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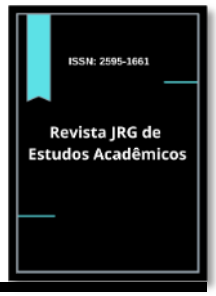

Discussion paper: the world tariff conflict seen through monetary policies and exchange rate strategies

Texto de discussão: o conflito tarifário mundial visto através de políticas monetárias e estratégias cambiais

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Abstract

The following discussion paper aims clarify tariffs issues in the international trade, the constraint and issues to be solved aiming to reduce the trade conflict between the U.S., Europe and BRICS. The impact on general trade encompass trade balance but has also financial and monetary issues. The currency has three function: medium of exchange, unit of account, and stock of value. In other word it is a product and a service itself and in the actual global trade there are distortions on trade flows (are not homogeneous) and on currency values (dollar dominance). Thus the change in the actual system impacts on many variables of the trade and PIBs, is not only a matter of products and services exchanges or tariffs but a complex mix of all of them. The result of the discussion shows how strategies are related to all other partners strategies in the international trade. That way it is impossible to negotiate only limited politics and tariffs agreements or bilateral negotiations, but, to bypass conflicts, a new form of international trade and international agencies are needed. The main economies have to cooperate and compete in the same time.

Keywords: Tariffs, International Trade, Currency exchange.

Resumo

O presente artigo de discussão visa esclarecer questões tarifárias no comércio internacional, as restrições e os problemas a serem resolvidos visando reduzir o conflito comercial entre os EUA, a Europa e os BRICS. O impacto no comércio em geral abrange a balança comercial, mas também questões financeiras e monetárias. A moeda tem três funções: meio de troca, unidade de conta e estoque de valor. Em outras palavras, ela é um produto e um serviço em si, e no comércio global atual há distorções nos fluxos comerciais (não são homogêneos) e nos valores das moedas (dominância do dólar). Assim, a mudança no sistema atual impacta muitas variáveis

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do comércio e dos PIBs, não se tratando apenas de trocas de produtos e serviços ou tarifas, mas de uma combinação complexa de todos eles. O resultado da discussão mostra como as estratégias se relacionam com as estratégias de todos os outros parceiros no comércio internacional. Dessa forma, é impossível negociar apenas acordos políticos e tarifários limitados ou negociações bilaterais, mas, para contornar conflitos, uma nova forma de comércio internacional e agências internacionais são necessárias. As principais economias precisam cooperar e competir simultaneamente.

Palavras-chave: *Tarifas, Comércio Internacional, Câmbio.*

1. Introduction

When, in 2025, it starts a new world tariffs conflict most of the general discussion was focused on import export direct impacts and domestic export rate, the aim was to respond tariffs with tariffs. Someone discussed also the supply chain and the globalization production system. Very few listen to Italian Financial Minister Giorgetti and the Leader of the Italian Government Meloni that raised also insights on European monetary policy. It is well know that Trumps idea of tariffs is directly linked with Stephen Miran's[2] idea that "the imposition of tariffs will not increase the prices of imports if the currency of the exporting country depreciates at the same rate as the tariff". Indicators actually shows a depreciation of dollar but an increase of stock-exchange. There is also a high rate of internal rate in US, hold by the chief of Federal Reserve, criticized by the President of U.S. A complicated puzzle.

Price adjustments relative to the market and currency offsets are different phenomena and have different mechanisms for occurring, but they certainly have a similar effect. Moreover China and Europe maintain dollar and T-bond in dollar reserves. That fact reduce the impact of expansive monetary policy of the U.S. and its international effects or to increase exports from the U.S. and finance the U.S. internal deficit. In other words It make more expensive and costly the monetary policy of the U.S. in terms of interest to pay for T-bonds (average of 4%) and increase internal interest rate (more than 4% related to 2,4% in Europe and about 3% in China). Thus a tariffs increase, from the point of view of the U.S., is a strike that rebalance trade, and increase the total amount of federal taxes, without monetary impact, but it must be followed with a decrease of internal interest rate, which did not occurs yet.

The aim of the paper is to develop a discussion about monetary policy, tariffs increase and exchange rate, because we guess the last U.S. move about tariffs is not only directed to goods and services international exchanges, as was mainly discussed on media. We guess there is also a distortion in financial markets caused by the currency protectionism of China, and the level of the same protectionism of Europe. Both blocks are sustain policies to favor their currency against the dollar. But the dollar depends on the U.S. economy and the exigence of its monetary expansion that export inflation to abroad.

The paper will discuss monetary policies and financial issues trying to resume the different strategies and aims of the different block, and also a what-if strategic analysis to explore different views about the commercial and global conflict caused by globalization in the last years. That is justified by a geopolitical discussion and public administration policies alternatives decisions to make.

