

# Analysis of the Impact of RMB Appreciation on China's Economy

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## ABSTRACT

Due to the epidemic war and other causes, the global economic development effect is not good situation, China's economy still maintains a strong development momentum, so many countries for the appreciation of the renminbi began to sound, improve the exchange rate which is undoubtedly a very favorable situation for our country, so this article would like to think that the motivation of the appreciation of the renminbi and the impact of the analysis of the summary and generalization of the elaboration.

## KEYWORDS

Yuan appreciation; Exchange rate; China's economy; Export trade

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## 1. INTRODUCTION

With the acceleration of economic globalization and global economic integration, the issue of RMB exchange rate has also received wide attention from various societies, and the RMB exchange rate, which has been suppressed, has taken a big step forward in spite of the pressure, but the sustained appreciation of the RMB is a greater challenge to China's economic development. The significance of this research is to search the literature, summarize and improve the supplement, objectively analyze the current trend of RMB value changes and the impact on China's economic development, in order to make up for the current lack of research in this area. Many domestic scholars have conducted different degrees of research on RMB appreciation, therefore, the project of this research is to make up for the shortcomings of this research in a more in-depth and objective way.

The appreciation of RMB refers to the increase in the purchasing power of RMB in life and internationally. The factors leading to the appreciation of RMB can be divided into intrinsic and extrinsic factors. Intrinsic factors are due to the fact that the status of export trade has been stabilized at a surplus and China's investment environment has become more stable and the amount of foreign exchange reserves has increased. The external factors are due to China's greater responsibility in international affairs, the strengthening of its comprehensive national power and the enhancement of its competitiveness.

The purpose of this study is to search the literature, summarize and supplement to objectively analyze the current trend of RMB value change and its impact on China's economic development. Many domestic scholars have studied the appreciation of the RMB to varying degrees, so this research project is designed to objectively improve and supplement the deficiencies in this area.

## 2. LITERATURE REVIEW OF THE STATE OF RESEARCH

Appreciation of the yuan in the most common terms is the yuan's purchasing power to enhance. 2010 China became the world's second largest economy, the major epidemic, the world economy has been hit by a huge impact, especially in the Western powers of the economic downturn, China's economy, although affected, but still maintains the expected growth, we have strong economic strength, international status and international influence continues to improve, the appreciation of the yuan is an inevitable development trend, although the advantages and disadvantages, but as long as a gradual and small appreciation to control the strength will greatly reduce the negative impact. There are advantages and disadvantages, but as long as the gradual small appreciation, control the strength, and maintain stability at a reasonable and balanced level, will greatly reduce the negative impact. In line with the realistic needs of the situation, the gradual, slow, small appreciation of the RMB, in the long run, the gradual upgrading and transformation of the domestic industrial structure is completed, employment increases, residents' income increases, domestic demand continues to expand, the RMB has gradually realized the internationalization of the RMB, a reasonable and gradual appreciation of the RMB is more beneficial than detrimental. With the growing strength of China, the state attaches more and more importance to foreign aid training, our institute undertakes more and more foreign aid training courses of the Ministry of Commerce, which will save more money. Regarding the negative impacts of RMB appreciation, it may affect the introduction of foreign investment by foreign enterprises in China, which will increase the pressure of employment in our industry.

Zhang Jiawei has said that the RMB will gradually appreciate because of the internal factors of the stable development of China's social market economy, the export trade has been in surplus and the amount of foreign exchange reserves, and the external factors of assuming more responsibilities in international affairs and the improvement of competitiveness to better cope with the international competitive situation [1]. With the continuous improvement of economic globalization and explore the development of each country's economic development are in a state of tension. With the development of economic globalization, each country's economic development is in a tense state, and the ensuing competition in the international market is getting more and more intense and the value of the currency is constantly changing, so the appreciation of the RMB has a crucial impact on the improvement of China's overall comprehensive strength. Some scholars (Zhang Lang, Zhang Xizhong, Jiang Tingting 2020) in the same year that the appreciation of the RMB indicates that the price of China's export commodities increased, exporters' foreign trade orders decreased, the scale of China's exports shrunk, manufacturers produced goods can only be sold domestically, so that China's domestic supply of commodities increased, the supply is greater than the demand, and finally make the domestic prices lower [2]. On the same side, from another point of view, the appreciation of the RMB, imported products can be seen as a cost reduction for China, so foreign output merchants will have lower prices for their goods due to the fact that they get less cost, then China can apportion more capital to import different goods thus making China more connected with other foreign trade exporting countries. Guang Maoling (2018) pointed out the appreciation of RMB is beneficial to China's industrial restructuring, accelerating the transformation and upgrading of industrial structure [3]. This will reduce China's dependence on cheap labor, change China's original strategy of winning with low prices, enhance the non-price competitiveness of products, and accelerate the transformation and upgrading of China's industries so as to better adapt to today's development trend and ultimately enhance China's market share. Xin Yueyang (2018) said in the same year that the appreciation of the RMB also helps to reduce resource consumption and develop an ecological economy, because after the appreciation of the RMB, the reduction of income is more feasible than the reduction of environmental loads, which is favorable to China's economic development [4]. In addition, the greater the demand for the RMB among countries, the higher the value of the RMB, then the exchange rate with other countries' currencies will be reduced, which can release the pressure of China's foreign debt to a certain extent. At the same time, the appreciation of the RMB also means that China's

