

Changes in the exchange rate and the counter-measures in the context of the Sino-US trade war

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Abstract: The frequent occurrence of Sino-US trade frictions has exacerbated the fluctuation of the RMB exchange rate and caused the instability of our exchange rate market. The US government's provocation of the Sino-U.S. Trade war is directly aimed at opening China's market to the United States, and the deeper purpose is to curb China's revival. As the Sino-U.S. Trade environment becomes increasingly tense, the Chinese government is increasingly required to balance the relationship between opening up and the stability of the RMB exchange rate. Therefore, maintaining the stability of China's exchange rate market in the context of the Sino-US trade war has become an urgent issue. This article reviews the 22-month Sino-U.S. Trade war and exchange rate trends, clarifies the ways in which the Sino-U.S. Trade war affects the RMB, and several issues facing the RMB exchange rate under the long-term effects of the trade war, and proposes corresponding countermeasures.

1. Review of China-US trade war and exchange rate trends

1.1. Overview of the Sino-US Trade War

On March 22, 2018, US President Trump signed a memorandum, in accordance with the results of the "301 Survey," instructing relevant departments to impose large-scale tariffs on about 60 billion US dollars of goods imported from China, and restrict Chinese companies' investment and mergers and acquisitions in the United States. On March 23, China countered and proposed to impose tariffs on 7 categories of US imports involving about US \$ 3 billion of products in order to balance the losses caused to China by the US tariffs. In July 2018, the United States began to impose a 25% tariff on more than \$ 30 billion in goods from China. Since then, China has been forced to take corresponding measures, and the trade war has intensified. On December 3, 2019, the Sino-US trade war finally ushered in the first phase of the agreement, which lasted for 22 months from the start of the trade war to the signing of the first phase of the Sino-US trade agreement. China and the United States have experienced several confrontations in the past 22 months. The first phase of the trade agreement was just a product of compromise between the two sides and a halftime break. According to the first-phase economic and trade agreement signed by China and the United States, the United States has decided to increase the tariff on the US \$ 300 billion A list from February 15 to 7.5 percent from February 14, 2020. China also reduced tariffs on some imported goods from the United States. On February 6, 2020, the State Council Customs Tariff Commission decided to adjust the tariff levy measures on approximately 75 billion US dollars of imported goods originating in the United States. From February 14, 2020, and from September 1, 2019, 10% tariffs will be added to the product, and the tax rate will be adjusted to 5%; for products that have been levied 5% tariff, the rate will be adjusted to 2.5 %.

From the perspective of the cause of the Sino-US trade war, it is the imbalance between China and the United States. China has been in a trade surplus for a long time. In the trade between China and the United States, China has a trade surplus with the United States of more than 300 billion U.S. dollars, and it has shown constant Expanding posture. The United States used this as an excuse to

launch a trade war, hoping to achieve a more balanced trade between the two countries. Of course, judging from the nature of the Sino-US trade war, it is actually the rising competition between China and the United States in the economic and trade field. In recent years, China's economic scale has become larger and larger, and it is currently close to 15 trillion US dollars, and its international influence is constantly increasing. Under such circumstances, to curb China's development into a national strategy of the United States, in order to crack down on China and avoid China's challenge to its global hegemony, they took the lead in the economic and trade field and adopted a trade war to defeat China. At present, the Sino-US trade war is concentrated in the field of manufacturing. The United States does not want China to become a manufacturing power, and constantly creates troubles for the development of China's advanced manufacturing and high-tech industries. For the United States, the trade war is a means, hoping to use it to realize the return of manufacturing, reshape the global competitive landscape of manufacturing, and make China's industrial technology upgrade fail.