[2] Stephen Ira Miran is an American economist, currently serving as chair of the Council of Economic Advisers since March 2025

2. Methodology

The paper follow a discussion paper scheme and methodology. The bibliography is retrieved from internet and economic theoretical models and is divided in sections. A section discuss the relationships between Tariffs, monetary policies and exchange rates. Another discuss current strategies of the three main blocks: the U.S., The Europe and China (that is the leader of the BRICS countries). Another section perform a what-if analysis and explain what strategic moves and what impacts on variables likely will occur as a result. A concluding section resume the main results of the discussion.

3. Discussion

To better understand the relation and the figures between real economy and financial values, the every year increase of production and patrimonial issues, for those who have a little knowledge of it. The following introduction helps to clarify some objects or categories of the present research.

The total goods trade between the United States, the European Union, and China for the year 2024, based on the most recent available data.

Table 1 - Trade Relationships

Trade Relationship	U.S. Exports ($B)	U.S. Imports ($B)	Total Trade ($B)	Trade Balance ($B)
U.S. – China	143.5	438.9	582.4	-295.4
U.S. – European Union	370.2	605.8	975.9	-235.6
European Union – China	229.8	558.2	788.0	-328.4

Source: https://ustr.gov/countries-regions/europe-middle-east/europe/european-union#:~:text=U.S.%20goods%20and%20services%20trade,($15.3%20billion)%20over%202023.

These figures highlight the significant trade volumes and deficits among these major global economies. The substantial trade imbalances, particularly the deficits experienced by both the U.S. and the EU in their trade with China, have been central to ongoing trade policy discussions and negotiations.

Who Keep Dollar Reserves? Where are kept dollars and dollars bond as reserve in the world? In other world there is a balance between goods and services and payments that is the exchange between objects and papers (values), thus, in the table above, a trade of -295,4 B$ it is equal to +295,4B$ increase of dollar reserves in China.

Moreover China is the country with the more reserves in dollars and the U.S. . The Europe Central Bank, which has a more balanced reserve (dollar in Europe vs Euro in the U.S.) but is directed by a French lady form November 2019 which has developed a pro-French monetary policy, which in part advantage also Germany but not all the other countries.

As of early 2025, foreign entities collectively hold approximately $8.82 trillion in U.S. Treasury securities. This represents about 24% of the total U.S. federal debt, which stands at $36.22 trillion[3]. Japan: As the largest foreign holder, Japan's $1.13 trillion in U.S. Treasury securities has been highlighted as a potential leverage point in trade negotiations with the U.S. China: China has been diversifying its $3.2 trillion in foreign exchange reserves away from U.S. Treasuries, reducing its holdings by over 27% between 2022 and 2024, shifting to U.S. agency bonds, private equity, and gold. Europe: Collectively, European countries such as Germany, France, Ireland, Belgium, and Luxembourg hold significant amounts of U.S. debt, totaling over $1.5 trillion. This substantial holding provides Europe with considerable financial leverage in its relationship with the U.S.

U.S. Dollar in Other Countries' Reserves It's often more relevant to compare how other countries hold U.S. dollars, euros, and yuan in their foreign exchange reserves:

~58% of global reserves are in USD.

~20% in Euro.

~2–3% in Yuan (even after recent growth).

Euro Reserves Compared to U.S. Dollar Emissions When comparing euro reserves to the total U.S. federal debt, which stands at $36.22 trillion in 2025, euro holdings represent approximately 6.25% of this amount. This comparison underscores the euro's significant role in global finance, albeit still secondary to the U.S. dollar.

The total foreign currency reserves held by the U.S. are only around $40–50 billion, which is modest compared to the trillions held by countries like China or Japan. The U.S. holds relatively small foreign currency reserves compared to many other countries because the U.S. dollar is the global reserve currency. The U.S. typically doesn't need to hold large reserves in foreign currencies like the yuan or euro.The yuan (RMB) is not a major part of U.S. reserves. This is partly due to capital controls in China, limited convertibility, and geopolitical tensions. The euro is the largest foreign currency holding for the U.S., followed by the yen.

According to IMF[4], an approximate breakdown (Federal Reserve System, Exchange Stabilization Fund is:

Table 2 - Echange reserves

Global Foreign Exchange Reserves, Billions of US dollars

	2024Q1	2024Q2	2024Q3	2024Q4	2025Q1
Total Foreign Exchange Reserves	12,385	12,348	12,751	12,364	12,538
Allocated Reserves	11,493	11,461	11,844	11,472	11,640
Claims in US dollars	6,773	6,664	6,784	6,630	6,720
Claims in euros	2,252	2,265	2,373	2,276	2,335
Claims in Chinese renminbi	247	245	258	250	246
Claims in Japanese yen	655	642	690	667	599
Claims in pounds sterling	562	567	590	543	604
Claims in Australian dollars	248	256	269	236	235
Claims in Canadian dollars	296	307	324	318	306
Claims in Swiss francs	22	22	20	20	21
Claims in other currencies	437	492	535	533	573
Unallocated Reserves	892	887	907	892	899

Source: https://data.imf.org/en/news/imf%20data%20brief%20jul%209

[3] https://www.cia.gov/the-world-factbook/field/reserves-of-foreign-exchange-and-gold/country-comparison/
[4] https://data.imf.org/en/news/imf%20data%20brief%20jul%209

Thus there are two uncomfortable situations in the world trade: unbalance in goods and currency reserves holding unbalance. But currency can be used as a good in the credit and stock exchange market continuously while good and services are used once, and are also polluting the environment[5].

