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ВЛИЯНИЕ ТОРГОВО-ЭКОНОМИЧЕСКИХ ОТНОШЕНИЙ МЕЖДУ США, РОССИЕЙ И КИТАЕМ НА ПОЛИТИКУ РЕГУЛИРОВАНИЯ НАЦИОНАЛЬНОЙ ВАЛЮТЫ В ДАННЫХ СТРАНАХ

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В данной статье представлен сравнительный анализ монетарных политик США, России и Китая, а также политических, экономических и других факторов, влияющих на регулирование национальных валют в приведенных выше государствах. В статье приводится исторический обзор в отношении регулирования курса нац. валют в каждой из стран; анализ торгово-экономических отношений между США, Россией и Китаем; возможный сценарий развития экономической ситуации в мире в случае официального появления такой резервной валюты, как китайский юань.

Ключевые слова: регулирование национальной валюты, валютные интервенции, плавающий и фиксированные валютные курсы, резервные валюты

Today the majority of countries all over the world are in close economic relations even though some of them have conflicts of interest. After WW2, the U.S. took the leading position, and to date it has been the most powerful economy in the world. The US dollar is a reserve currency, in which other countries keep their reserves; many strategic goods like oil and gas are traded in the US dollars. China is a country, which has shown a unique economic growth; the country that has literally performed an economic miracle over the recent decades. Today China is the leader in production and export of goods, and China aims to make the yuan a reserve currency.

As to Russia, it is the largest country in the world that has immense natural resources and a key geographical location. This country has had a great political influence, yet for a long time its economy has been primarily oriented to export of resources. However, currently it is changing the economic pattern by pursuing a policy of import substitution for one. Whether it is possible or not?

So, how do trade and economic relations affect the national currency adjustments? The object of this paper is to examine how each country implements monetary policy, depending on both internal and external factors.

Monetary policy and national currency adjustment policy in the USA

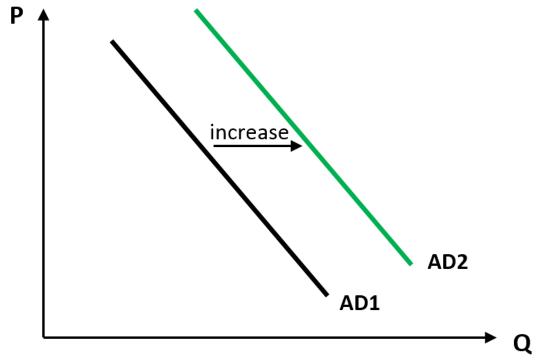
We will begin with the USA as a state whose currency is the «number one» reserve currency in the world.

The recession in the US and the global financial crisis of 2008–2009 had led to fundamental changes in the monetary and credit policy implemented by the Federal Reserve System. During the crisis, the US monetary authorities faced unprecedented difficulties. The tools of the previous monetary policy did not work. The thing is that Fed could no longer maintain the functioning of the financial system, the stability of certain financial institutions and prices.

In facing a threat of deflation as the most dangerous «disease» for economy built on massive loans and consumption, Fed implemented the policy of quantitative easing (QE).

In order to understand the essence of QE and realize how this program is connected with national currency adjustment policy, we should have a clear view of massive loans and consumption in the US economy are. The USA is a country with a well-developed economy, and it faces a problem of overproduction. Nevertheless, the only way to maintain the successful functioning of the economy (low unemployment rate, growth of GDP, etc.) the U.S. has to encourage consumption. The only way to do so is to lower interest rates and thus to encourage customers to obtain cheaper mortgages, services, products, etc. In turn, to keep the interest rates low, Fed increases the money supply, e.g. implements an expansionary policy (Monetary Policy, 2009), (The Saylor Foundation, 2012).

Graph 1. An expansionary monetary policy



However, the Fed creates money electronically; there is no physical emission of the U.S. dollar.

At the same time, investors prefer accommodate their money in developing countries, as far as investors are always attracted to higher interest rates. In 2013 Fed had announced that they were planning to finish QE. Since that time, Fed gradually reduced the economic boost tapering the program to the end (Kearns, 2015). It means that interest rates will become higher in the US attracting investors. Consequently, the developing countries may soon suffer from money outflow.

Monetary policy and national currency adjustment policy in Russia

Since 2000, Russia has come through three stages in monetary policy in the field of regulation of the exchange rate implemented by the Central Bank of Russia.

The first stage covers the period from 2000 to 2003. At this time, the Central Bank (CB) pursued a policy of floating exchange rate regime. In this mode, the CB did not take any obligation regarding the maintenance of the exchange rate. As long as Russia lacked sufficient reserves after the August 1998 crisis, the CB literally had no choice except implementing such a policy. In addition, significantly depreciated currency aligned with the interest of domestic producers (some countries deliberately lower their currency to increase an export). However, in 1998 Russian economy was in deplorable condition: the majority of factories went bankrupt, the government stopped investing in innovative technologies and other spheres).Thus, this stage is characterized by the depreciation of the domestic currency against the U.S. dollar and Euro.

