in the last ten years, attacking a politically sensitive level of 7 ¥/$. A weak currency helps Chinese exporters compensate for the losses due to the protectionist tariffs imposed by the US administration and eliminates its efforts to reduce its extremely high bilateral trade deficit (AP Agency, 2018).

Although the $ is the world’s leading trade currency (used in about 80% of world’s cross-border transactions) which helps the US to influence global trade, the rise of yuan’s importance is unique. This also applies to its relationship to the euro. In the context of increasing problems in bilateral trade of the EU and the PRC with the US, the mutual EU-China trade is naturally on the rise and hence the ¥/€ exchange rate and the financial policy in general can have a significant impact on the intensification of not only economic, but also political ties between the partners. Against this background, the increasingly complicated developments in international trade relations naturally have strong implications for the financial security and for the development of exchange rates. Powerful economies try to influence these currencies and their monetary policy in order to promote their exports. It's clear not only in case of the weakening yuan against the $, but it is also noticeable for the ¥/€ currency pair. On the other hand, this "aid" reduces the level of the competitiveness of third countries and they are quite rightly trying to revise such a trade policy.

1 LITERATURE REVIEW

Despite some rejecting studies (J. Yang et al., 2006), among the American politicians but also among distinguished researchers, undervaluation of ¥ is considered to be a matter of fact for several years. Nevertheless, different researches tried to answer the question to what extent this undervaluation has been helping the Chinese companies to boost their export competitiveness and discourage part of the import volumes. The numbers within China’s external payments suggests that the currency is undervalued. According to several authors (P. Garton, J. Chang, 2017), hence, the role of undervaluation in case of external imbalances is often exaggerated and Chinese RMB is undervalued somewhere between 7% and 30% (B. Bernanke, E. Prasad, P. Garton, IMF 2010), unlike earlier pessimistic studies reaching up to 40%.

Until the end of 2016, this topic was rather “frozen”. Nevertheless, since 2017, political decisions of the US president as well as other US authorities, consider this issue to be a problematic solution-seeking topic due to following factors (P. Garton, J. Chang, 2017):

- the widening of the United States current account deficit to over 6 % of US GDP;
- depreciation of the $ (and hence, the RMB) against most other currencies from early 2002;
- China’s rapid economic growth and increasing role in the world economy;
- the scale of China’s accumulation of foreign reserves, reflecting strong capital inflow and the authorities’ efforts to hold the RMB stable against the $.

A new need to determine the objectivity of the RMB exchange rate has been stemming from the growing pressure from US manufacturing interests and elements within US Congress and potential threat in the form of retaliatory tariffs on imported Chinese goods in case of
unchanged approach. According to authors’ observation and theoretical framework used by economists within several central banks, using nominal exchange rates (NEER) to reveal the extent of undervaluation is rather obsolete and vague. The more comprehensive indicator determining export competitiveness, predominantly used in international trade theory is real exchange rate (REER). Based on this, the study tries to investigate possible effects of Chinese REER dynamics on the external trade of the EU.

The objective of the article is to identify the effects of Chinese REER development on the export competitiveness of the European trade balance (measured as EXP/IMP) using ARDL and ECM models.

2 METHODOLOGY

The data used for the estimation has quarterly frequency from Q1 2005 until Q1 2018, providing enough observations - 53. Time series data has been transformed into natural logarithms for a number of practical reasons. In the first place, it allows to interpret the resulting coefficients directly as percentage changes of the variables. The transformation transforms the exponential growth pattern into a linear growth pattern, and at the same time converts proportional variance into constant variance, thereby minimizing the risk of heteroscedasticity.