In the Trade balance we refer to Capital Transfers as ownership of assets without a corresponding exchange of goods or services (e.g., foreign aid, debt forgiveness). Acquisition and Disposal of Non-Financial, Non-Produced Assets: This includes things like land rights, intellectual property, and other intangible assets.

The annual trade balance in a country's national accounts specifically refers to the difference between exports and imports of goods and services over a year. The Trade Balance includes: Exports of goods and services, Imports of goods and services, Net exports (exports − imports).

The flow assessment like in the trade balance it is a component of the current National Account and does not directly include:

-Currency reserves, Foreign exchange reserves (tracked in the financial account or central bank reports)
-Public or external debt levels, External/public debt (reported separately in debt statistics or the capital and financial account)
-Capital flows or financial investments, Portfolio investments, FDI, or loans (included in the capital and financial account of the balance of payments)

If someone is looking for a full picture of a country's monetary and financial position with the rest of the world, you need to examine the Balance of Payments (BoP)[6], Compiled by all countries, following guidelines from the IMF (International Monetary Fund) (reference BPM6 manual Balance of Payments Manual, 6th Edition). That is:

-Current Account: trade in goods/services, income, and current transfers.
-Capital Account: debt forgiveness, asset transfers, etc.
-Financial Account: FDI, portfolio investments, reserve assets.
-Errors & omissions: to balance the accounts.

In other words GDP measure the annual production but not the total financial wealth of the nation and its total capital (including land, buildings, infrastructure etc.). But, the money is both the measure of the international trade and a measure of wealth. That's why compare or to discuss international trade and economic strategies only with GDP or other measures lack of an holistic view and need to include currency considerations.

In a Keynesian (1980) framework, the balance of trade is a central determinant of national income, since net exports (X −M) directly affect aggregate demand and gross national product (GNP). Trade deficits, while reducing national income, can be temporarily financed by foreign direct investment (FDI) or portfolio flows, thereby sustaining domestic demand. However, Keynes argued that persistent external imbalances could not be resolved solely by adjustment in debtor countries. Keynes emphasized that "creditor nations may be just as responsible as debtor nations for

[5] Money acts as: medium of exchange, unit of account, store of value, see https://www.stlouisfed.org/education/economic-lowdown-podcast-series/episode-9-functions-of-money
[6] GNP (Gross National Product) measures: The total income earned by a country's residents, regardless of location. GNP = GDP (gross domestic product) + Net income from abroad

disequilibrium in exchanges" and that both should be obliged to contribute to the restoration of balance (Keynes, 1942/1980, p. 27).

This principle implied that surplus countries, by hoarding external surpluses, depress global demand and therefore share responsibility for adjustment by expanding imports, stimulating domestic demand, or investing abroad. The international capital flows such as FDI and portfolio investment may alleviate short-term deficits, but Keynes's insight highlights the systemic risks of asymmetrical adjustment, where the burden falls disproportionately on debtor nations.

But it seems this advice was not used in the today central bank and financial ministers of the majors economies that are interested on the years flows and not the long term period. Actual National financial governance seems more interested to short term, or the election periods, then a long term wealth of the nation. The result is an uncomfortable international balances situation today.

1. Relationship between tariffs, monetary policies and exchange rates.

The relationship between monetary policy, exchange rates, and tariffs (MUNDELL 1993, EDWARDS 1995, THORSTESTEN, MARCAL FERRAZ 2012, BORDO 2020) is complex, as all three influence each other in multiple ways.

A. Exchange Rates and Monetary Policy

Monetary policy: refers to the actions taken by a country's central bank to control the money supply and interest rates. It plays a significant role in determining exchange rates. Inconsistent or unpredictable monetary policy can increase exchange rate volatility. For example, sudden rate hikes or cuts can cause large shifts in investor behavior, leading to wild currency fluctuations.

Interest Rates: When a central bank raises interest rates, it tends to attract foreign investment because higher interest rates offer better returns. This increased demand for the domestic currency leads to an appreciation of the currency (i.e., the currency strengthens). Conversely, when a central bank cuts interest rates, the opposite happens: capital may flow out, weakening the currency.

Inflation and Expectations: If a central bank implements policies that lead to higher inflation (e.g., increasing the money supply), the domestic currency can lose value relative to other currencies, as its purchasing power diminishes. Central bank actions also shape market expectations. If investors expect the central bank to follow expansionary or contractionary policies in the future, they may adjust their positions in the currency markets accordingly.

