



Effects of RMB Appreciation on Chinese International Trade

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Abstract: *Since the reform and opening up, China economic and foreign trade to get fast, sustainable development, has accumulated a large trade surplus and foreign exchange reserves. At the end of 2006, China's foreign exchange reserves have breached \$one trillion, 2011 12 at the end of the foreign exchange reserve balance of nearly \$3.18, RMB appreciation pressure is more and more big. This paper briefly analyzes the background and reasons of RMB appreciation, and on this basis from the positive and negative respectively expounds the influence of RMB appreciation on Chinese international trade, and some measures of RMB appreciation brings the question put forward.*

Key words: *The appreciation of RMB; international trade; Countermeasures*

I. THE BACKGROUND AND REASONS OF RMB APPRECIATION

A. The Background of RMB Appreciation

China from 1994 to the first half of 2005, the rapid development of economy Chinese, itself requires the appreciation of the RMB, but the exchange rate is not adjusted. Since 2007, with average 10% of GDP growth, but foreign exchange reserves is soaring at an alarming rate, from the supply and demand to see the yuan has appreciated pressure. Many investors in RMB investment products to chase, double benefits in order to obtain the appreciation of the RMB and the creation of investment products. China stock market from 2005 to 2007 the rapid burst of bentonite also illustrate the problem. A large amount of foreign capital to enter the Chinese market, the central bank to maintain exchange rate stability can only passively buying foreign exchange, leading to growing foreign exchange reserves. Bring the foreign exchange reserve growth increased, in order to alleviate foreign exchange led to excess liquidity pressure, and slow inflation more serious problem of China in 2007, the central bank to take tight monetary policy, except through bonds outright and repurchase of open market operation, also issued a lot of central bank bills, which undoubtedly lead to continue to supply less than RMB demand, highlights the pressure of RMB appreciation, the RMB exchange rate since 2004, RMB appreciation has been in a state, the change of RMB exchange rate shown in table 1-1.

Table 1-1 In 2003 -2012 year the RMB exchange rate against the dollar change table

year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Exchange rate	8.2770	8.2768	8.1918	7.9718	7.6040	6.9451	6.8310	6.7695	6.4588	6.3125

B.The Reasons of RMB Appreciation

1.External factors

(1)Foreign exchange reserves are too high.In accordance with the principles of economics, a national economic sustainable development, must be accompanied by an appreciation of the real exchange rate, if sustained economic growth, and the real exchange rate has depreciated, the cumulative effect is difficult to maintain the exchange rate mechanism.Economic growth and inflation, foreign exchange reserves and so closely linked, foreign exchange reserves increased marginal demand that foreign currency and to reduce the marginal demand currency increases, so the foreign currency price on the high side, local currency pricing, there is pressure on the appreciation of currency.Over the years, China's foreign trade continued rapid growth

has brought huge surplus year after year, so that foreign exchange reserves a substantial increase in Chinese, as of 2007, the foreign exchange reserve has reached as high as 15282.49 billion US dollars, Chinese has become the world's largest foreign exchange reserves, to 2012 Chinese accumulated foreign exchange reserves have reached \$33115.89 billion, shown in table 1-2. Among them: the dollar is 70%, Euro is 20%, yen is 10%. The huge foreign exchange reserves, not only increased the supply of foreign exchange market foreign currency, more important is to increase China's foreign exchange reserves of opportunity cost, in order to reduce the cost of reserve, requires the reduction of foreign exchange assets, especially US dollar assets, so they need to sell foreign currency from circulation of the currency, which further increases in the foreign exchange market foreign exchange gap of supply and demand, will inevitably lead to foreign currency of RMB exchange rate down, if it is completely under the floating exchange rate system should be expressed as a currency appreciation, but China's current fluctuation is controlled at about 3%, which makes China's not possible through the exchange rate to float freely to resolve this powerful pressure, thus disguised increase the internal pressure of RMB appreciation.

Table 1-2 China's foreign exchange reserve statement Unit: USD

Year	The foreign exchange reserve balance	Foreign exchange reserves increase	The annual growth rate of foreign exchange reserve
2003	4032.51	--	--
2004	6099.32	2066.81	51.25%
2005	8188.72	2089.40	34.26%
2006	10663.40	2474.68	30.22%
2007	15282.49	4619.09	43.32%
2008	19460.30	4177.81	27.34%
2009	23991.52	4531.22	28.28%
2010	28473.38	4481.68	18.68%
2011	31811.48	3338.10	11.72%
2012	33115.89	1304.41	4.10%