The data for our dependent variable, bilateral trade balance, was drawn from the Eurostat database. We used bilateral EU exports to bilateral EU imports ratio to avoid negative values which would impede the subsequent logarithmic transformation. The growth in this variable suggests improving bilateral trade balance of the EU. The real effective exchange rate (REER) of the PRC is calculated as the weighted average of the bilateral exchange rates adjusted by the relative consumer prices. We transformed monthly data to quarterly data using arithmetic mean. We drew it from the Bank for International Settlements Database. Growth of this variable suggests strengthening of Chinese yuan against China’s trading partners’ currencies in combination with growth of China’s domestic prices in comparison with its trading partners’ prices. Growth of REER therefore practically means a drop in the price competitiveness of China’s products at the international markets. To express foreign income, we used China’s seasonally adjusted GDP at current prices from the OECD’s Main Economic Indicators database. For domestic income, we used chain linked volumes of EU-28’s final consumption component of GDP at market prices from Eurostat database.

ARDL bounds testing approach (Pesaran, M.H. et al. 2001) is well suited for testing the existence of a long-term relationship between economic time series, while also allowing for evaluation of time series with lower number of observations (usually, this is tolerated when using annual data). The ARDL specification of the function identified by T. Singh (2002) and A. K. Rose (1991) is as follows:

\[
\Delta \log TB_t = \alpha_0 + \sum_{i=1}^{n_0} \sigma_i \Delta \log TB_{t-i} + \sum_{i=0}^{n_1} \tau_i \Delta \log REER_{t-i} \\
+ \sum_{i=0}^{n_2} \phi_i \Delta \log CN_{t-i} + \sum_{i=0}^{n_3} \omega_i \Delta \log EU_{t-i} + \lambda_1 \log TB_{t-1} \\
+ \lambda_2 \log REER_{t-1} + \lambda_3 \log CN_{t-1} + \lambda_4 \log EU_{t-1} + \epsilon_t
\]

The first part of the equation with the coefficients \(\sigma, \tau, \phi, \omega\) expresses the short-term dynamics of the model and the parameters \(\lambda_1, \lambda_2, \lambda_3, \lambda_4\) express the long-term equilibrium relationship. The null hypothesis of the model is as follows:
If there is evidence of a long-term relationship (cointegration) between variables, following long-term model is estimated:

\[ \log TB_t = \alpha_1 + \sum_{i=1}^{n} \sigma_i \log TB_{t-i} + \sum_{i=0}^{n} \tau_i \log REER_{t-i} + \sum_{i=0}^{n} \phi_i \log CN_{t-i} \\
+ \sum_{i=0}^{n} \omega_i \log EU_{t-i} + \epsilon_t \]  

(5)

After estimation of a long-term relationship, author will estimate the Error Correction Model (ECM), which shows the rate of return to the long-term equilibrium after a short-term imbalance. The standard ECM model includes an estimate of the following equation:

\[ \Delta \log TB_t = \mu_1 + \sum_{i=1}^{n_0} \zeta_i \Delta \log TB_{t-i} + \sum_{i=0}^{n_1} \eta_i \Delta \log REER_{t-i} \\
+ \sum_{i=0}^{n_2} \theta_i \Delta \log CN_{t-i} + \sum_{i=0}^{n_3} \tau_j \Delta \log EU_{t-i} + \gamma ECM_{t-1} + \epsilon_t \]  

(6)

### 3 RESULTS AND DISCUSSION

This section attempts to apply the model suggested by Singh (2002) and Rose (1991) where the trade balance (TB) is a function of real effective exchange rate (REER) and domestic (Y) and foreign real income \( (Y^*) \). Logarithmically transformed model specification can be expressed as follows:

\[ \ln TB_t = \beta_0 + \beta_1 \ln REER_t + \beta_2 \ln Y_t + \beta_3 \ln Y^*_t + \epsilon_t \]  

(1)

where:

- \( \beta_0 \) is a constant
- \( \beta_1, \beta_2, \beta_3 \) are coefficients of independent variables
- \( \epsilon_t \) is white noise

#### 2.1 Unit root test

One of the first steps in econometric analysis is the testing of time series for unit roots. For the purpose of this study, a standard version of the ADF test (Dickey and Fuller, 1979) is used to verify the assumption of non-stationarity. Authors performed ADF test on both original and first-differenced variables to determine whether they are \( I(0), I(1) \), or differenced of higher
order. Trend was also included in the test statistics. The choice of optimal lag was determined automatically by the Schwarz information criterion. The results are shown in Table 2. Since all variables are either \(I(0)\) or \(I(1)\), it is appropriate to use them for ARDL model testing.