B. Exchange Rates and Tariffs

Tariffs: are taxes imposed on imported goods. The relationship between exchange rates and tariffs is particularly notable in the context of international trade and how currency values adjust to trade imbalances.

Impact on Trade Balance: When a country imposes tariffs on imports, it makes those goods more expensive, potentially reducing the demand for foreign products. This could lead to a decrease in imports, improving the trade balance (the difference between exports and imports). A trade surplus (exports > imports) can lead to an appreciation of the domestic currency because foreign buyers need to purchase the domestic currency to pay for exports.

Currency Depreciation due to Tariffs: On the flip side, if a country faces tariffs from trading partners (i.e., tariffs on its exports), it can reduce the competitiveness of its goods, potentially leading to a decline in exports. A fall in export revenue may lead

to a depreciation of the currency, as there's less demand for the currency in foreign markets.

Competitiveness and Exchange Rates: If a country imposes tariffs on foreign goods, it can sometimes trigger retaliatory tariffs from trading partners. This creates uncertainty in international trade, which can affect investor confidence and influence currency values.

Impact on Currency Dependent Sectors: Tariffs can disproportionately affect currency-dependent industries. For instance, sectors that rely on imported materials or components (e.g., electronics) may face higher costs due to tariffs, which could erode profit margins and result in weaker currency demand.

C. Monetary Policy and Tariffs

- Monetary policy and tariffs can also influence each other

Tariffs and Inflation: If a country imposes tariffs on imported goods, those goods become more expensive. If the central bank does not adjust its monetary policy to account for this, it could lead to higher inflation. A central bank facing rising inflation due to tariffs may increase interest rates to try to control inflation. However, higher rates could appreciate the domestic currency, which in turn could reduce the competitiveness of exports, affecting the trade balance.

Central Bank's Role in Mitigating Tariff Impact: In cases where tariffs lead to slower economic growth or rising costs, a central bank might cut interest rates to stimulate the economy, or it might introduce other measures like quantitative easing (injecting liquidity into the economy).

Exchange Rate Expectations and Policy Responses: Central banks may also adjust monetary policy in response to large movements in exchange rates caused by tariffs. For example, if tariffs lead to a sharp depreciation of the domestic currency, the central bank might intervene to stabilize the exchange rate, or they may choose not to, depending on the overall economic situation.

So then the Key Interactions results as following:

-Expansionary monetary policy (lower interest rates) tends to depreciate the currency, making exports cheaper but imports more expensive. If tariffs are also applied, it can lead to further complications—both tariffs and weaker currencies make foreign goods more expensive for domestic consumers.

-Contractionary monetary policy (higher interest rates) strengthens the currency, potentially worsening the trade balance by making exports more expensive and imports cheaper. Tariffs may affect the exchange rate by shifting trade balances, which in turn affects the demand for the domestic currency. If tariffs lead to a trade deficit, the domestic currency may weaken, and vice versa.

In summary (MUNDELL 1993, EDWARDS 1995, THORSTESTEN, MARCAL FERRAZ 2012, BORDO 2020) all these factors are intertwined, and changes in one can influence the others in a feedback loop: monetary policy influences exchange rates by altering interest rates and expectations about future economic conditions, exchange rates impact trade balances, which in turn can affect the overall economic health and currency value, and tariffs can alter trade balances and have a direct impact on the domestic economy, which may prompt shifts in both monetary policy and exchange rates. For example, if a country raises tariffs on imports, it could reduce the demand for foreign currency, potentially affecting the exchange rate. At the same time,

monetary policy might be used to offset or exacerbate these effects, depending on the country's goals.

2. International Trade Strategies

In this section we outline a summary of different strategies in monetary policies, tariffs and exchange rate approach for the three main block in international trade: European Union[7], the U.S. and China. The motivations and the history of every strategy is not our goal and we don't want to qualify as good or bad such strategies.

The European Union (EU) (ECB 2021) has an approach to monetary policy, exchange rates, and tariffs, primarily due to its unique political and economic structure. The EU operates with a single currency for most member states, the euro, but not all the States of the Union, and has a common trade policy, which influences how these elements interact.

The EU's strategy is to ensure economic cohesion across its member states, manage global competitiveness, and navigate geopolitical challenges (like Brexit and US-China tensions) while maintaining internal stability. The EU strives to ensure that its monetary and trade policies are aligned to promote long-term economic growth, job creation, and global influence.

The EU's strategies for monetary policy, exchange rates, and tariffs are claimed to promote stability, growth, and cohesion among its member states while responding to external challenges. The European Central Bank manages monetary policy, striving for low inflation and financial stability. The single market allows for free movement of goods, services, and capital, while the common trade policy ensures that the EU speaks with one voice in global trade. These policies are intertwined and aim to create a balance between economic growth, trade competitiveness, and stability across the Eurozone.