The second stage in Russian monetary policy began in 2004 and ended in the fall of 2008. During this period, the Bank of Russia pursued a policy of managed floating exchange rate. The essence of this tactics the CB applies is purchasing foreign currency on the domestic market (implementation of currency interventions). Remarkably, this policy hindered the appreciation of the ruble relative to dollar and euro. The increase in foreign exchange reserves had little to do with real economic growth. The overall policy of the Central Bank of the Russian Federation of this period can be characterized as relatively independent. The floating exchange rate regime had significantly mitigated fluctuations in exchange rates. The consequence of this policy was an excess of foreign exchange reserves and, consequently, increase in money supply.

The third stage in the monetary policy of the CB of the Russian Federation begins with 2009, when the CB as a regulator tries to switch the monetary policy from a managed floating exchange rate to free floating exchange rate.

To implement this transition, the Bank of Russia was going to systematically weaken the national currency rate against the dollar-euro basket. At the same time, free the exchange rate ceteris paribus led to a decrease in foreign exchange reserves. To manage this factor, the CB of Russia implemented the interest rate policy. Taking into consideration that refinancing rate and inflation rate depend on the interest rates established by CB of Russia, the interest rate policy is much more complicated than currency interventions applied previously.

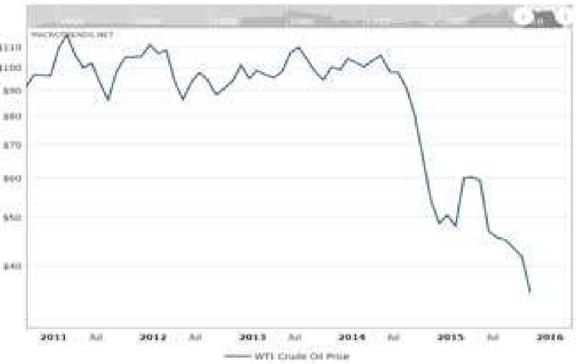
It should be noted that among economists there is no consensus about what the goal of monetary policy is optimal. In the Keynesian concept of state regulation of the economy Central Bank should adjust short-term interest rates, because such a policy would better meet the requirements of long-term economic growth. A modern interpretation of this policy is a corridor system of interest rates, limited the minimum and maximum values. In monetarist concept of the optimum the Central Bank's objective is sustainable growth of the money supply. In accordance with the basic principle of the quantity theory of money, inflation is the result of a large amount of money at a relatively lower volume of production. In the end, this policy implies a reduction in the assets of the Bank of Russia foreign exchange reserves and increase in loans made to commercial banks.

Next, in order to understand the actions taken by Central Bank of Russia, we need to examine the factors affecting the prospects of the free float of the ruble:

1. As long as tax and customs payments from foreign trade depend on the exchange rate, the Federal Budget of Russia benefits from free float of the ruble (depreciated national currency);
2. The determining factor in the exchange rate is the price of oil and other exported goods. When oil prices fall, less dollars come to the country, and the ruble falls. If oil and gas prices rise, the ruble is strengthening, and the amount of dollars in the domestic foreign exchange market increases. Consequently, the demand for the national currency grows.

As we can see from the graph 2 below, oil prices decreased dramatically since July, 2014. As a result, the Russian ruble depreciated from 35–40 rubles for one US dollar to 70 rubles for one US dollar. Thus, the floating exchange rate in today's situation in the market certainly is not in favor of Russian economy;

Graph 2. Crude oil prices 2011–2016. (Retrieved from: Macrotrends.net)



1. The ruble is dependent on the movement of capital and on the level of borrowing. If foreign investors come to invest in the Russian economy, the country will have more dollars, and the demand for the ruble will grow;
2. The ruble appreciation reduces the competitiveness of domestic production.

One of the disadvantages of ruble floating is high volatility that does not add to the stability of trade relations. Moreover, emerging markets usually do not have a sufficiently developed infrastructure to allow the company to effectively hedge its currency risks.

The second disadvantage is short-term weakening of the national currency that is beneficial for exporters that may lead to a stable ruble devaluation. As a result, the ruble will not be attractive for foreign and domestic investors because of its instability. It can lead to capital outflow and make money extremely expensive for a domestic market. In addition, the falling ruble may reduce competitiveness of imports and, consequently, may reduce the desire of domestic manufacturers to improve technologies.

It is important to note that the devaluation of the ruble today is the result of folding out the US quantitative easing program, due to which the capital flows have changed direction (as it was stated above): now they go from developing to developed countries.

To sum up, for Russia the devaluation results in more disadvantages than advantages:

- foreign investment reduction;
- the low pace of economic modernization;
- slow growth of the economy.