(2) Foreign trade surplus increased. According to the statistics of the Ministry of Commerce of Chinese, in 2006 China for the euro zone trade surplus of \$91600000000, and China on American surplus of \$144300000000, the former accounted for about 60% of the latter. In 2007 Chinese on the euro zone and the trade surplus USA respectively 162100000000 and \$163320000000, respectively 77% and 13% growth. In addition America affected by the subprime crisis and other local factors, the depreciation of the dollar is relatively serious, the euro zone is likely to become the first big export Chinese area. In order to maintain the international balance of payments deficit, the export country or region will require an export surplus to their country or the area of the country or region currency appreciation, so as to reduce the surplus countries or regions increase their exports, imports, increase its foreign exchange reserves. So the EU and American on Chinese pressure, RMB appreciation. The second half of 2005, the anti-dumping investigation Chinese exports suffered the largest in the world, a total of 33, far higher than the same period in 2004 24. These countries will require continued appreciation of the RMB, to further reduce China's advantage of export products, to protect their domestic enterprises. This makes the international demand appreciation of the RMB is still resounding, the pressure of RMB appreciation great.

2. THE INTERNAL FACTORS



(1)The high level of interest rates.China's interest rates remain high are the main factors leading to the appreciation of the RMB.A country's level of interest rate is an important index to measure the macro economy,China is still high interest rates in 2011, which is decided by the Chinese economy is overheating and economic development conditions.A decline in interest rates, the domestic capital outflow; a rise in interest rates, foreign capital inflows.This arbitrage activities caused by the two spreads, and is a major way of international capital flows. Capital flow will cause changes in foreign exchange market supply and demand, so as to affect the exchange rate.Under normal circumstances, a country's interest rates increase, the credit crunch, will result in the currency appreciation; on the other hand, is caused by the devaluation of the currency. Thus, the formation of China and other countries (regions) the relative difference between economic growth and interest rates, easy access to attract foreign capital and China in reflow of funds, thereby stimulating the RMB exchange rate go high.

(2)Psychological expectations and herding effect.In the information asymmetry when the investment decision of investors are often affected by the psychological expectations. Many experts, scholars, media that the expected appreciation of the RMB has very strong, which leads to many investors in RMB investment products to chase, double benefits in order to obtain the appreciation of the RMB and the creation of investment products.China stock market from 2005 to 2007 the rapid burst of bentonite also illustrate the problem. An important reason resulting herding is the continued appreciation of the RMB. According to the Chinese commerce minister Chen Deming said, in 2007 only China real estate, foreign capital will enter the 80000000000 dollars. Inflow of foreign capital led to more domestic capital investment, RMB demand increases, for less than seeking, the pressure of RMB appreciation great.

(3)Tight monetary policy.The appreciation of the RMB has attracted a large number of foreign capital to enter the Chinese market, the central bank to maintain exchange rate stability can only passively buying foreign exchange, leading to growing foreign exchange reserves. Bring the foreign exchange reserve growth increased, in order to alleviate foreign exchange led to excess liquidity pressure, and slow inflation more serious problem of China in 2007, the central bank to take tight monetary policy, except through bonds outright and repurchase of open market operation, also issued a lot of central bank bills, the first three quarters of 2007, the central bank the issuance of bills of 106 period, the amount of 363200000000 yuan, a year-on-year growth of 19.5%. After 2008, the central bank will continue to adopt a tight monetary policy, which undoubtedly led to the currency to continue to supply than demand, highlights the pressure of RMB appreciation.

II.THE IMPACT OF RMB APPRECIATION ON CHINESE IMPORT AND EXPORT TRADE

A.RMB APPRECIATION POSITIVE IMPACT ON CHINESE IMPORT AND EXPORT TRADE

The continuous appreciation of the RMB, has produced a great impact on China's economy. Traditionally, the currency appreciation will be helpful for the import, and the adverse impact on exports, but the fact is, the RMB appreciation on China's economy is not imagination of so simple, appreciation beneficial for imports is no ground for blame, but appreciation Is it right? Definitely unfavorable to exports is worth us thinking deeply, it seems by a variety of data, the appreciation of the RMB will have a positive impact on some industries export.

1.HELPS REDUCE THE COST OF IMPORTS OF RAW MATERIALS

RMB appreciation can make the RMB said our scarce imported technology, equipment and intermediate product prices, increase purchasing power of RMB. On the import enterprises, the RMB appreciation can reduce the cost of imports, the profit space is enlarged, for enterprises to expand the scale of operation; for export enterprises, the RMB appreciation can reduce the cost of procurement of overseas decreases, can offset part of the loss of export income.