However the president of ECB has great powers and aims. Christine Lagarde, as the last President of the European Central Bank (ECB), has faced criticism regarding her approach to monetary policy, particularly concerning its impact on France. Some critics argue that her policies may favor France, while others express concerns about the ECB's independence and effectiveness under her leadership[8].

A Financial Times (Financial Times)[9] survey of 72 Eurozone economists revealed that only 43% believe the ECB's monetary policy is on the right track, with 46% thinking it has fallen behind economic fundamentals. This sentiment reflects concerns about the ECB's response to the weakening economy and its potential impact on countries like France.

The ECB's Transmission Protection Instrument (TPI), designed to address market dynamics threatening monetary policy transmission, has come under scrutiny. France's rising borrowing costs and fiscal challenges have led to questions about whether the ECB will support France, given its failure to meet EU deficit reduction targets

Concerns About ECB Independence Critics also express concerns about Lagarde's political inclinations and their potential impact on the ECB's independence. Lagarde has advocated for increased public investment and has shown interest in integrating climate considerations into monetary policy, areas traditionally outside the ECB's mandate. Such actions have raised fears that the ECB may be overstepping its role and becoming too politically influenced.

[7] [7] https://www.ecb.europa.eu/mopo/html/index.en.html
[8] https://www.lemonde.fr/en/opinion/article/2024/02/07/does-the-european-central-bank-have-a-lagarde-problem_6501441_23.html
[9] https://www.ft.com/content/42109576-4295-4531-9740-a722c180af81

There are also internal Criticism Within the ECB. An internal survey conducted by the ECB's IPSO[10] trade union revealed significant dissatisfaction among staff. Approximately 50.6% of respondents rated Lagarde's performance as "poor" or "very poor," and nearly two-thirds believed she has damaged the ECB's image. This internal dissent underscores concerns about her leadership and its impact on the institution's credibility.

Despite these criticisms, Lagarde has acknowledged Europe's economic challenges, particularly France's struggle to compete with the U.S. She attributes this decline to factors such as cumbersome regulation, weak financing systems, and stringent European policies. Lagarde, as Mario Draghi the last ECB president did, emphasizes the need for structural reforms to boost competitiveness and ensure sustainable growth.

While some critics argue that Lagarde's policies may inadvertently favor France, others express concerns about the ECB's independence and effectiveness under her leadership. The ECB monetary policy favor France economy because reduce inflation rate and increase exports values. France France had a trade deficit with the U.S., importing more goods from the U.S. than it exported so a high euro rate reduce import. Other countries like Italy have a different position and the ECB was partially reducing Italian growth

The United States has a distinct approach to monetary policy, exchange rates, and tariffs that is shaped by its status as the world's largest economy, its influence in global trade, and its economic and geopolitical goals[11]. Below is an overview of the U.S. strategy regarding each of these elements:

Under the Biden administration, there has been a shift toward strategic competition with China, focusing on issues like intellectual property, technology, and supply chain security. Tariffs remain a tool, though the U.S. has also emphasized diplomatic and multilateral approaches.

Tariffs and Global Supply Chains: Tariffs can disrupt global supply chains, especially in industries that rely on imported goods. U.S. tariffs on Chinese goods, for example, led to increased production costs for U.S. manufacturers, which were passed on to consumers in the form of higher prices. This has raised debates about the economic costs of tariffs for consumers and businesses.

Reactions from Trading Partners: U.S. tariffs often provoke retaliatory measures from other countries, leading to trade conflicts. The World Trade Organization (WTO), as well as bilateral trade negotiations, plays a role in resolving disputes over tariffs, but the U.S. has shown a willingness to pursue unilateral actions if it believes they are in its economic interest.[12]

Recent Examples of U.S. Tariff Strategy: Trump's Tariff Policy (USTR 2025). The U.S. imposed steel and aluminum tariffs on a range of countries, including China, the European Union, and Canada. The China tariffs were particularly prominent, involving a broad set of goods from electronics to consumer products, with the goal of forcing China to reduce its trade surplus and improve intellectual property protections.

U.S. Strategy: Interactions Between Monetary Policy, Exchange Rates, and Tariffs: the U.S. strategy regarding monetary policy, exchange rates, and tariffs is interconnected, with the Federal Reserve, the U.S. Treasury, and trade policymakers working to address both domestic and global economic conditions (Miran 2024).

[10] [10] https://www.ipso.de/wordpress/wp-content/uploads/2025/04/2025_04_29-Press-Release-IPSOs-ECB-staff-survey.pdf
[11] https://www.whitehouse.gov/presidential-actions/2025/04/regulating-imports-with-a-reciprocal-tariff-to-rectify-trade-practices-that-contribute-to-large-and-persistent-annual-united-states-goods-trade-deficits/
[12] https://www.jpmorgan.com/insights/global-research/current-events/us-tariffs

Monetary Policy and Exchange Rates: The Fed's interest rate decisions have a direct impact on the value of the U.S. dollar. Lowering interest rates can lead to a weaker dollar, boosting exports but making imports more expensive. Conversely, raising interest rates can lead to a stronger dollar, benefiting consumers by lowering import costs but making U.S. exports more expensive.