1.2. Review of RMB to USD exchange rate trend

With the intensification of Sino-U.S. Trade disputes, the exchange rate of RMB against the US dollar has plummeted. Since March 22, 2018, as of November 21, the median price of RMB against the US dollar has fallen by 6282 basis points. Compared with the trend from 2015 to 2017, the RMB exchange rate in 2018 first strengthened and then weakened, showing an overall two-way fluctuation trend. In the first half of 2018, the RMB exchange rate actually continued the trend of strengthening since the second half of 2017, and once reached a stage high of 6.2596 on February 7; since then, the RMB has quietly weakened since mid-April, and on October 31 It reached a low of 6.9734 during the year and also hit a new low since the exchange rate reform in 2015. In the first half of 2018, the average value of the RMB exchange rate was 6.3702, and the average value of the second half was 6.8596. That is, the first half of the year was strong and the second half was weak, but the overall trend was two-way. In contrast, after the exchange rate reform in 2015 and 2017, the RMB exchange rate basically fell from 6.21 in the early stage of the exchange rate reform to 6.96 in early 2017. During the period, there has not been a continuous strengthening trend, and it is difficult to call it two-way fluctuation.

Onshore RMB two-way fluctuations in 2019 are even more obvious. The ups and downs of Sino-US trade negotiations have become the main line throughout the year. The exchange rate of RMB against the US dollar has steadily "broken 7". From the end of 2018, when the heads of state of China and the United States reached a staged agreement on trade negotiations in Argentina until the end of April 2019, China and the United States have conducted eleven rounds of bilateral negotiations. The central parity rate of the onshore RMB against the US dollar has appreciated by 2% from January to April. In May, the United States unilaterally suspended trade talks and imposed a 25% tariff on 200 billion Chinese products. The RMB depreciated rapidly. The domestic RMB exchange rate against the US dollar quickly fell below 6.90, and the median price fell by 2.5% in a single month. Not only did it erase all the gains in the previous April, it also approached the important psychological barrier of 7.0 again. In the third quarter, after the 12th round of China-US consultations was over, the United States again put pressure on it. Trump proposed to impose a 10% tariff on 300 billion US dollars of Chinese goods. Affected by this, the domestic RMB exchange rate and the middle price fell below the 7.0 mark on August 5 and 8, respectively, and the United States Treasury listed China as an exchange rate manipulator. Fortunately, the decline in the exchange rate of the RMB against the US dollar has not caused drastic fluctuations in cross-border capital. At the beginning of September, the exchange rate of the RMB to the US dollar reached an annual high of 7.1854, and the exchange rate as a whole remained two-way. In the fourth quarter, the dawn of Sino-US trade talks, the two sides made substantial progress in agriculture, intellectual property protection, exchange rates, financial services, expanded trade cooperation, technology transfer, dispute settlement and other areas, and gradually reached the first phase of agreement. The market sentiment has been initially corrected, and the exchange rate of RMB against the US dollar has increased from depreciation. Both long and short sides have

repeatedly competed around the 7.0 mark.

In May 2019, at the time of the escalation of Sino-US trade frictions, senior officials of the central bank stated that 7 is not the bottom line of the RMB exchange rate, and it has made expected adjustments and risk warnings for customers and the market. After the yuan broke in August, the central bank and the foreign exchange bureau interpreted the changes in the exchange rate level through leadership speeches and firmly grasped the initiative of market expectations. This shows that the exchange rate of the RMB against the US dollar broke through in an orderly manner, reflecting the clear policy goals of policy makers and regulators, and the timely and effective adjustment of market sentiment. In addition, the supervisory authorities immediately lifted restrictions on investment quotas for qualified foreign investors, and lifted restrictions on RQFII pilot countries and regions, guided the two-way flow of funds, eased local market supply and demand contradictions, and effectively stabilized the RMB market exchange rate.

2. Impact of Sino-US Trade on RMB

2.1. Trade channels

The changes in the renminbi caused by the Sino-US trade war can first be demonstrated from the perspective of trade exports. The change in the RMB exchange rate is mainly due to the fact that the US and China settle their trade settlements with the US dollar. Bilateral tariffs will inevitably lead to a significant decline in trade volume. China is also a trade surplus country and is more affected by the trade war. The trend of change is naturally depreciating. The magnitude of the devaluation is affected by both the national economy and monetary policy.

