

Date: 08 August, 2019

1. The US Treasury Department has declared China as a currency manipulator: The ongoing trade war between the two biggest economies expected to turn into a currency war

- What is currency manipulation? Why is currency manipulation so controversial?
- What does this currency manipulator designation means for China?
- How does China devalue its currency?
- What is the impact of a weaker Chinese currency?

GS paper 3 (Mobilization of Resources, Capital Market)



Pen drive Courses
for UPSC CSE
preparation

Date: 08 August, 2019



Pen drive Courses
for UPSC CSE
preparation

**In this video, you can find detailed answers for all
the above questions.**

The above article has been retrieved from:

N.A. (2019, August , 7). US Treasury officially labels China a currency manipulator. Financial Express. Retrieved from <https://www.ft.com/content/9d24c1ca-b7cd-11e9-96bd-8e884d3ea203>



What is the context about?



The US Treasury Department has declared China as a currency manipulator. This move comes after the People's Bank of China (PBOC), which is the central bank of China, allowed the yuan to suddenly depreciate (or lose value) relative to the dollar by 1.9% - one of the biggest single-day falls.



China's currency move came as a result of new tariffs announced by the US President on \$300 billion of chinese imports.



The US government has said that it will now engage with the International Monetary Fund (IMF) to eliminate the unfair competitive advantage created by China's latest actions.



What is currency manipulation?



Currency manipulation happens when governments try to artificially tweak the exchange rate to gain an “unfair” advantage in trade.



The US Treasury department defines currency manipulation as when countries deliberately influence the exchange rate between their currency and the US dollar to gain "unfair competitive advantage in international trade".

Why is currency manipulation so controversial?



Currency manipulation - by China or any other other country - is seen to flout global trading rules by conferring unfair competitive advantages. A country does so by artificially inflating or deflating its exchange rate. It may be designed to make exports more competitive, to avoid inflation or reduce capital inflows.

What does this currency manipulator designation means for China?



Date: 08 August, 2019



Pen drive Courses
for UPSC CSE
preparation



Once a country is designated as a currency manipulator by the U.S., the next step taken by the US government is to seek negotiations with the government accused of manipulation.



But officials in Beijing and Washington have already been engaged in trade talks for more than a year.



If there is no progress a year after the designation, China could face possible sanctions including its firms being prohibited from competition for US government contracts.



How does China devalue its currency?



The yuan is not freely traded and the government limits its movement against the US dollar. Unlike other central banks, the PBOC is not independent and faces claims of interference when big moves occur in its value.

What is the impact of a weaker Chinese currency?



A weaker yuan makes Chinese exports more competitive, or cheaper to buy with foreign currencies. From the US perspective, it is seen as an attempt to offset the impact of higher tariffs on Chinese imports coming into America.



While it appears a win for consumers around the world - who can now buy Chinese products more cheaply - it carries other risks.