Monetary Policy and Tariffs: Tariffs, especially on foreign imports, can increase inflationary pressures, which might prompt the Fed to raise interest rates to control inflation. Conversely, if tariffs reduce demand for U.S. exports, the economic slowdown could prompt the Fed to lower interest rates to stimulate the economy.

Tariffs and Exchange Rates: The imposition of tariffs can also affect the trade balance and, consequently, the value of the dollar. For instance, if tariffs reduce imports, it could lead to a reduction in the trade deficit

Recent debate with Jerome Powell about rates confirm the Trump's aim to reduce cost of investment in the U.S. and weakening the dollar, assuming an investment increase in the U.S. and boost the economy. The likely retaliation on tariffs will also indicate to reduce rate of interest to stimulate economy. Finally a reduction to imports reduce the trade deficit. A raise in collecting tariffs reduce monetary expansion and issue fo dollars or increase T-bonds.

China's strategy on monetary policy, exchange rates, and tariffs is tightly controlled and designed to maintain economic stability, foster export competitiveness, and ensure strategic autonomy (Oluyemi 2025, Stinson 2025, Swenson Deborah 2025).

China strategy is focused on internal growth and international expansion. That strategy conflict with the U.S. and Europe not only because of the increasing exports but also of the resistance to open the Chinese market and to have an independent Bank system. The refuse to revaluate Chinese RMB, that is today 0,14 dollar, is necessary for China but, due to absolute numbers in the international Trade, it is a policy that unbalance the Toal trade in favor of China.

For example, that policy allow China to buy from Brazil (0,78 of the RMB) food in exchange of technology and bypass the European and U.S. concurrency, virtually with no dollar reserve exchange, or maintaining the two countries the dollar reserves.

Table - 3 - China Strategy Summary Table

Policy Area	Strategy Summary
Monetary	Growth-focused, flexible tools, targeted credit, PBoC-guided liquidity control
Exchange Rate	Managed float, market signals allowed within limits, RMB kept stable and export-friendly
Tariffs	Reactive (e.g., U.S. tensions), strategic reductions with allies, support for industrial policy

Source: the author. Alessandro @unb.br

3. International Trade what-if.

In this analysis we guess scenarios on currencies or Valorization / Des-valorizations. What will happen if The euro or the Chinese RMB will valorize and the dollar devalorize? Using the common monetary theory: if the euro or the yuan appreciates (gains value) and the U.S. dollar depreciates (loses value), it would cause significant economic and geopolitical shifts. Here's a breakdown of what would likely happen.

A. Global Trade Shifts

U.S. exports become more competitive: A weaker dollar makes U.S. goods cheaper abroad, boosting exports. The U.S. exported $143.5 billion in goods to China and imported $438.9 billion, resulting in a trade deficit of $295.4 billion[13].

Eurozone and China exports suffer: The EU exported €213.3 billion (approximately $229.8 billion) to China and imported €517.8 billion (approximately $558.2 billion), resulting in a trade deficit of €304.5 billion (approximately $328.4 billion). Their goods become more expensive globally, potentially reducing export volumes and hurting growth in export-driven sectors[14].Shift in trade balances: The U.S. trade deficit could shrink, while China and the EU might see rising surpluses slow or even reverse.

B. Capital Flows and Investment

Capital inflows to the U.S. might decrease: A weaker dollar makes U.S. assets less attractive to foreign investors.

Europe and China might see capital inflows: Stronger currencies attract investors seeking stable or appreciating returns, particularly in bonds or real estate.

C. Commodity Prices Rise to maintain actual value.

Most global commodities (oil, gold, metals) are priced in dollars. A weaker dollar usually pushes commodity prices up, which could:

Fuel inflation globally, especially in import-reliant countries.

Benefit commodity-exporting nations (e.g., Brazil, Russia).

D. Debt Pressure on Emerging Markets

Many emerging economies have dollar-denominated debt. A weaker dollar makes it easier for them to repay or refinance that debt, which can:

Reduce default risk.

Free up fiscal space for investment.

E. Currency Power and Reserve Status

If the dollar weakens significantly and persistently, it could:

Undermine its role as the world's primary reserve currency.

Encourage faster RMB internationalization, especially in regions aligned with China (e.g., Belt & Road). Strengthen the euro's role in global reserves and trade settlement. EU and China may see disinflation or deflation: stronger currencies make imports cheaper, but hurt domestic producers.

