

The Impact of RMB Deviation on China's Economy and the Countermeasures

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Abstract: This paper analyzes the impact of RMB devaluation on China's internal economy and the impact of RMB devaluation on China's foreign economy, which is based on the trend of devaluation of the RMB in the past year. The study found that the depreciation of the RMB in the promotion of China's exports at the same time, But on China's proposed "going out", "one way" strategy to a negative impact. To this end, this article from the improvement of economic structure, the use of finance, monetary policy point of view, for the RMB internationalization of the road made a reasonable opinion.

Keywords: RMB devaluation ; foreign investment ; RMB internationalization

INTRODUCTION

The Impact of RMB Depression on China 's Domestic Economy, The Positive Impact of RMB Depression on China 's Domestic Economy。 After 2012, the Chinese economy began to decline, the growth of exports for the economic downturn in the face of China's extraordinary significance Most of China's export products are low-tech low value-added goods, mainly rely on low prices in the international market To win the advantage, the devaluation of the renminbi to make up for the low price of China's product quality defects, improve China's export products in the international market competitiveness[1], is conducive to exports is not conducive to imports, promote their economic development, promote domestic jobs and nationals Increase in income. Negative Effects of RMB Depreciation on China 's Domestic Economy。 Renminbi depreciation will make imported goods in the domestic price is relatively expensive, inhibit imports, and promote the production of imported raw materials prices of domestic goods. And many Chinese enterprises with raw materials, large

machinery and equipment, mainly rely on foreign imports, the RMB exchange rate depreciation is bound to increase the import costs of these enterprises, weaken its profitability.

THE IMPACT OF RMB DEPRESSION ON CHINA'S FOREIGN ECONOMY

The Positive Influence of RMB Depreciation on China 's Foreign Economy

First of all, the devaluation of the RMB is a direct impact of a country's trade balance. The devaluation of the renminbi led to the promotion of exports and the suppression of imports. From the case of a sharp depreciation of the renminbi (see Table 1), it can be seen that China's import and export trade is declining, and the decline in the value of imports is generally greater than the decline in export value: the decline in exports and the overall international economic environment. The economy has a great relationship; a substantial decline in imports, the pace of economic growth in China has a great relationship.

Table 1: October 2015 - July 2016 China's import and export trade situation; Unit: \$ 100 million

project	2015.10	2015.11	2015.12	2016.01	2016.02	2016.03	2016.04	2016.05	2016.06	2016.07
Export value _ current value	1923.96	1964.63	2236.84	1740.03	1255.58	1608.13	1727.57	1801.59	1801.18	1826.42
Year-on-year growth (%)	-18.8	-8.7	-7.6	-18.8	-13.8	11.5	-1.8	-4.1	-4.8	-4.4
Import value _ current value	1307.52	1427.18	1642.94	1125.74	935.49	1309.56	1272	1310.84	1322.75	1324.15
Year-on-year growth (%)	-6.9	-6.8	-1.4	-11.2	-25.4	-7.6	-10.9	-0.4	-8.4	-12.5
Import and export difference _ current value	616.43	537.45	593.89	632.87	325.92	298.57	455.58	499.8	479.1	502.23

Source: National Bureau of Statistics

The depreciation of the renminbi and the continuation of the trend, the dollar-denominated decline in China's commodity prices will help enhance the competitiveness of China's exports of goods to promote the development of export trade; the relative increase in the price of imported products will lead to imports continue to show Downward trend, which in general to expand the amount of China's trade surplus. But the international trade has never been a simple economic dealing, some countries because of the reduction of trade income to take trade sanctions import quotas and exchange rate adjustment and some sort of counter measures, the final win or lose is still difficult to determine.

Second, the devaluation of the renminbi is conducive to long-term capital inflows. Before the devaluation of the renminbi, China's foreign direct investment showed a downward trend, after the devaluation of the renminbi, according to the general theory of capital flows, the relative increase in foreign currency value will make the same foreign investment can buy more means of production and services, Which will help to attract foreign investors to invest in the country and additional investment to stimulate the increase in foreign direct investment to promote the inflow of foreign capital for China's economic development is helpful; but it should also be recognized that the pure speculative capital because of the devaluation of the renminbi, Which makes the profit of foreign remittance home country reduced, that it will gradually lose the investment value, will have been the proceeds of RMB and investment into the foreign currency out of the territory, which will make our short-term capital out of the situation. Therefore, in general, the capital of the entity investment will increase, speculative capital may choose to withdraw, whether the balance of payments can be balanced is still difficult to determine [1].

Negative Effects of RMB Depreciation on China 's Foreign Economy

First, the continued depreciation of the renminbi has increased trade friction with other countries. Over the years, China has maintained a trade surplus in foreign trade, especially in trade between the United States and the European Union. At the same time, Sino-US trade and trade frictions in China and the EU have never been³ interrupted, which is not related to the devaluation of the renminbi. RMB continued depreciation is bound to expand China's trade surplus, induced trade friction with other countries.

