

# The Impact of RMB Exchange Rate Regime on Sino-US Trade

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## Abstract

**Based on the background of Sino-U.S. trade war, this study focuses on the causes of Sino-U.S. trade war, and focuses on the impact of changes in RMB exchange rate on Sino-U.S. trade war. In this paper, we select a lot of literature related to Sino US trade and exchange rate system, focusing on the impact of RMB exchange rate mechanism on Sino US trade. This paper finds that the change of RMB exchange rate system will affect the dominant position of trade war between China and the United States. The rapid appreciation of RMB will aggravate the scope of trade war and accelerate the speed of trade war launched by the United States.**

## Keywords

**RMB Exchange Rate System; Sino-US Trade; Appreciation.**

## 1. Introduction

On August 1, 2019, the Trump administration expressed great dissatisfaction with China's purchase of U.S. agricultural products, imposing a 25% tariff (250 billion U.S. dollars) on China's imports into the United States. An additional 10% tariff (300 billion U.S. dollars) was announced on all remaining commodities. China has taken opposing measures and has also increased tariffs of 5-10% on approximately US\$75 billion worth of American products. After that, the United States also increased tariffs on Chinese goods exported to the United States again. Since then, the Trump administration has launched a trade war between China and the United States using the Sino-US trade imbalance as the cause. So, is the cause of the Sino-US trade imbalance related to the continuous rise in the exchange rate of RMB against the US dollar? Is it because of the RMB exchange rate mechanism? Therefore, if you want to know the reasons for the Sino-US trade imbalance, you must first understand the RMB exchange rate system

## 2. The RMB Exchange Rate System

The perfect renminbi exchange rate system was formed after the system reforms that were introduced on July 21, 2005. The reforms at that time mainly included three aspects: 1. The method of exchange rate control. 2. The determination of the middle price and the daily floating range. 3. Adjust the initial exchange rate. At this stage, the RMB exchange rate system is a managed floating exchange rate system based on the supply and demand of the whole market and adjusted with reference to a basket of currencies. A basket of currencies refers to choosing different currencies and assigning different weights to form a currency basket in the context of my country's economic development. Reference to a basket of currencies is conducive to increasing my country's exchange rate flexibility and maintaining multilateral exchange rates. Even if my country introduces system reforms, my country's exchange rate system still has many shortcomings. For example, banks have not established a market maker transaction system, and the central bank is in a passive situation. Therefore, my country should reduce the direct intervention of the national government and let the market players. Measures such as forming fair prices through independent transactions.

Nowadays, citizens have too high expectations for the appreciation of the renminbi. Therefore, in the future, it is necessary for the country to implement more flexible exchange rate measures to adjust the upper limit of the intermittent appreciation of the renminbi exchange rate to affect the appreciation expectations.

On the whole, my country's RMB exchange rate system is developing in a more flexible and flexible direction. Only by improving the managed floating exchange rate system can the RMB exchange rate system play its role.

### 3. Sino-U.S. Trade

The trade relationship between China and the United States has been formed since 1979 and has been developing rapidly and comprehensively ever since. This is a great thing for the trade markets of China and the United States and the world. However, since the start of the Sino-US trade war in 2019, China's tariff-increased exports to the United States have dropped by 14%, and the trade volume has decreased by US\$18 billion, while the US has decreased by 38%, and the total loss has reached 23 billion. US dollars. However, from the perspective of the trade trend between China and the United States, it will definitely develop in a good direction. The relationship between China and the United States is only temporary. Only the peaceful development of the two countries will usher in a win-win situation, otherwise it will end. Only lose-lose.

The reasons for the Sino-US trade imbalance must be diverse. 1. The data on the Sino-US trade balance is distorted. Due to the different methods used by China and the United States for the calculation of the trade balance, the statistical data of China and the United States have not been the same. The United States has largely attributed it to the rest of China in the calculation process. The Hong Kong re-export trade volume of countries or regions through Hong Kong's trade re-exports is also included, which has also caused the US to seriously overestimate the actual trade balance between the two sides. [1] 2. U.S. policy intervention has led to structural trade imbalances. As the global industrial and market structure has undergone tremendous changes, the U.S. still uses its previous trade policies. The technology export control program has greatly restricted China's information technology products and commercial satellites. The export of China has abandoned the Chinese market. 3. The structural contradictions in the American social class continue to ferment, and capitalists hire Chinese people with cheaper commissions. Therefore, a large part of Americans have lost their jobs, which has once again widened the gap between the rich and the poor in the United States.[2]

For the future trend of trade between China and the United States, complex international economic background is contained in it. First of all, the trade war launched by the United States is a defiance of international financial rules, which will strike the overall economy of American Society for decades. In the past, the multilateral trade system of the United States was built to better play the role of economic bridge. When the United States no longer attaches importance to the balance of multilateral trade, the stability of financial rules will be gradually broken, which will reduce the liquidity of the global free trade market and hinder the overall economic development. In today's world, each economy is more and more closely linked. Only peaceful development can guarantee the sustainable development of each economy. Therefore, the friendship and mutual assistance between China and the United States can jointly promote the overall economic prosperity, and the improvement of Sino US relations is the premise of a win-win situation for China and the United States.[3]

### 4. The Impact of The RMB Exchange Rate Regime on Sino-US Trade

First of all, we can know that the first impact of the RMB exchange rate system is the appreciation of the RMB. The most intuitive impact of the appreciation of the RMB on Sino-US

trade is that it has caused China to gain an advantage in trade, and this is what the United States does not want to see. If the value of its own currency remains unchanged and the other country's currency continues to appreciate, the United States can only raise tariffs. Once tariffs are raised, the trade balance between the two countries will inevitably be broken. There is only one final result, which is There is a trade war between the two countries.

Secondly, the RMB exchange rate system can also bring other impacts to Sino-US trade. If China can continuously improve the RMB exchange rate system to make the appreciation of the RMB smaller, this can reduce the high expectations of the Chinese people for the continuous high-speed appreciation of the RMB. It can also give the United States time to make adjustments to its own currency system. The result is that the world's largest economy and the world's second largest economy will achieve a win-win situation in trade negotiations.

The exchange rate mechanism of the renminbi has driven the appreciation of the renminbi to a certain extent. In the case of an appreciation of the renminbi, China will gain more interest in Sino-US trade. On the one hand, the RMB exchange rate mechanism promotes trade between China and the United States and the world, but on the other hand, the RMB exchange rate mechanism is the fuse of the trade war between China and the United States. The improvement of RMB exchange rate mechanism in China is a necessary basic condition for sustainable economic development. The Central Bank of China should further build an exchange rate adjustment mechanism to ensure the stability and liquidity of RMB exchange rate in the economic environment and ensure that it always has a fair price level.

## 5. Conclusion

The currency exchange rate and the balance of payments have always been in the economic field and even the news and public opinion. Among them, the relationship between the RMB exchange rate and Sino-US import and export trade is very representative in the complex international trade. China and the United States are the world's largest and second-largest economies, and their trade exchanges have always been in the lifeline of the world's economy. Faced with a more severe future environment in the international market, China needs to be more scientific and efficient The RMB exchange rate management mechanism to meet the challenge.

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