The influences of Sino-US Trade War on China's economy and finance

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Abstract: Since March 2018, China-US economic and trade conflict escalates, gradually developing into a trade war between China and the US. The trade war will have far-reaching influence on all aspects on China's economy and finance, which would lead to a decreasing growth rate of China's economy and increase exchange rate depreciation pressure. Considering the economic fundamentals, it can be good news for the bond market but bad news for the stock market. Meanwhile, it would have influence on monetary policy of China. In the long run, Sino-US trade frictions will obviously promote China's opening to the world. China should accurately judge the real purpose of America and conduct the opening process of Chinese financial market methodically.

1. Introduction

Both China and the United States play important roles in international economic and trade field, thus the trade war caused by the trade friction between China and the United States has naturally become the focus of global attention. The influence of trade war on the two countries and even the world economy is not short-term, but far-reaching and extensive. For our country, the trade war not only has effects on the import and export trade and the real economy, but also can cause important influences in all aspects of China’s economy and finance.

This paper will firstly give a brief introduction of the Sino-US trade war, including its background, process and reason analysis. This paper will then focus on the influences of the escalating trade war on the financial industry of our country, discussing about the influence of the US trade war on the macro-economic growth, the monetary policy, the exchange rate, the stock market and the bond market, etc. Then talk about influences of trade war to our country's financial market opening.

2. Brief introduction of the Sino-US trade war

With the promotion of China's international status and the constant change of international trade interest pattern, trade protectionism of some countries and regions has risen, and trade friction with China has become more and more frequent. Among them, the trade war caused by the trade friction between China and the United States has naturally become the focus of global attention. The rapid development of China's economy and comprehensive national strength, the gradual shift of the growth mode in the new normal state to the intensive growth, the transformation of the high-end industrial structure and the transformation of the innovation-driven growth, further intensified the Sino-US trade dispute. [1].

At about 00:50 on March 23, 2018, US President Donald Trump formally signed a trade memorandum with China at the White House. Impose tariffs on $60 billion of imports from China and limit Chinese investment in U. S. M & A. Announcing that the United States will impose a 25% tariff on China's aerospace, information and communications technology, machinery and other products. On August 23, the United States decided to impose a 25% tariff on US $16 billion of Chinese exports to the United States. Since April 2, 2018, China has suspended its duty to reduce tariffs on 128 items of imports originating in the United States, added duties on the basis of the current applicable tariff rates, and added 15 tariffs on 120 items of imported goods.

On July 6, the United States formally imposed a 25% tariff on the first batch of Chinese goods worth US $3.4 billion, and the Sino-US trade war entered the actual tariff collection phase. On 10 July, The United States has also announced a detailed list of 10% of China's imports of US $20 billion, and what is more, on August 3, the United States said it would raise tariffs of $20 billion to 25%; as a counter-system, In accordance with the law, China's import of some $600 billion of goods from the United States by four-gear different tax rates and the imposition of duties. [2].

The trade war initiated by the United States on the grounds of the trade deficit with China may lead some people to conclude that the huge difference in goods trade is the cause. However, the trade war is the inevitable result of the internal logic of the global economic development, and it is the reflection of the global strategic competition between the United States and the rapid development of China. The influence of trade war on the two countries and even the world economy is not short-term, but far-reaching and extensive. For our country, the trade war is not only an effect on the import and export trade and the solid economy, but will not be ignored in all aspects of the economic finance.

3. The influences of the Trade War on the economic growth and financial market

3.1 Influences on economic growth

The Sino-US trade war will have a negative impact on China's economic growth. The data show that in March, China's export growth was negative, the trade deficit was 13 months, and the economic data in May was almost weak. The growth of fixed-asset investment and the growth of consumption have been in lowest position for more than 10 years. In June, the new order index and import index in China's official manufacturing PMI were both weak and confirmed the deepening of the impact of the trade war. [3] The main economic data released by the National Bureau of Statistics on October 19 showed that the growth rate of China's economy in the third quarter was 6.5%, which was a new low record in the last decade.

The financial industry is the core of a country's economy. Influences of the macro-economic situation, the change of policy and structure on the financial industry of China will also be all-round.

3.2 Influences on monetary policy

Under the influence both of the present trade war and the domestic deleveraging, the financing environment of the enterprise is tight, and the financial supply to the entity economy has a certain structural shortage. In order to cope with the complex and changeable international economic situation, the People's Bank of China has strengthened the pre-adjustment and fine-adjustment of the monetary policy and enhanced the flexibility of the combination of the policy tools. We can see that there are changes in the statement of liquidity: the “Maintain the basic stability of the flow” at the end of 2016, the “Maintain a reasonable and stable flow” at the end of 2017, and the “to keep the flow reasonable and abundant” at the end of June 2018. Since the beginning of 2018 the frequency of using monetary policy such as directional reserve ratio decline and MLF operation has increased significantly, and medium-and long-term liquidity has become the main ways to launching funds.

3.3 Influence on exchange rate

Since April 2018, the signs of a single-way weakening of the RMB exchange rate have become increasingly evident. In particular, since June, the rate of depreciation of the RMB exchange rate has accelerated markedly, declining to the point of 6.9.At the end of October, RMB has depreciated more than 10 percent against the dollar at the beginning of April. In addition to the expectation that the Fed will raise interest rates faster and lead to a sustained strengthening of the dollar, another key factor of the recent depreciation of the RMB is the economic and trade surplus expectation caused by impacts of the trade war. On the one hand, affected by the trade frictions, the downward pressure in Chinese economy is gradually emerging. With China's economy growing is at its slowest pace of nearly a decade in the third quarter, RMB exchange rate is under the pressure of depreciating. On the other hand, according to the Sino-U.S. Joint Economic and Trade statement issued in mid-May, regardless of the final trend of the trade war, China's trade surplus will obviously narrow. This will also weaken the basis for RMB appreciation in anticipation. Considering the impact of RMB depreciation, if foreign exchange speculators expect the RMB to be depreciated and sell RMB in the foreign exchange market for US dollars, it can result in the real depreciation of the RMB.