2.CONDUCIVE TO OPTIMIZING THE STRUCTURE OF EXPORT PRODUCTS IN CHINA

The appreciation of the RMB on the domestic industrial structure influence. For export enterprises, the appreciation of the RMB makes the domestic export price advantage is reduced, this will undoubtedly make the Chinese reduce to low sales



dependence of higher exports, to increase to the high technology content, low dependence on small products export. Primary products as China's exports, is mainly depend on the price advantage, price advantage and industrial manufactured goods are weaker compared with the primary products. From these data, although the primary products and manufactured goods exports have increased, but the industrial manufactured goods exports accounted for the proportion of exports increased year by year, primary products export is a decreasing trend. China's industrial manufactured goods exports increase, comprehensive competitiveness for China's export products, improve, and gradually get rid of relying solely on low-cost access to the international market situation, the improvement of China's foreign trade situation fundamentally.

3. CONDUCTIVE TO PROMOTING THE TRANSFORMATION OF CHINA TO TRADE POWER

With the gradient transfer of industries to promote, China is faced with the adjustment of industrial structure, the upgrading of products. The appreciation of the RMB will inspire more rely on technological progress and improve the added value of products export enterprises, rather than low prices to occupy the market. The appreciation of the RMB weakened the price advantage of domestic products in the international market, in order to stabilize the products in the international market share, the domestic manufacturers must change the growth mode of trade, rely on selling low-cost transfer to high quality, high technology, so as to promote China's shift from trading power to trade power.

B. THE APPRECIATION OF THE RMB NEGATIVE IMPACT ON THE CHINESE IMPORT AND EXPORT TRADE

1. REDUCE THE INTERNATIONAL COMPETITIVENESS OF EXPORT PRODUCTS

The appreciation of the RMB to improve China's export commodity prices in foreign currencies, directly undermine China's export price competition advantage, the impact of China's comparative advantages, increase the difficulty of China to develop the international market. The appreciation of the RMB on Chinese advantage industry have serious damage. From the international division of labor, China as a developing country is based on the labor cost advantage, China's export products are more concentrated in the grade is not high, low value added content of low-end products, alternative, elasticity of demand, competitive advantage is not strong, competitive mode is mainly by means of the price. The appreciation of the RMB, to improve my foreign currency prices of export commodities, foreign market demand to reduce, at the same time, the exporter production costs and labor costs increased accordingly, resulting in declining profits, affect the international export markets competitive ability.

2. INCREASE DANGER OF THE OUTBREAK OF THE ECONOMIC CRISIS IN CHINA

The appreciation of the RMB makes China's export product price increases, exports become more difficult, a lot of products can not be sold abroad, the product backlog, will cut off the domestic investment enthusiasm, the new overseas investment will decrease. Makes the domestic economy shrank, China's economic growth lack of stamina. International financial speculation is likely to increase, make China face the danger of the outbreak of the economic crisis.

3. WEAKENING THE ABILITY TO ATTRACT FOREIGN INVESTMENT

The experience of the development of China proof, the lack of foreign investment or foreign investment will continue to China plummeted development is very unfavorable. Although the appreciation of the RMB to have invested in China or in China with capital foreign entrepreneurs advantage, their assets will be added, but will make the coming in Chinese entrepreneurs lingers. Because of the corresponding new investment costs rise, the original foreign enterprises will continue to stay and new money to turn to investment in other countries. Maybe bring the expected appreciation of the RMB will attract part of direct investment and short-term capital inflows, but this can only make the external imbalance of the larger increase in real estate, stock market, speculation, even making a false prosperity and foam, damage property, stock market's normal operation, misleading to the economic development of non the rational direction.

III. COUNTERMEASURES TO DEAL WITH THE PROBLEM OF RMB APPRECIATION

A. MODERATE CONTROL AND RATIONAL USE OF THE CHINA'S FOREIGN EXCHANGE RESERVES

The use of China's foreign exchange reserves sufficient reasonable, improve the export competitiveness of enterprises, which is the key to the appreciation of the RMB trade shock response. Analysis of the micro foundation of RMB appreciation pressure



from known, because of the pressure of RMB appreciation largely derived from a large number of foreign exchange reserves, so the use of China at present a large number of foreign exchange reserves to imports of scarce resources and in urgent need of technology of oil, grain, iron ore and technical equipment in China, not only can alleviate the pressure of RMB appreciation and large foreign reserves accumulation, and can Chinese enterprises improve the production ability and overall quality, and ultimately contribute to the export of foreign products, give full play to the role of RMB appreciation on China's trade advantage. The use of specific ways can be considered: can establish and perfect futures reserve mechanism the important strategic resources of China in the international financial market, such as oil, copper, iron ore and so on China's scarce resources, must be prepared for the protection of national security; the relaxation of foreign exchange controls, improve the use of foreign exchange proportion of outstanding enterprises, encourage domestic outstanding enterprise outward direct investment, improve efficiency in the use of foreign exchange; purchase of domestic commodities in short supply, the balance of domestic prices, using the appreciation of the RMB to alleviate part of the industry, some products prices rise too fast pressure, will also play a certain role to China to offset the possible inflation.