[13] https://ustr.gov/countries-regions/china-mongolia-taiwan/peoples-republic-china?utm_source=chatgpt.com
[14] https://www.euronews.com/my-europe/2025/03/13/what-are-the-most-imported-and-exported-products-between-china-and-the-eu?utm_source=chatgpt.com

The response of a weak dollar in an export-driven economy, if tariffs are imposed by foreign countries on its goods, the exporting country might face declining external demand. A likely monetary policy response to mitigate the negative effects of those tariffs includes currency Depreciation. To Offset the loss of price competitiveness caused by tariffs by making exports cheaper through a weaker currency.

Likely Measures adoption by China and Europe:

-Lower Interest Rates Reducing benchmark rates decreases the yield on domestic assets, discouraging foreign capital inflows and putting downward pressure on the currency.
-Quantitative Easing (QE) Central bank purchases of domestic assets increase liquidity and suppress long-term interest rates, further weakening the currency.
-Forward Guidance Signaling prolonged monetary accommodation can shape market expectations and support currency depreciation.
-Foreign Exchange Interventions (if needed) In some cases, direct interventions in FX markets may be used to prevent appreciation or actively devalue the currency (though this can be politically sensitive).

Here an Example.

If the U.S. imposes tariffs on Chinese exports, the People's Bank of China (PBOC) might: cut policy rates or the reserve requirement ratio (RRR), let the yuan (CNY) weaken against the dollar, use open market operations to support liquidity.

This would help preserve the competitiveness of Chinese exports in dollar terms, partially neutralizing the effect of U.S. tariffs. To counteract the negative effects of foreign tariffs in an export-driven economy, a central bank can use expansionary monetary policy to stimulate demand and competitiveness.

But as a monetary policy of dollar also Chinese policies could be armful for international trade. An important effect of Chinese policies is likely impacts on ASIA countries. In 2023, China imported approximately US$468.8 billion worth of goods from ASEAN countries, marking a 10.5% increase from the previous year. This trade volume accounted for 15.9% of China's total foreign trade, solidifying ASEAN's position as China's largest trading partner.

China's Imports from ASEAN in 2023[15] : RMB 1.33 trillion (US$185.6 billion), up 5.2% year-on-year. ASEAN's share of China's total foreign trade also rose from 9.2 percent in 2004 to 15.4 percent in 2023, according to data from the GAC. Top Imported Goods: Electrical machinery and equipment: US$117.15 billion, Mineral fuels and oils: US$72.44 billion, Nuclear reactors, boilers, machinery: US$32.33 billion, Iron and steel: US$18.66 billion, Edible fruits and nuts: US$11.54 billion, Rubber and articles thereof: US$9.49 billion, Plastics and articles thereof: US$9.17 billion, Ores, slag, and ash: US$8.30 billion, Optical and medical instruments: US$8.17 billion, Animal and vegetable fats and oils: US$8.12 billion.

ASEAN remains a significant source of agricultural and energy products for China. For instance, almost all of China's palm oil imports come from Indonesia and Malaysia. China's Imports from Other Asian Countries. Beyond ASEAN, China also imports substantial goods from other Asian nations: South Korea: US$161 billion,Japan: US$160 billion, Malaysia: US$102 billion. In 2023, China paid over

15 https://www.globaltimes.cn/page/202409/1320104.shtml#:~:text=ASEAN's%20share%20of%20China's%20total,of%20agricultural%20products%20from%20ASEAN.

US$468.8 billion to ASEAN countries for imported goods, with significant expenditures on electrical machinery, mineral fuels, and various raw materials. Including imports from other Asian nations, China's total payments for goods produced and imported from Asia exceeded US$667.8 billion. In 2023, China imported approximately US$1.4 trillion worth of goods from non-Asian countries, accounting for about 54% of its total merchandise imports[16].

Most of China's international trade payments — including those to other Asian countries — are still primarily settled in U.S. dollars (USD). RMB-denominated trade deals, especially with Russia, Pakistan, and some ASEAN countries. Some ASEAN countries (notably Malaysia, Thailand, and Indonesia) have increased RMB usage in bilateral trade, but USD still dominates. For instance, a Malaysian firm may accept RMB for Chinese imports if they regularly trade with China or have yuan-denominated accounts. China has been actively promoting the use of the renminbi (RMB) in international trade, leading to a notable shift in the currencies used for cross-border transactions.

While the U.S. dollar (USD) remains the predominant currency for China's international trade settlements, there is a gradual increase in the use of the Chinese yuan (RMB), especially in transactions with countries participating in China's Belt and Road Initiative. China's currency (RMB/yuan) and bonds have gained ground as international reserve assets over the last decade, but they still represent a relatively small portion of global reserves compared to the U.S. dollar (USD) and euro (EUR).

But, about RMB as a Global Reserve Currency the IMF Data show[17]:

> - RMB Share of Global Reserves: 2.58% Equivalent to about US$255 billion of total allocated foreign exchange reserves (~US$10 trillion). Rank: 5th most-held currency globally (after USD, EUR, JPY, GBP). Trend: RMB reserve share has increased gradually from under 1% in 2016 (the year it joined the IMF's SDR basket).

