

Analysis of RMB Exchange Rate Affect China-US Economic and Trade Relations

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Abstract: The exchange rate is a comprehensive indicator which reflects the state of a country's participation in international affairs of the economy. Since China has entered the WTO, it has greatly increased on trade with the others countries of the world. It will be helpful to develop China's economic if increase the trade, import and export with the superpower -- the United States. According to the data, China shares the total deficit is about 25, and this situation has been keeping unabated. The balance of the exports from China to America and imports from the United States exceeds \$170 billion. This has also become a hot topic in the world. While realizing the interflow of resources, the trade imbalance between China and the United States has been increasingly prominent. Therefore, the fluctuation of the RMB exchange rate is considered as the main reason of the trade war happening between China and America . This article analyzes the influence of the rate of RMB which changes on Sino-US trade, and analyzes and summarizes from three aspects: trade structure, total trade volume and international balance of payments. Targeted countermeasures have also been proposed. This has important practical significance in terms of the relationship between China and America in the future.

1. The historical evolution of RMB currency rate in exchange

From the historical perspective, as the system of Chinese economy continues to change, so too has the financial world. The emergence of such factors as the deregulation of rate of international currency as well as the continuous strengthening of relevant market management makes the mechanism of the rate of Chinese currency constantly improved. The reform of the this Chinese system is guided by thereform in the field of evonomy in each stage . By reviewing the development of China's RMB exchange rate, a total of six development stages are summarized, which also provides the corresponding background basis for the fluctuations about the rate of Chinese currency .

1.1 Single floating exchange rate system (In1949-1952)

At this time period from 1949-1952, in terms of Chinese currency RMB, whose rate was constantly

depreciating at the beginning, gradually increased. This is because the government in 1950 to implement the price rectify and reform work has achieved remarkable effect. Encouraging imports, meanwhile, It also helps to break Western countries blockade and embargo against China, boost recovery of the national economy. At the same time, the recovery of national economy also needs the appropriate fluctuation of our currency rate so that the country could adapt to economy and development requirements of trade internationally.

1.2 Single fixed exchange rate system (In1953–1972)

Since China was established, the economic mechanism of it has moved towards to plan oriented economic mechanism. China stopped pegging to the dollar in favor of pound because of the war against north Korea. At this moment, the RMB exchange rate is basically at a stable stage. Such this single fixed exchange rate would be against the basis of the market. During the early period of New China, China's export capacity is low and its demand for imports is high. Add in some politics factors, the RMB is overvalued, much higher than its market value.

1.3 "A basket of currencies" calculation of single floating exchange rate system (In1973–1980)

In order to ensure that China's exchange rate will not be greatly affected by inflation in western capitalist countries, China has been pursuing the relatively stable RMB exchange rate policy. Within a certain range adjustment of RMB exchange rate is helpful for China to enter a well trading environment, but if the RMB exchange rate is still high, it will increase the exports loss. On the other hand, it also stimulated the development domestic trade.

1.4 Dual exchange rate system (In1981–1993)

In the period from 1981 to 1984, the government official RMB exchange rate and the foreign exchange internal settlement price existed simultaneously. Practice dual exchange rate system, to increase exports, our country take the RMB exchange rate on the strategic decision, and significantly lower than the government official exchange rate. However, from 1985 to 1993, the government official exchange rate and the RMB exchange rate existed together, which has brought about a multi-faceted bad impact, for example, it is not beneficial to realize that the resources in the international currency trade are allocated effectively, shifting the operating mechanism, making the foreign exchange management work more chaotic.

1.5 RMB exchange rate system based on market mechanism (In1994-2005)

At the beginning of 1994, aiming at reforming the constitution of the foreign currency exchange in management so as to establish the floated system of it, unifying the market of the currencies, setting the RMB as the currency which can be exchanged in common situations, the reform has been conducted. It makes the form of the exchange rate is according to the market supply and demand, which changed the measure of administrative decision or adjust the exchange rate, and use market mechanism to regulate exchange rate. Although the economic crisis was broke out in the Asian region. But in many countries competitive devaluation's background, this remained stable under the premise of the deflation within the domestic market and abundant foreign exchange reserves. Banks unified the form of foreign exchange market and accept intervention on foreign exchange markets from the country, It is essential to keep the

finance system stable and develop the world economics.