### Tab. 2 Unit root tests

<table>
<thead>
<tr>
<th>Original variable</th>
<th>p-value</th>
<th>t-statistics</th>
<th>First-differenced variable</th>
<th>p-value for first-differenced variable</th>
<th>t-statistics for first-differenced variable</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>LOGTB</td>
<td>0.8920</td>
<td>-1.2321</td>
<td>D(LOGTB)</td>
<td>0.0201</td>
<td>-3.8933</td>
<td>I(1)</td>
</tr>
<tr>
<td>LOGREER</td>
<td>0.1055</td>
<td>-3.1530</td>
<td>D(LOGREER)</td>
<td>0.0002</td>
<td>-5.5323</td>
<td>I(1)</td>
</tr>
<tr>
<td>LOGEU</td>
<td>0.0018</td>
<td>-4.7700</td>
<td>D(LOGEU)</td>
<td>0.0060</td>
<td>-4.3668</td>
<td>I(0)</td>
</tr>
<tr>
<td>LOGCN</td>
<td>0.8420</td>
<td>-1.4202</td>
<td>D(LOGCN)</td>
<td>0.0138</td>
<td>-4.0406</td>
<td>I(1)</td>
</tr>
</tbody>
</table>

Source: Author’s calculations

#### 3.1 Bounds test

The choice of optimal lags in explanatory variables was tested and determined by the Akaike information criterion. Granger causality test results enabled us to analyze bilateral trade balance between the EU and the PRC as an endogenous variable. The number of regressors in the model is three, therefore \(K = 3\). All critical values of the lower and upper bounds are obtained from the publication of Pesaran et al. (2001). The calculated Wald F-statistic is 7.453535 and is greater than the critical value of the lower bound of 4.29 and the critical value of the upper bound of 5.61 at the 1% level of significance. Author rejects the null hypothesis of no long-term relationship. Therefore, this model contains a cointegration or a long-term relationship among the variables. It is possible to continue to estimate the long-term relationship among the variables.

#### 3.2 Long-run and short-run estimates

Table 3 summarizes the results of the long-term form of ARDL model of bilateral trade balance. Real effective exchange rate is statistically significant in the model at 5% level of significance. The coefficient is -1.98, therefore a 1% increase in China’s REER is associated with a 1.98% deterioration of EU’s bilateral trade balance with China over the long term. On the contrary, a drop in China’s prices relative to international prices has a positive impact on EU’s trade balance. This outcome portrays a possible positive elasticity of EU’s imports. European importers are therefore constantly increasing imports from China despite price rises in China. China’s inflationary pressure boosts the value of EU’s imports, which worsens its trade balance with the PRC. EU’s GDP has a statistically significant and highly elastic long-term impact on its trade balance with China. 1% GDP gain worsens its bilateral trade balance by 6.87% at 1% significance level. EU’s imports from China are therefore likely to be highly dependent on domestic economic growth. In line with our expectations, China’s GDP has an opposite effect on EU’s trade balance. 1% growth of China’s GDP is associated with a 1.87% improvement in EU’s bilateral trade balance with China at 1% significance level, foreshadowing a possible occurrence of productivity-based import demand boost in China.
Table 3 Long run coefficients

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Standard deviation</th>
<th>t-statistics</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>LOGREER</td>
<td>-1.975978</td>
<td>0.954157</td>
<td>-2.070916</td>
<td>0.0460</td>
</tr>
<tr>
<td>LOGEU</td>
<td>-6.867246</td>
<td>2.306687</td>
<td>-2.977103</td>
<td>0.0053</td>
</tr>
<tr>
<td>LOGCN</td>
<td>1.868127</td>
<td>0.511700</td>
<td>3.650821</td>
<td>0.0009</td>
</tr>
<tr>
<td>C</td>
<td>21.618920</td>
<td>8.024750</td>
<td>2.694030</td>
<td>0.0109</td>
</tr>
</tbody>
</table>

Source: Author’s calculations.

