

Treasury Declines to Name China a Currency Manipulator

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On April 13, 2018, the Treasury Department released its biannual report to Congress on the Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States, which declined to formally label China a currency manipulator under the Omnibus Trade and Competitiveness Act of 1988 (the "1988 Act").

This is the third such report issued since President Trump took office. Like the prior Trump Administration foreign exchange policy reports (April 2017 and October 2017), the latest report also concluded that China's bilateral trade surplus, material current account surplus, and intervention in the foreign exchange market, together, do not require "enhanced analysis" and "enhanced bilateral engagement" under the Trade Facilitation and Trade Enforcement Act of 2015 (the "2015 Act").

The latest report, however, continues to place China on Treasury's foreign exchange "Monitoring List" under the 2015 Act. The report lists China alongside Japan, Korea, Germany, Switzerland, and India as "major trading partners that merit close attention to their currency practices and macroeconomic policies." According to the report, "China has an extremely large and persistent bilateral trade surplus with the United States, by far the largest among any of the United States' major trading partners." Treasury continues to be concerned with "the increasingly non-market direction of China's economic development," which "poses growing risks to its major trading partners and the long-term global growth outlook." In particular, Treasury will continue to monitor China's adherence to "its G-20 commitments to refrain from engaging in competitive devaluation" and the implementation of "greater transparency of China's exchange rate and reserve management operations and goals."

Since Treasury's first report in 1988, China has been named a currency manipulator only briefly between 1992 and 1994. Subsequent reports have regularly concluded that China's currency is undervalued, but that it has not met the technical requirements of the 1988 Act to be designated a currency manipulator.

Alleged currency manipulation, particularly with respect to China, has long been part of the trade policy debate as a trading partner's artificially low currency can boost export sales and, thus, create or widen the United States' trade deficit with that country. Notably, the 2015 Trade Promotion Authority bill passed by Congress (at the height of the United States' negotiations with the 11 Trans-Pacific Partnership countries and the European Union) included principal trade agreement negotiating objectives around avoiding currency manipulation and dealing with unfair currency practices. During the 2016 campaign, President Trump had pledged to label China a currency manipulator as part of his larger plan to combat unfair trade practices.