

# Research on the Trade Imbalance between China and the United States

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**Abstract.** This paper analyzes the phenomenon of RMB depreciation on the basis of trade inequality between China and the United States. It is concluded that the causes of the trade imbalance between China and the United States are mainly related to the transfer of the global industrial chain, the highly complementary trade structure of China and the United States, the international dollar credit standard, etc. This paper puts forward some suggestions and measures to solve the pressure of RMB exchange rate and Sino-US trade imbalance. This paper argues that China should actively promote the internationalization of RMB and improve the formation mechanism of RMB exchange rate. In addition, China should promote the deep integration of the Chinese market into the global market and accelerate industrial innovation and upgrading. It also recommends the cultivation of foreign-related economic and rule of law talents to promote the easing of the relationship between the two sides and the common economic growth.

## 1 Introduction

With the continuous improvement of China's comprehensive strength and the expanding degree of opening up to the outside world, the internationalisation of the RMB has been gradually promoted and has become a new system of financial openness. The continuous acceleration of the internationalisation of the RMB will inevitably affect the international monetary hegemony of the US dollar, coupled with the great role played by the economic strength expressed by the level of trade and the stability of the currency expressed by the exchange rate fluctuations, the internationalisation of the RMB affects the balance of trade in a certain mechanism. In recent years, as the trade surplus between China and the US keeps growing, the United States has repeatedly said that the yuan is undervalued, and constantly taken measures such as tariffs, anti-dumping investigations and other measures to force the yuan to appreciate, to reverse the unfavourable situation between the two sides of the trade to their own. In this regard, in the context of the trade imbalance between China and the United States and the serious trade friction between the two sides, exploring the reasons for the trade imbalance between China and the United States, and taking targeted measures is of great practical significance.

## 2 The elements influencing the disparity in trade between the US and China

Over the years, the U.S.-China trade imbalance has been the focus of the debate between the two sides in the economic field, the trade deficit with China has been the United States of America's pressure on the appreciation

of the RMB is the most important basis. The trade imbalance between China and the U.S. is only a symptom, a concrete manifestation of the objective economic laws.

As shown in table 1, since 2005, China's trade surplus with the United States has continued to expand, as seen in the import and export trade of goods from China and the United States. During the 18 years from 2005 to 2022, China's trade surplus with the United States rose from \$114.269 billion to \$404.139 billion, a 253 per cent expansion of the trade surplus.

**Table 1.** Trade Surplus with the United States, 2005-2022 (US\$ billion)

Year	Surplus	Year	Surplus	Year	Surplus
2005	1142.69	2011	2023.24	2017	2757.85
2006	1442.39	2012	2188.79	2018	3232.73
2007	1632.86	2013	2160.64	2019	2957.68
2008	1710.24	2014	2370.02	2020	3164.78
2009	1433.42	2015	2614.05	2021	3964.74
2010	1811.88	2016	2508.26	2022	4041.39

Source: China Statistics Bureau

According to the balance-of-payments theory of absorption, when the national revenue of a nation exceeds what it consumes internally, the balance of payments is in surplus; conversely, when national income is less than domestic absorption, the international balance of payments is in deficit. At this point there are two ways to correct the deficit, one is through tight fiscal and monetary policy to reduce the demand for imported goods, but at the same time will inhibit economic growth; the other is the devaluation of the currency expenditure

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transfer method. The United States is a consumer-led economy, and in recent years, to stimulate economic growth, it has been implementing a low-interest rate policy, with high consumption, high spending and low savings, and constantly breaking the U.S. debt ceiling. According to figures released by the U.S. Treasury, as of September 2023, the U.S. debt has exceeded \$33 trillion. With domestic policies unable to break through, there is only a choice on the external path.

Due to China's enormous US trade surplus, the US authorities believe that the RMB is undervalued and chastise the RMB exchange rate issue. However, due to the income elasticity of commodity imports and the income elasticity of exports between China and the US, the former is significantly larger than the latter. Given the terms of trade, as long as this asymmetry in income elasticity exists, there will be unrelenting and maybe increasing trade deficiencies between the People's Republic of China and the United States of America. Based on this reference can be concluded that the main factors affecting the disparity in trade between the United States and China are:

### **2.1 The global industrial chain transfer is a key factor in the trade imbalance between China and the United States**

Over the decades, because of China's surrounding nations and areas for industrial structure upgrading and adjustment, the domestic has lost its comparative advantage of labour-intensive industries transferred to China, the formation of China's import of components and raw materials originating from these nations and areas, processing and assembly in the country and subsequently shipped to the US and other European nations of the processing trade pattern. China by its large-scale market, low-cost factors of production, strong industrial supporting capacity, better infrastructure preferential foreign investment policies and other comprehensive advantages, attracted a large number of foreign investments, including U.S. enterprises, and gradually formed a processing and assembly, the competitive advantage of the manufacturing sector, China has become the "factory of the world". The Asia-Pacific economic restructuring was brought about by changes in the international division of labour patterns so the United States reduced imports from Japan and South Korea and other countries, increased imports from China, the United States and China continued to expand the surplus [1].