3.4 Influence on stock markets

Escalating trade frictions have led to rising macroeconomic concerns about China, during which time any deterioration in the situation will cause panic in the markets. In terms of Shanghai Composite Index, stock prices have been falling since May 2018. On June 15, the United States officially announced a tariff on Chinese imports of $50 billion, and then China announced that it would take countermeasures of the same scale. The stock market fell immediately in response to the sharp downward trend that followed, with the Shanghai Composite Index falling about 240 points in a month. On July 6, China and the United States officially implemented tariff policies, when the Shanghai Composite Index broke "2700." The lowest point was 2691.02, the lowest in more than two years. To some extent, the process of trade friction between China and the United States will continue to be an important factor in the decline of China's stock market.

3.5 Influence on bond market

China's bond market yields have generally declined since March, which due to escalating trade frictions between China and the United States. The bond yield is opposite to the bond price. From the macroeconomic point of view, the low yield of the national debt indicates that the macro-economy begins to fluctuate, the market is not optimistic about the economic prospects, and a large amount of funds the national debt market, which leads to the rise of the national debt price and the decrease of the yield. The outbreak of the trade war between China and the United States has caused the market to worry about future domestic economic growth. The economic downturn is expected, and the trend of risk aversion is more obvious. Coupled with the PBOC's looser strategy of keeping the financial system liquid in response to a trade war, it is good for the bond market in terms of economic fundamentals and liquidity in the monetary environment.

4. How Sino-US Trade War influence the opening of China's Financial Market

Financial opening plays an important role in promoting national economic growth. With the continuous opening of finance market and the reduction of restrictions on cross-border capital flows, the increasing stock of investment capital can promote the development of real economy. By introducing foreign financial industry participants, the structure of Chinese financial market can be enriched and optimized, and domestic financial institutions can continuously improve their competitiveness and improve their own technical level. We can also learn from foreign advanced technology and experience and narrow the gap in technology and talent between China and the US. But the step of opening financial market will also be accompanied by risks to a country's economy and finance. The larger international capital flow will lead to the instability of the local currency, which has a serious impact on national trade and the balance of payments. To stabilize the exchange rate, the central bank has to increase the supply of money. This will lead to excess domestic liquidity capital, causing domestic inflation to continue strengthen, such drastic changes will also affect the macroeconomic stability of the country.

China is in the key stage of further opening to the outside world. Forced by the pressing momentum of deepening reform and opening up brought about by this trade war, the outside world has seen a series of major moves in China's opening up, including the release of details and timetables of the 12 financial opening projects that have successively hit the ground. However, the fundamental purpose of American trade war is to contain the development of China. The strategic goal is to tempt and force China to fully open its finance, especially the capital account and financial liberalization. The possible ways include forcing China to liberalize and market its exchange rate, completely liberalize interest rates, further open up the banking and insurance sectors, and to invest directly or indirectly by forcing the opening of capital markets. Through acquisitions and mergers and other ways to prevent the internationalization of the RMB, so that China can compete directly with the US. However, China's financial opening is in a gradual and progressive state, and it is necessary to use a rigorous attitude to promote the opening of the financial sector step by step.

First of all, we must have an objective understanding and evaluation of the current situation of Chinese finance. China has a large amount of assets and a large output value of the financial industry, but the quality and technical content of the assets is not high enough. The financial sector has a huge systemic risk: huge amounts of corporate debt and government debt, and huge non-performing assets of banks. The regulatory system needs to be improved and the hardware conditions are general. Meanwhile, compared with the developed countries, the quality of Chinese financial practitioners is far from that of the developed countries. Before we push forward the financial opening, we must define the financial development and build a good financial system. While expanding the financial sector opening, the regulatory, institutional, market and other aspects should also be of adequate preparation. Besides, government should encourage enterprises to carry out financial innovation, build a sound financial product mechanism, and pay attention to guiding the services of financial institutions. Government departments should also strengthen supervision of financial institutions, strengthen management of financial risks, establish regulatory systems and secure financial networks, and coordinate supervision and financial institutions. [4].

China must recognize the historical law of international trade, accurately judge the purpose and goal of the trade war initiated by the United States, and calmly understand the present financial situation of China. It must not take the financial opening, especially the opening of capital account, as a transaction to settle the trade war. China's financial sector needs to be opened up, but the initiative should be hold by China. We not only can't open blindly, but also must have the appropriate time, the appropriate strength, the proper way protection, which relates to China's national wealth and the economic lifeline.

5. Summary

To sum up, the start of the Sino-US trade war has a comprehensive impact on China's economic and financial field. The influences can spread from the economic field to the financial field, and then interact with each other in different financial fields. At the same time, it can feedback to the decision-making and regulatory levels, and have important influence on macroeconomic policy, such as monetary policy. Specifically, the Sino-US trade war will lead to increased downward pressure on the economy. Affected by economic fundamentals, the price of bond will go up and the price in China’s stock market will decline. However, the bond market is affected by the China-US interest rate gap and capital outflow, so the return rate is limited. But the stock market is severely impacted, with the listed company stock price dropped sharply.

In the long run, Sino-US trade frictions will obviously promote China's opening to the world in the economic and financial field. China should firstly improve the domestic financial system and promote the development of domestic financial market and then conduct the opening process of Chinese financial market methodically.

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