Table 4 shows the short-term coefficients of error correction model for the bilateral trade balance between the EU and the PRC. In the short term, increases in the lagged values of EU’s trade balance have a negative impact on the current value of trade balance. 1% REER increase in China is associated with 0.77% short-term decrease in bilateral export to import ratio of the EU at the 1% level of significance. EU’s GDP has no measurable impact on its trade balance with China in the short run. 1% increase in China’s GDP in the previous quarter is expected to worsen EU’s current bilateral trade balance by 0.68% in the short run at the 1% significance level. We therefore expect that the changes in China’s imports as a reaction to its economic development appear in one quarter. The error correction term is negative and significant (-0.38971), confirming the long-term relationship between the variables. Hence, after each short-term shock in the model, there is a 39% quarter-on-quarter correction towards the long-term equilibrium. The shocks are therefore corrected after approximately two and a half quarters (which is an inverted absolute value of the error correction term).

Table 4 ECM estimation results

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Standard deviation</th>
<th>t-statistics</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>D(LOGTB(-1))</td>
<td>-0.373209</td>
<td>0.142296</td>
<td>-2.622769</td>
<td>0.0130</td>
</tr>
<tr>
<td>D(LOGTB(-2))</td>
<td>-0.483812</td>
<td>0.154189</td>
<td>-3.137780</td>
<td>0.0035</td>
</tr>
<tr>
<td>D(LOGTB(-3))</td>
<td>-0.414784</td>
<td>0.150839</td>
<td>-2.749851</td>
<td>0.0095</td>
</tr>
<tr>
<td>D(LOGTB(-4))</td>
<td>-0.259524</td>
<td>0.142324</td>
<td>-1.823481</td>
<td>0.0770</td>
</tr>
<tr>
<td>D(LOGTB(-5))</td>
<td>-0.341025</td>
<td>0.113645</td>
<td>-3.000800</td>
<td>0.0050</td>
</tr>
<tr>
<td>D(LOGREER)</td>
<td>-0.770059</td>
<td>0.243637</td>
<td>-3.160683</td>
<td>0.0033</td>
</tr>
<tr>
<td>D(LOGEU)</td>
<td>-0.934680</td>
<td>0.709841</td>
<td>-1.316746</td>
<td>0.1967</td>
</tr>
<tr>
<td>D(LOGCN)</td>
<td>-0.075352</td>
<td>0.240822</td>
<td>-0.312897</td>
<td>0.7563</td>
</tr>
<tr>
<td>D(LOGCN(-1))</td>
<td>-0.682820</td>
<td>0.147670</td>
<td>-4.623950</td>
<td>0.0001</td>
</tr>
<tr>
<td>CointEq(-1)</td>
<td>-0.389710</td>
<td>0.127800</td>
<td>-3.049370</td>
<td>0.0044</td>
</tr>
</tbody>
</table>

Source: Author’s calculations.
3.3 Diagnostic and stability tests

The validity of these econometric findings depends on the suitability and the stability of the model used. Therefore, the results of the diagnostic tests necessary for ARDL modelling are summarized in this section: stability tests (CUSUM and CUSUMSQ), heteroscedasticity test (Breusch-Pagan-Godfrey test), autocorrelation test (Breusch-Godfrey LM test), model misspecification test (Ramsey's Reset test) and normal distribution test (Jarque-Bera test). The model was first tested by CUSUM and CUSUMSQ. These indicate that the residuals do not deviate significantly from the mean values and thus do not cross the two critical lines at the 5% significance level. Therefore, the null hypothesis of the stability of all coefficients in this regression cannot be rejected.