2.2. Capital approach

In the Sino-US trade war, in addition to the mutual levy of tariffs by the two sides, the US Treasury also proposed to restrict Chinese companies' investment and operations in the United States, and this measure will directly reduce Chinese companies' merger and acquisition activities and direct investment activities in the United States. As a result, the demand for the renminbi in the offshore market has decreased, which has led to the depreciation of the renminbi exchange rate. The Sino-US trade war will also have a certain impact on the global economic structure. The United States uses the means of exerting pressure on trade to maintain its relevant international influence and at the same time curb China's development. The circulation of capital in the world itself is profit-seeking. As the world's largest economic power, the United States is also a deficit country in China's trade relations. Therefore, compared to China, the trade war has a smaller impact on it, and the United States has re-stimulated manufacturing. With the introduction of related incentive policies, the capital of countries around the world, including China, will have the desire to invest in the United States, which will lead to the rise of the US dollar and the relative depreciation of the RMB exchange rate.

2.3. Financial markets

In addition to China-US trade exchanges, financial market interactions and connections between the two countries are also considerable. Some investors are starting to panic, and the exchange rate in the international financial market has also experienced a wide range of fluctuations. The US Federal Reserve continues to raise the U.S. benchmark interest rate. In addition, the world stock market is in a volatile period. Funds have started to flow to the United States, and the demand for the US dollar has increased. Gains, while important stock markets in emerging markets such as Asia and Europe have begun to fluctuate widely. On the other hand, various measures in the Sino-U.S. Trade war have increased the systemic risks in the world economy, which have greatly affected the foreign exchange markets, bond markets and stock markets in the world, reflecting the market's impact on the Sino-U.S. Trade war. Concerns and concerns, and the value of the US dollar has been stable in the world's foreign exchange market for a long time, and its international position relative to the renminbi is higher. Therefore, the exchange rate of the renminbi is naturally in a trend of

depreciation. The strength of the US dollar will not only affect the RMB exchange rate by referring to the exchange rate of the basket currency, but also affect the RMB exchange rate from the perspective of changing the supply and demand of the foreign exchange market by determining the direction and scale of international capital flows.

3. The RMB exchange rate faces the following issues under the long-term impact of the trade war

The market-oriented reform of the RMB exchange rate needs to be further deepened. At present, the scale of China's foreign debt is under control, and the pressure of depreciation has been released in the past few years. The impact of foreign situations on China's exchange rate market is limited. However, if the RMB exchange rate is inelastic for a long period of time, it will be difficult to play the role of leverage adjustment, resulting in the unreasonable international balance of payments structure, negative return on foreign investment, and the serious dilemma of foreign exchange reserve loss.

Macroeconomic fundamentals need to be strengthened. Experts point out that the current domestic economy is facing the predicament of weak investment-driven development, weak infrastructure investment and private economic development, and insufficient momentum for subsequent growth of the economic fundamentals that support the exchange rate. In addition, the recent sharpening of risks in the financial industry such as the domestic stock market, bond market, and mutual gold has affected the risk aversion of the market to a certain extent and exacerbated the hidden danger of cross-border capital outflows.

4. Counter-measures

Develop plans for various scenarios in advance. Based on scenario analysis and stress testing, China needs to prepare a response plan in advance. The government and scholars need to give clear judgments and countermeasures to the prospects of the trade war, and communicate with the market in a timely manner to correctly guide market expectations and avoid large outflows of funds by enterprises and resident departments due to uncertainty and risk aversion in the future. When necessary, appropriately manage cross-border capital flows, promptly resolve large fluctuations in the exchange rate market caused by external shocks, and curb short-selling sentiment and cross-market risk linkages.

Further promote the market-oriented reform of the RMB exchange rate. The pressure of the United States should not be disrupted, nor should the confidence effect of various indicators be exaggerated. The market foundation of the RMB exchange rate formation mechanism needs to be continuously optimized to further enhance the flexibility of the RMB exchange rate. At the same time, shifting from strict supervision to market-oriented position management has enabled overseas enterprises, banks and financial institutions to concentrate in China's foreign exchange trading centers, thereby achieving unified management of RMB purchase and sale transactions and capital positions.

Consolidate macroeconomic fundamentals. The concentration of fiscal and monetary policy resources is tilted towards the corporate sector, especially private enterprises. Through measures such as reducing the operating costs of enterprises, improving the financing environment of enterprises, improving the institutional environment and supporting policies for technological innovation of enterprises, it strengthens the ability of independent innovation of enterprises, strengthens the private economy, and cultivates a group of local enterprises with global competitiveness.

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