Second, the devaluation of the renminbi is not conducive to advancing the "going out" strategy. Before 2014, with the continued appreciation of the RMB exchange rate, is conducive to China's "going out"

development strategy to a relatively low price merger and acquisition of foreign enterprises. In recent years, the continued depreciation of the renminbi will undoubtedly increase the investment costs of Chinese companies in overseas acquisitions and mergers, affecting the smooth implementation of the "going out" development strategy, many companies have to abandon the overseas investment plan because of the continued depreciation of the RMB exchange rate [2].

A PROBE INTO THE COUNTERMEASURES OF CHINA 'S DEPRECIATION OF RMB

Deepen the supply side reform, optimize the economic structure

Economic development is an important basis for dealing with shocks. At present, China's economic development is mainly reflected in the problems: excess capacity, demand, especially outside demand, urgent need to deepen the supply side reform, optimize the economic structure and promote sustainable economic development. The core of the supply side reform is how to make the supply effective, so as to improve the efficiency of the use of elements⁴. First, to eliminate coal, steel, construction and other backward excess zombie enterprises and industries. Secondly, to resolve the real estate inventory, to promote people-oriented urbanization, which requires the reform of the household registration system and deepening the reform of the housing system to form a joint force, is a Chinese side of the supply side of the reform initiatives. Third, reduce the real economic costs. Western supply schools believe that the main means to reduce the cost of the real economy is tax cuts. For our country, the reasons for the high cost of the enterprise are more complicated, the cost of financing, the cost of administrative expenses, the cost of logistics, the cost of temporary shutdown, the cost of anti-theft of intellectual property and the various system of gray cost, hidden costs foot. Therefore, China's supply side of the reform task is more difficult, more spacious space. Fourth, deepen the factor price reform [3]. By the historical and institutional constraints, China's supply side reform of labor, land, capital, innovation and other elements have long been suppressed, the price mechanism has not yet fully reflect the market supply and demand. In recent years, China has been in the release of "two children", rural land with the right price, interest rate market, intellectual property protection and other fields to make a lot of efforts. Finally, to protect and respect the entrepreneurial spirit, cultivate a number of innovative entrepreneurs.

Implement flexible monetary policy and proactive fiscal policy

The Federal Reserve to raise interest rates, the Chinese central bank will also take a similar operation, which is the market generally concerned about the

issue. The author believes that China should not and need to follow the United States in monetary policy, if only to stabilize the exchange rate and follow the rate hike operation, will enhance the cost of corporate finance is not conducive to economic recovery. With China's economic restructuring efforts to increase the capacity to go to inventory and initial results. In addition, due to the good operation of China's central government, there is still enough financial spending space to hedge the Federal Reserve to raise interest rates to bring economic risks. Do not follow the expected rate hike, in response to capital outflow pressure, the Chinese central bank need to release liquidity, but also focus on preventing the bubble and financial risks. The future need to adopt a more flexible monetary policy, focusing on innovation and flexibility to use liquidity outside the liquidity supply tools; the same time, to implement a proactive fiscal policy to promote economic growth. From the level of government debt burden, the expansion of financial investment potential is still large. China's central government debt to GDP ratio of about 15.8%, the management of local government debt is also increasing, in general, the government debt risk is still controllable. The future can be through the optimization of government expenditure structure, increase the structural tax cuts and expand the scope of tax cuts, etc., to improve the effectiveness of fiscal policy and implementation efficiency. Of course, in increasing the intensity of fiscal policy at the same time, we need to pay attention to prevent local government debt risk [4].

Continue to promote the internationalization of the RMB

The Federal Reserve to raise interest rates and the appreciation of the dollar will make the internationalization of the RMB facing a negative market environment⁵. In the domestic market, due to the decentralization of assets and the devaluation of the renminbi, investors will increase their willingness to exchange; in the international market, some foreign debt repayment of the larger pressure of emerging economies in response to the potential impact of the US interest rate, Adjust the composition of foreign exchange reserves, holdings of US dollar assets, reduction of RMB assets. The Federal Reserve to raise interest rates will make international capital back to the United States, leading to emerging market liquidity contraction, but also to some extent for the internationalization of the renminbi created space and opportunities. Although the internationalization of the RMB in the short term will be a strong dollar suppression, but the normalization of the Federal Reserve currency will push the dollar liquidity in the medium term tight. The dollar is not only rose not fall, the relative exchange rate of RMB and the dollar ultimately depends on the level of economic

development between the two countries. Reserve currency diversification has become a global consensus, the renminbi is still relatively strong currency, and has successfully "basket", in the long run will undoubtedly increase the use of RMB in the international market, which will also help to supplement the international market liquidity, To increase the foreign debt and external payment of the currency selection, decentralized currency risk. In promoting the internationalization of the renminbi, China can rely on "one side" and the Asian investment bank, focusing on regional monetary cooperation, and strive to increase with the "one way along the" countries in bilateral trade and investment in the use of RMB. At the same time, we must continue to promote the internationalization of the capital market in an orderly manner, vigorously develop the business of RMB and offshore RMB bond market, and promote the internationalization of the stock market under the premise of risk control. Finally, to speed up the RMB asset product innovation, the development and launch of RMB derivative products to meet the international investors hedge the RMB exchange rate risk needs [5].

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