### **2.2 The trade structure of China and the United States has a high degree of complementarity, which is the primary cause of the disparity in trade between China and the US**

Trade between China and the US development imbalance to some extent has its inevitability. This inevitability is determined by the characteristics of the economic development of developing and developed countries themselves.

China and the United States as the largest developing and developed countries, and the two countries have strong economic complementarity. The comparative advantages of the United States are: capital-intensive, high level of technology, industry and product brand effect is stronger. Comparative disadvantages are: high labour factor costs, and labour-intensive general manufacturing products are relatively less competitive. China's comparative advantage is: abundant labour resources, low labour factor costs, and labour-intensive manufacturing products are more competitive. The comparative disadvantage is: that the technical level of the industry is lower, and the brand effect of the product is weaker. China's exports to the United States are mainly labour-intensive, items requiring a lot of resources, while the majority of American exports to China are capital- and technology-intensive goods. The two countries have strong complementarity in product structure [2].

Looking at the areas where the U.S. has raised taxes on China in recent years, the main focus has been on the high-tech industries planned for major development in Made in China 2025, including aviation, new energy vehicles, and new materials. These areas are not the most important source of the U.S.-China deficit; China's exports to the U.S. are mainly labour-intensive products and mid-range technology products, whereas more than half of the US's exports to China are capital- and technology-intensive. The reason why the United States did not resolve to take the main source of the deficit in the field of the knife is that the United States is very clear that the United States-China trade deficit is a structural problem, the United States in the balance of payments of the trade deficit capital inflow of outward investment cycle is a beneficiary of the party [3].

### **2.3 The international dollar credit standard is the international monetary system of China and the United States trade imbalance balance of reason**

The dollar is the international standard currency, on the one hand, the dollar privilege guarantees the United States to maintain a growing trade deficit without the constraints of foreign exchange reserves shortage and the threat of financial crisis, on the other hand, but forced other countries to pursue trade surplus and increase dollar reserves to get rid of the unfavourable situation, and thus from the supply and demand for the dollar, both promote the expansion of the U.S. trade deficit [4].

Because the RMB is not an international local currency, in recent years, to promote increased employment, and economic growth, avoid exchange rate risks, stabilise domestic price levels, and improve international payment capacity, objectively also prompted China to pursue a surplus in trade with the United States, and reserve a large number of US dollars. Although the United States has the name of the deficit, but helps the United States' domestic balance of payments, to ensure its normal domestic and foreign investment.

### **2.4 U.S. export control of China is the policy the cause of the discrepancy in trade between the US and China**

The United States has two major export advantages, one is service goods, and the second is high-tech products. The theory of comparative advantage states that in international trade, the United States should export service goods and high-tech products, while importing labour-intensive products, to maintain trade balance. At present, in the Sino-US trade, China's comparative advantage in labour-intensive industries has been fully released, while the United States, to suppress China, has never released high-tech exports to China. If the United States does not change the high-tech embargo policy, the trade deficit will be difficult to solve [5].

### **2.5 U.S. savings and investment imbalance is caused by the economic background of the U.S.-China trade imbalance causes**

The United States' national income distribution is not reasonable, low savings and high consumption lead to demand exceeding supply, higher investment share and lower savings share, in the trade balance of payments in the performance of imports than exports, a deficit. Although China's investment expenditures have been maintained at a high level due to the need to develop the economy, China has maintained a high national savings rate relative to investment due to traditional habits.

## **3 Suggestions for countermeasures to resolve the pressure on the exchange rate for RMB and promote the trade balance between China and the US**

In dealing with and resolving issues such as the trade imbalance between the United States and China, bringing the two countries together should take measures to find solutions to the problem. The U.S., should actively abandon the Cold War thinking of containing China, abandon trade protectionism, control excessive imports and relax export controls. For China, the following measures can be taken to promote the smooth development of China's economy.