These reserves are Held by: countries seeking closer trade or political ties with China, economies diversifying from USD (e.g., Russia, Iran, parts of Africa and Southeast Asia, central banks participating in bilateral swap agreements with the People's Bank of China (PBOC). Chinese Bonds as Reserve Assets have the Characteristics of Government bonds held through China's onshore bond market, which is the second-largest in the world (~US$21 trillion), foreign Holdings: As of early 2024, foreign institutions held about US$340 billion in Chinese government bonds.

However there is a Capital controls. It is still restrict full convertibility of RMB, Liquidity & Transparency are not good because is less accessible and lower-rated than U.S. or EU debt, and there is a geopolitical risk especially amid U.S.-China tensions. Thus RMB sustain itself with the dollar reserves because China monetary policy is less trusted than dollar and less transparent. To became a substitute of the dollar the RMB is far from a general acceptance because of China's actual economic and monetary policy.

The U.S. commercial deficit and the monetary expansion (dollar and T-bond expansion) and federal deficit will increase the U.S. monetary expansion policies. The "fiscal" policy or to reduce imports to balance Trade Balance (TB) and to rise tax and interest rate has unpleasant impacts on economy. However a monetary super-

[16] https://oec.world/en/profile/international_organization/asean
[17] https://data.imf.org/en/datasets/IMF.STA:COFER and https://www.imf.org/external/pubs/ft/bop/2024/pdf/44/BOPCOM%2024-09%20-%20Currency%20Composition%20of%20Foreign%20Exchange%20Reserves-COFER-Data.pdf

expansion must be avoided. Tariffs raise seems a good alternative for U.S to contain trade deficit and reduce expansion of dollar emissions to pay the debt.

The conflict mainly between China and the United States over tariffs revolves around economic, political, and strategic tensions. Under the view of monetary issues if focused on currency exchange especially concerning the value and use of the Chinese yuan (RMB) in global trade.

So then there are some conflicts to be solved. Here some issues:

1. Currency Manipulation Accusations
The U.S. has repeatedly accused China of intentionally undervaluing the yuan to make Chinese exports cheaper, gain an unfair trade advantage In 2019, the U.S. officially labeled China a currency manipulator (later reversed in 2020). China denies manipulation, claiming market and macroeconomic fundamentals drive yuan exchange rates.

2. Trade Imbalance
The U.S. runs a large trade deficit with China (over $350 billion annually). American officials argue that a stronger yuan would reduce this imbalance by making Chinese goods more expensive and U.S. goods more competitive. China counters that the trade imbalance is structural, not just due to currency issues (e.g., U.S. consumption habits, supply chains).

3. Capital Controls and Market Access
China maintains tight controls on capital outflows and foreign exchange, restricting free yuan convertibility that could increase the value.U.S. and other Western firms want greater access to Chinese financial markets and more transparency in exchange rate policies. Lack of free float in yuan exchange rate is viewed by critics as distorting markets.

4. Yuan Internationalization vs. Dollar Dominance
The U.S. fears China might intentionally devalue the yuan during economic slowdowns or trade wars to soften the impact of tariffs. Example: In 2015 and 2019, China let the yuan weaken, triggering market turmoil and U.S. retaliation. The U.S. sees this as a challenge to the dollar's global dominance, especially as China expands Belt and Road trade in RMB.

4. Concluding remarks

Thus the tariffs and exchange rates are, in the geopolitical competition, part of a broader strategic rivalry about tech restrictions, tariffs and trade barriers, financial sanctions. The U.S. worries that yuan-based systems (like CIPS) may be used to bypass western sanctions and reduce dollar leverage. Chinese and Europe are worried about the dollar as global mean of payment because of the origin of monetary policies in the U.S. (interest rate, domestic deficit, total volume of dollars and T-bond issues) could impact world trade without previous negotiations.

If the trade tariffs increase will reduce the U.S. debt some geopolitical trade flow will change and the economic globalization will have a reduction rate of growth, especially in Asia where China and Japan uses less developed countries as partner of the supply chain. A reduction on public administration cost (like aids and changes in

military expenses) will also reduce the U.S. budget. Thus the mix of new policies of Trump's administration are in line with American problems and the change of global economic confort zone. They can be called protectionism, but it is a consequence of world globalization that all need because increase global wealth.

In the paper there is an explanation why the monetary policy is also important when we are talking about tariffs. If the political speech of the BRICS will be the new economic superpower is difficult to predict because of tight relationships between economies and the dollar currency dominance. But, do to U.S. president Donald Trump new strategy for U.S. it is necessary to develop new form of international negotiations and trade adapting the new context looking for the future challenges. To reduce conflicts the unbalanced situations must be discussed globally.

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