Change of the exchange rate regime is not simply another way to determine the fair value of the national currency, it is a very significant change in an economic policy. To this must be prepared both the Central Bank and the market. In fact, the transition to a free floating exchange rate policy in the transfer is a powerful tool to influence economic development from public to private hands.

Monetary policy and national currency adjustment policy in China

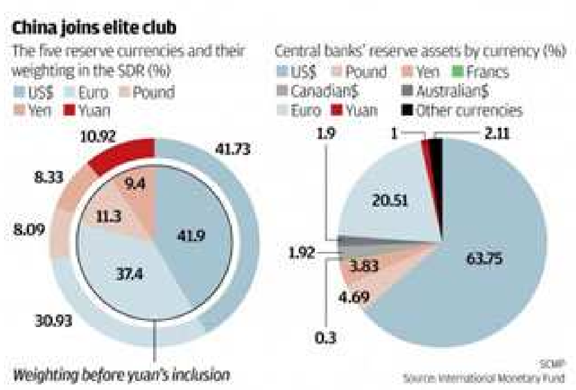
Historically, Chinese yuan came through five steps (the similar story we have just observed with Russian ruble). At the initial stage, the Chinese government was constantly changing the exchange rate of yuan in relation to prices of goods. During the second stage (until 1973), the *yuan* was manageable and relatively stable. For a long period of time Chinese yuan was the fixed currency in relation to the US dollar. At the third stage the national currency of China was closely connected with dollar-euro basket. At the fourth step China implemented a double exchange rate (official domestic exchange rate and a market rate). In the sixth step China gave up double exchange rate. Since 1994, the Chinese yuan has been closely related to the US dollar. It can be explained that the bulk of Chinese export comes to the USA. Until 2005, the Chinese yuan was a fixed currency and equaled 8,27 yuan for 1 US dollar. China tried to lower its national currency to make export profitable. Then the Chinese CB made an attempt to make the Chinese yuan dependent on currency basket. However, the financial crisis of 2008 forced the Bank of China to fix the exchange rate.

Currently the Bank of China established an exchange rate of yuan relative to dollar as 6.42. The modern policy relative to yuan is also known as «*dirty float*»; ‘it is controlled through central bank's buying and selling currencies in a bid to cap its appreciation» (Desloires, 2015).

Nevertheless, it seems that China strives to achieve a «clean float», but cannot really pursue such a policy given the current market instability. The deputy governor of the Bank of China Yi Gang has recently proved this hypothesis relative to the yuan exchange rate, «Our long-term goal is a clean float, which entails little intervention. But under the current managed float mechanism, we have to intervene at times to stabilize the market» (Yang, 2015).

Without any doubt, lowering of national currency contributes to the increase in export. However, there’s been a lot of speculation to the effect that China aims to make a yuan another reserve currency. But it is a controversial matter. If Chinese yuan becomes a reserve currency, the Bank of China will be unable to lower the exchange rate of the national currency (to apply the regime of a «dirty float»). At the same time, growth of export leads to the appreciation of the currency. As far as we understand, China does not want yuan to appreciate; for sure, it will dramatically decrease an export of goods. Decrease in export may lead to instability of national economy, but the stability of economy is a key factor for currency to become reserve currency. The issue of recognizing yuan a reserve currency de jure is contradictory and involves complex procedures; however, today for some countries yuan has already become a reserve currency de facto. Below you can see a chart showing the weight of Chinese yuan in the Special Drawings Rights basket.

Chart 1. Reserve currencies and their weights in the SDR basket. South China Morning Post.



For instance, Russia and China signed a 30-years energy contract for delivery of Russian oil to China (Engdahl, 2015). The important thing is China will be making payments in national currencies. Thus, Russia and China try to break free from dollar- dependence. Another example of the fact that China tends to establish yuan as its national currency or at least become less dependent on the dollar is the establishment of other payments in national currencies between Russia and China. Thus, in Chinese city Suifenhe, which is close to the Chinese-Russian border, payment payments both in the Chinese yuan and the Russian ruble are quite possible.

To sum up, we live in constantly changing economic conditions and it is almost impossible to predict the economic situation even in the near future of 5–10 years. However, if the Chinese yuan becomes another reserve currency, it will definitely have negative consequences for the US its economic and political power. At the same time, the reducing significance of the USD as a reserve currency may contribute to the economic growth of some developing countries such as Russia. ■

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The Impact Of Trade And Economic Relations Between The Usa, Russia And China On National Currency Adjustment Policy In These Countries

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This article presents a comparative analysis of the monetary policy of the United States, Russia and China, as well as political, economic and other factors affecting the regulation of national currencies in the above states. The article provides a historical overview of national currency regulation in each country; analysis of trade and economic relations between the US, Russia and China; possible scenario of the economic situation in the world in case of emergence of the new reserve currency — Chinese yuan.

Key words: the regulation of the national currency, foreign exchange intervention, floating and fixed exchange rates, reserve currencies.