1.6 Managed floating exchange rate system based on the supply and demand in the market making reference to a basket of currencies (In2005-now)

On July 1, 2005, China put forward and conducted the regulation of currency exchange floated in the management on the basis of the supply and demand in the market making reference to a basket of currencies", which promotes the Chinese currency to continue to break through the dollar, a one-off revaluation of 2.1. This is beneficial to promote the balance of international payments and international economic stability, also good for the restructure of domestic enterprises.

We can learn from the evolution of the rate of RMB that the purpose the establishment of it is changing with the development of the economy constantly. From the initial only increase import and export, now to hold the trade relations between countries and the international payments balance. The RMB exchange rate policy will unavoidably influence on the domestic and foreign economy in some ways.

2. Profile the current situation of the trade between China and the US

In recent years, China has had an increasingly excellent performance in achieving the surplus of payment balance. According to the financial performance from the People's Bank of China, the export trade volume in China has exceeded \$200 billion, so has the import equivalent over \$68 billion in the mutual international trade with America in the past year. Compared with the same period last year, it has increased by 7 percentage points. When this system of rate did not alter at the beginning of the 20th century, the trade surplus between China and the United States had a far cry. Coupled with the influence of many other factors, the difference is getting bigger and bigger.

The unbalanced state of the trade between these two giants is mainly manifested in the overall structural imbalance of products and the overall imbalance of trade volume. In terms of the imbalance of the overall structure of the product, it is reflected in some labor-intensive trade products, such as raw materials and products, but in terms of high-tech products, America has a trade surplus over China in trade, such as electronic products, biotechnology, and Aviation manufacturing technology, etc. Even in the field of optoelectronic information technology, the US trade surplus with China has leaped. In terms of the imbalance of total trade, the statistical methods and technical aspects between them are different, leading to the different statistical results. Trade statistics between the two countries show that since 1972 to 1982, the US statistical result is a surplus, and the deficit was formed in 1983. The result of our statistics is that there was a deficit between 1979 and 1992, and the surplus appeared in 1993. However, when it comes to today's situation, the trade balance between the two countries is at a rapid distance, which makes the trade contradiction in these two countries deepen.

3. The effect of the rate on the trade between China and America

Since this century has started, China has greatly changed in the construction of the mechanisms forming the RMB exchange rate. After the introduction of this, the RMB gradually in a stable appreciation of the situation. In general, the fact that RMB keeps appreciating makes China's export enterprises feel certain pressure, promote its technological innovation, so as to improve the terms of mutual trade the two countries and upgrade the product structure.

3.1 The impact on the balance between the trade of China and America

Thanks to the fact that China conducts the policy of the reform and opening up, the economy in China has boomed. As an economic power, America closely collaborates with China in the field of trade. However, the close trade cooperation between these two nations continues to expand the trade surplus, trade balance becomes more and more unbalanced.

The impact on trade balance of China. In recent years, the developed world from America, Japan, Korea and other countries with more developed economies in the world have set up factories in the Asia-Pacific region, where labour costs are relatively low, in order to reduce manpower costs. As a large population country, China is also one of the labor-intensive production areas, these enterprises mainly include clothing, shoes and hats, toys and other manufacturing industries. Due to the good momentum of the development of foreign-funded enterprises and the competitive vitality of domestic enterprises, China has gradually become a relatively concentrated labor-oriented production base in the field of light industry in the Asia-Pacific region. This kind of light industrial products has gradually become the dominant place of our country's exports to the outside world. Bit. Based on the analysis, the expansion of the trade surplus between the two giants will increase the competitiveness of China's enterprises in the future.

The impact on America's trade balance. It is known that America's heavy industry and high-tech fields are very developed, and in the world's leading position. Also, aircraft, machinery, information, power products are the main types of American foreign trade products. Due to historical reasons, the United States adopted a high-pressure control policy against China in the 1990s, which seriously affected the total amount of American export trade to China. In recent years, due to the increasingly fierce international competition, more multinational companies come to China to invest in medicine, petroleum, chemical industry, agriculture, finance, insurance, information and other fields, their purpose of investment is to occupy the domestic market. Such alternative investment will inevitably lead to a reduction in imports to the United States and further enlarge the deficit of the trade between these two nations.