### **3.1 Actively and steadily promote the internationalisation of RMB**

Based on strengthening economic cooperation between countries, strengthening regional monetary cooperation and effectively controlling the growth of foreign exchange reserves. This will not only stabilise trade relations but also reduce the impact of exchange rate fluctuations. Through the settlement with the neighbouring region's currency, the stability of the neighbouring economy and trade has been maintained, and the systemic risk brought about by large exchange rate fluctuations has been avoided, which is conducive to the improvement of foreign trade conditions [6].

### **3.2 Further improve the RMB exchange rate formation mechanism**

Renminbi exchange rate problem China's economic strength and the growth of total foreign trade are born with each other. In the case of the international financial crisis continues to develop, scientific analysis of the exchange rate, import and export and economic development of the relationship between the current managed floating exchange rate policy at the same time, to improve the micro-amplitude, two-way, steady climb in the control technology, appropriate enlargement of the floating range, with other policies, through the market mechanism to achieve the level of the exchange rate level to the equilibrium level of the adjustment to resolve the financial crisis of the transmission of the economic growth smoothly [7].

### **3.3 Promoting the deep integration of China's market into the global market**

Actively develop partnerships with other countries to enhance economic exchanges and maximise economic benefits on an equal footing. Promote the construction of the "Belt and Road", deepen cooperation with countries along the route to achieve mutual benefit and win-win results, and continue to expand trade routes other than the United States [8]. Make full use of the "Belt and Road" to promote China's extensive international market integration, and maximise economic benefits. Give full play to the role of platforms such as the China International Import Expo, the China International Fair for Trade in Services, and the China International Consumer Goods Fair, and improve the quality of imported products in expanding the Chinese market.

### **3.4 Vigorously develop the domestic demand economy**

With the rapid development of China's import and export trade, over-reliance on external demand departs from the general law of large countries based on domestic demand, objectively restricting the sustainable growth of domestic demand, worsening the deterioration of the external terms of trade, also resulting in an unfavourable international transfer of wealth to China [9]. While building a higher-level open economy, China will further deepen its domestic demand and, based on strengthening economic growth drivers such as investment and exports, further cultivate and expand the consumption structure of new domestic demand, including consumption of non-durable goods such as automobiles, credit consumption, final consumption in rural areas, consumption of leisure services, and investment in human resources, to promote the healthy and stable development of the economy.

### **3.5 Accelerating industrial upgrading in an innovation-driven manner**

Continuously increase investment in scientific research, promote technological progress, facilitate product

diversification and diversification of export methods, create our own brands and core competencies, and increase the added value and competitiveness of Chinese products.

### **3.6 Strengthening foreign-related domestic legislation and cultivating foreign-related economic and rule-of-law talents**

To cope with the challenges and prevent risks, on the one hand, China, based on complying with international rules, further improves its foreign-related domestic legislation, builds a legal system for the extraterritorial application of Chinese law and the blocking of inappropriate extraterritorial application of the laws and measures of other countries, and improves the system of state immunity, choosing whether or not to respond to a lawsuit according to the actual situation of the case, etc., to further defend the legitimate rights and interests of Chinese nationals, corporations, and other groups [10]. On the other hand, strengthening the training of foreign-related economic rule of law talents, better mastering the ability to apply international rules, to guide power in the topic set, persuasive power in the discussion of rule-making, retaliatory power for hegemonic tendencies, explanatory power for the questioning, to serve the portal to the external environment at a higher level, and to push forward the construction of a new development pattern of domestic and international double-cycle.

## **4 Conclusion**

The main conclusions drawn in this paper are as follows: in the disparity in trade between the US and China, the United States view that the RMB is undervalued, the causes of the trade imbalance between China and the United States are mainly related to the transfer of the global industrial chain, the trade structure of China and the United States is highly complementary, the international credit standard of the U.S. dollar, the U.S. export control of China, as well as U.S. savings and investment imbalance and other reasons. Continuing the trade war between the two sides is not a good choice for both economies. To ease the pressure on the exchange rate for RMB and encourage the United States-China trade balance, relevant suggestions have been put forward, which are to actively promote the internationalisation of the RMB, improve the RMB exchange rate formation mechanism, promote the in-depth integration of China's market into the global market, accelerate the innovation and upgrading of industries, and strengthen the cultivation of talents in the rule of law in the foreign-related economy. The U.S. side needs to put aside its Cold War thinking towards China and relax its export control, which will promote the détente of the two countries and the common development of their economies.

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