international status will follow a positive increase, representing the improvement of China's comprehensive strength.

But all things are double-edged swords, since there are advantages there must be disadvantages. For example, the impact on China's export enterprises, so that other international investors to invest in China to reduce the enthusiasm, is not conducive to the introduction of foreign investment, but also increase the pressure on China's domestic employment. Tao Xueping (2022) made a summary of the negative impact of RMB appreciation, the most noteworthy is that it is not conducive to China's foreign exports, after all, China's foreign exports have been maintaining a sustained growth trend, which has become one of the main forces to support the development of China's economy [5]. Wang Xiumei (2021) believes that the RMB will not only have an impact on China's foreign enterprises in the international market, but also have a negative impact on social employment in China. With the appreciation of RMB, the export trade structure will be adjusted continuously, which will lead to a large number of laborers being eliminated from the market in a short period of time because they cannot meet the demands of the new export trade structure [6]. Qin Yingying (2021) said in the same year that the appreciation of the RMB will also aggravate the risk of the financial market. The appreciation of RMB, more people and capitalists from other countries choose to invest a large amount of capital in China's stock market in order to gain profits, causing a series of phenomena resulting in the illusion of a highly prosperous stock market [7].

The article firstly introduces the extent to which RMB appreciation is necessary for the development of China's economy, as well as summarizes and elaborates on the positive and negative impacts of RMB appreciation on China's economy. This article is not yet complete as it should be and will be supplemented with a more detailed summary of the impact of the appreciation of the RMB.

Strengthening the RMB not only reduces costs for China's importing companies, improves corporate profitability and expands overseas investment, but also prevents foreign investors from withdrawing due to increased entry costs because of China's large consumer market, and improves China's ability to repay its foreign debt.

### **3. SUMMARY**

This academic article uses different statistical methods to summarize the advantages and disadvantages of RMB appreciation as well as the impact of RMB appreciation in the international market. We can specifically understand that RMB appreciation can affect the amount of foreign exchange reserves as well as competitiveness in international affairs. We can also understand that the advantages of RMB appreciation are enhancing people's purchasing power, reducing costs, improving China's industrial structure and reducing resource consumption. And the disadvantages of RMB appreciation can be understood as the impact on export enterprises and will not be conducive to China's foreign trade exports. On this basis, scholars analyze these advantages and disadvantages more deeply, such as how to adjust the structure and how foreign trade imports are affected. Employment pressures can also increase due to the lack of foreign investment being brought in and more businesses not being able to progress. From these, it can also be reasoned in reverse that if China wishes to slow down the pressure of RMB appreciation, it can choose to restructure its trade in export commodities. As soon as possible, it should open up direct spot foreign exchange trading of the RMB against the world's major convertible currencies, and actively develop diversified hedging financial instruments.

### **4. CONCLUSIONS AND OUTLOOK**

The researcher used various methods such as literature, qualitative research, descriptive research, etc., in which qualitative research is the main research method and other methods are secondary methods

to make the conclusion of the article fuller and better. Moreover, this researcher chose to conduct a more in-depth research in the direction of the former professor's research and discovered the second aspect of the former professor's viewpoint. However, this research article lacks of experience in thesis, and many aspects cannot be fully perfected and the ideas are not deep enough. I believe that in the future, I will improve my writing ability while trying to discover new results.

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