B. TO INCREASE IMPORTS

After 80 years in the developed countries such as Japan many times USA under the pressure of appreciation of the yen, to the Japanese economy has brought a devastating blow, now Japanese are still suffering from deflation, out of recession in sight. The reflection that Japan has caused the western society "outrage", of course, have "wood show in the forest, the wind will destroy" elements, however, there is another important reason is that Japan in the rapid increase in exports at the same time, imports always hasn't worked, caused when you "powers" discontent, the lesson from Japan is a painful, we must not repeat the Japanese experience. China should as soon as possible to adjust the past "the importance of exports and imports of contempt" policy oriented, relax the use of foreign exchange restrictions on imports, increase power further economic development.

C. REDUCE THE DEPOSIT RATE AND LOAN INTEREST RATE INCREASE

Deposit interest rates should be cut to make the Yuan's rate of return than other countries currencies such as the dollar's rate of return, which helps to avoid a large number of "hot money" flowing into China, reduce the RMB appreciation pressure from capital account surplus; improve the loan interest rates will increase the cost of export enterprises, which will lead to export growth slowed down, reduced RMB from current account surplus pressure of appreciation. On the other hand, for speculative hot money to strictly monitor and resolutely put an end to, in order to maintain China exchange rate and macroeconomic stability.

D. CAREFUL APPRECIATION EXPECTATION OF RMB, TO PREVENT THE EXCESSIVE APPRECIATION

The central bank should be careful in the adjustment of the exchange rate appreciation pressure, should give more consideration to the domestic economy Is it right? Corresponding tolerance, appreciation Is it right? Can solve the trade imbalance, Is it right? Can solve some problems at home, if not, should take more measures to secure, in their own interests mainly. On the one hand, the need to increase the flexibility of the RMB exchange rate, on the other hand, must strengthen to the hot money inflow control. It is suggested the re definition of hot money. Past real estate investment, funds are not hot money, now should be included in the ranks of hot money, and appropriate management. Some of the hot money is likely to be entered via the trade project. In some other form of short-term speculation. For such foreign inflows, should focus on prevention, prevent the formation of new shocks to the exchange rate of RMB.

E. FISCAL POLICY, MONETARY POLICY AND EXCHANGE RATE POLICY COMBINATION

Aiming at the existing problems of RMB appreciation, China should adopt the fiscal policy, monetary policy and exchange rate policy combination way for further appreciation of the RMB "empty fire cooling". The main measures: (1) Adjust the export tax rebate rate, reduce the energy consumption of low value-added goods export subsidies; (2) The strengthening of the short-term capital flow control is an important way to reduce the further appreciation of the RMB; (3) Reduce the deposit rate and loan interest rate increase.

Due to the constraints of resource and high technical ability, and in order to solve China a lot of labor employment problems,



China's processing trade development is very rapid, accounted for half of the country. The development of processing trade can be realized by resource conversion of foreign trade, the realization of China's economic growth and employment in the resource constraint conditions. But the way of processing trade not only reduces the structural upgrading of export industry, but also on the technological progress has played the hindrance role, and make China level of welfare reducing trade. So we should develop various forms of foreign trade.

IV .CONCLUSION

Despite the appreciation of the RMB has formed a certain impact on China's foreign trade enterprises, but also provide the favorable factors for China's industrial structure adjustment and upgrading, the appreciation of the RMB, some foreign trade enterprises are unable to bear this risk, the basic reason lies in the product technology content is low, low added value, in the globalization competitive disadvantage, cannot win in the fierce competition. At present, Chinese faces from the foreign trade country to a powerful challenge, constantly upgrade Chinese production technology level and industrial structure is the key to the transformation of foreign trade situation. It requires China to implement a big appreciation of the yuan and the fully floating exchange rate system before, must be prepared in the policy, to effectively reduce the appreciation of the RMB to bring economic and industrial adjustment pressure. For China to deepen financial reform and improve the RMB exchange rate mechanism to create lasting economic foundation. Only in this way, can we narrow the gap between China and developed countries, but also to contribute to the healthy development of China's foreign trade.

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