The Ramsey's Reset Test shows an F-statistic of 0.644 and a p-value of 0.598. The resulting nonlinear combinations of fitted endogenous variable values (in this case $\hat{y}_t^2$ and $\hat{y}_{t+1}^3$) in the modified econometric model are not statistically significant when describing a dependent variable. Therefore, the null hypothesis of no model misspecification cannot be rejected. The Breusch-Pagan-Godfrey test of heteroscedasticity calculated the value of F-statistic at 0.655 and a p-value at 0.78. Therefore, the test cannot reject the null hypothesis of homoscedasticity. Therefore, the model does not suffer from heteroscedasticity of residuals, which was additionally confirmed by White's test. The Breusch-Godfrey LM autocorrelation test calculated the F-statistic of 1.157 and the p-value of 0.327. Residual covariance is therefore zero for all lags. Since residuals with different latencies do not correlate with each other, the null hypothesis that the model does not contain autocorrelation cannot be rejected. Author also tested the presence of autocorrelation with the Ljung-Box test (Q-statistics) with the number of lags set at 24. Since all of the resulting p-values are above the 5% level of significance, it is also not possible to reject the null hypothesis of no autocorrelation. Finally, author determined whether the model has a normal residual distribution using Jarque-Bera test. The resulting p-value is above 5% significance level, thus the null hypothesis that the residuals have a normal distribution cannot be rejected.

CONCLUSION

Largely undervaluation of Chinese RMB supported export price competitiveness of Chinese companies abroad till 2014. Despite general opinion regarding devaluing of the Chinese currency, the results of our study investigating data of EU balance of trade and Chinese REER are rather ambiguous. According to our empirical analysis, inflationary periods in China’s economic development serve as a deteriorative factor in EU’s trade balance. A 1% increase in China’s REER worsens EU’s bilateral trade balance by 1.98%. This was proven in 2009 when higher inflation in China associated with huge trade deficit of the EU with the country. Nevertheless, the model does not sufficiently explain record high EU trade deficits between 2012 – 2014. Hence, we suggest that decrease in China’s international price competitiveness is a reflection of its rising non-price competitiveness and that the latter plays a more dominant role in shaping China’s trade flows. The expansion of the Chinese hi-tech companies incorporating higher value-added exports (Huawei, Tencent, ZTE, etc.) to the EU are also partial explanation of the finding. National incomes of both economies are highly relevant in bilateral trade flows. EU's GDP growth is negatively associated with its bilateral trade balance with China and China's GDP growth has a positive relationship with EU's bilateral trade balance with China. Partial explanation on EU side lies in the mechanism of REER increase, since EU GDP growth brings euro appreciation as well what hampers price competitiveness of the euro area exporters. Both of these results are in line with economic theory. Interestingly, we have discovered that EU's
trade balance is highly elastic to EU’s GDP changes (-6.87 in comparison to 1.87 in case of China’s GDP).

Based on above-mentioned econometric findings and its interpretation, authors strongly recommend to boost industries with high export potential (especially the "offspring" industries of Industry 4.0) to heal the trade deficit between EU and China. Monetary measures will probably not bring the desirable effect for the European industrial exporters. Moreover, based on monetary union imperfections, we identify higher threat of asymmetric shocks in case of monetary instruments usage. At present, China’s economy is increasingly focused on the use of yuan in the trade settlement with the countries of Southeast Asia, Japan and Australia. The use of domestic currency helps to reduce exchange rate losses and risks resulting from high volatility between the $ and other national currencies in which these transactions are being settled.

Experts point out that such a trend has a rather significant impact on the development of the domestic industrial and production structure of both partners. Hence their national comparative advantages play an important role, as their scarcity cannot be compensated by monetary policy (Baláž, P. et al, 2012). In case of China's bilateral cooperation, which has been using the $ as the main cross-border settlement currency (complemented ¥ and €), the Chinese currency will probably have a higher share in the near future. Indirectly, this is foreshadowed by a number of recent events, mainly the implementation of the Silk Road project and the EU-Japan Free Trade Agreement. China's companies form a significant part of Japan's suppliers who are therefore heavily dependent on China's national currency. The question remains: what consequences will the trade war, which is constantly escalating and affecting the bulk of foreign trade between China and the US, have. The natural outcome could be the redirection of China's exports and FDI outflows to the EU, which logically implies increasing pressure on the use of the yuan and the resulting re-shaping of its trade strategy. It is obvious that the situation that will occur in the global economy will have far-reaching consequences on the political stability of the whole European region and its economic independence, too.

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