3.2 The impact on the structure of China-US trade

First, there are corresponding positive implications for both China and US. For China, it is conducive to promoting the structural transformation of sino-US export trade. For example, enterprises can import equipment and technology at a low price to reduce their operating costs, increase their profits, optimize their structure and increase their competitiveness. For the United States, the main significance is to reduce China's trade deficit.

Second, the fluctuation of the rate of the Chinese currency also has a negative impact on the sino-US trade structure.

Impact on China's trade structure. The main outstanding performance in two aspects: On the one hand, from the perspective of corporate interests. Chinese exports are popular because of their low prices, which are highly competitive. If the RMB continues to appreciate, it will inevitably contribute to the higher prices of the goods exported in China and curb exports, making Chinese enterprises face the severe test of sustainable survival. If exports decrease, enterprises will face difficulties in business operations and the unemployment rate will rise, which will be detrimental to social stability and promotes that Chinese people lives better than ever before. For another thing, from the perspective of national interests. When it comes to the exchange reserves, China would own less because a stronger yuan means a lower exchange rate. At the height of \$239.9 billion, if the rate between these two currencies is 6.8:1, China is equivalent to have

16.3132 trillion yuan, when it reaches 6:1, the foreign exchange reserve is 14.394 trillion yuan, equivalent to the disappearance of 1.9192 trillion yuan, the loss is obvious.

Impact on the structure of U.S. trade. As the US dollar is one of the major currencies in circulation in the world, this characteristic of the US dollar determines the standard system of the US dollar. Therefore, in order to facilitate international trade payment and make intervention of the exchange in the international market, each country will inevitably reserve a great deal of US dollar foreign exchange to achieve the economic stability of the country. The dollar reserves of each country are obtained from the trade surplus, while the dollar reserves are deficit between the trade of America so the status of the dollar will not change, as long as the dollar standard system exists, it is impossible to eliminate the trade deficit.

3.3 The impact on total sino-US trade

The impact on China's total trade. In the trade between China and America, China exports usually processing products with low technical and low price elasticity of demand. In the US market, Chinese products are superior to those of developing countries such as Brazil, Argentina and Mexico. Therefore, as the price of RM is rising, American exports to China will increase the price marked by the dollar, but will not shrink by a large margin. Therefore, China's export products still have a strong competitive advantage, if the stable rate of the Chinese currency exists, it is beneficial to the trade in China which will also grow steadily.

The impact on total U.S. trade. American foreign trade is mainly inclined to high-tech products with the elastic prices. Through the competitive pressure between multinational companies, the United States will also face fierce competition from countries such as Europe and Japan, which is bound to reduce the share of exports and may cause a decline in the total trade.

4. The suggestion on China-US economy and trade future development

4.1 Insist on expanding domestic demand strategy

In terms of the current international situation, the world economy is in an unstable environment. For many years, the export trade with the United States accounted for four percent of China's economy, but the United States to China's export trade volume accounted for only less than one percent of the U.S. economy. From it, it can be seen that if trade war between China and the United States occurs, China's products will not be able to quickly find the same market, which will lead to the actual situation of reduced production capacity of enterprises and unemployment of employees. Our economic loss must be greater than that of the United States. In view of this situation, increasing national per capita income and expanding domestic demand is one of the effective ways to solve the problem. China has huge potential for economic development. We should continue to expand domestic demand to expand the size of the domestic market and promote stable and healthy development of our country's economy.

4.2 Optimize the structure of import and export products

Labor-intensive products are the main types of China's exports, the export of this kind of product consumes the advantage of low labor costs in China. Therefore, China needs to strengthen the technological added value of export products, increase high-tech research efforts constantly, promote the transformation of Chinese enterprises from labor-intensive to technology-intensive, improve the ability of Chinese products

exported an imported to resist risks, and accelerate the structural transformation of import and export products.

4.3 Reduce other trade country's dependence

Since China joined the world trade organization, its foreign trade volume has been increasing. Throughout China's imports and exports is relatively balanced, but trade with some other countries between imports and exports is not balance, It make the development of the trade in China be hindered. When making foreign trade developmental strategy, according to different countries adopt different strategies, increase the feasibility of strengthening measures. In dealing with the trade conflicts between countries, to some extent it also reduces the dependence on the traders from the developed countries, and to a certain extent it can alleviate that these two countries may conflict in the international trade.

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