Trump's Currency War Plan Puts Treasury and Commerce at Odds

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Proposal marks shift toward a weak dollar policy, experts say

Commerce gives industry until June 27 to share its input

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President Donald Trump is poised to turn the $5.1 trillion-a-day global currency market into the next battlefield in his trade war with a proposal that has set two U.S. government agencies on a collision course.

A Commerce Department proposal to impose countervailing tariffs on countries that it determines have devalued their currencies has alarmed officials at the Treasury Department, according to four people familiar with the matter. They are wary of market disruptions and a politicization of foreign-exchange policy, among other concerns, the people said.

An initial draft of the plan included what some officials considered misguided economic assumptions and was too blunt an approach to the issue, the people said. Part of Treasury's job is to monitor U.S. trade partners for currency manipulation.

The proposal is part of a dramatic escalation of Trump's trade war. Last week, the president said he'd impose escalating tariffs on all Mexican goods unless the country curbs illegal migration to the U.S. On May 10, Trump raised tariffs on another $200 billion in Chinese goods after he said Beijing reneged on provisions of a tentative trade deal.

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"The Trump administration has clearly signaled that currency conflicts are the next front in the trade war against countries with whom the U.S. runs large trade deficits," said Eswar Prasad, an economics professor at Cornell University.

China has blamed the U.S. for the impasse in trade talks and has vowed to retaliate for the increased tariffs. Mexican officials are in Washington this week to try to stave off tariffs that Trump said will be imposed on Monday.

Dollar Repercussions

The Commerce Department proposal risks adding uncertainty to an already volatile U.S. trade policy, with additional repercussions for the dollar. Historically, presidents and their administrations have promoted the mantra of a strong dollar being in the nation's interest in part to bolster foreign demand for U.S. debt. Yet pressuring trade partners who are seen as devaluing their currencies could have the effect of weakening the greenback.

"The U.S. is implicitly moving towards a weak dollar policy with its unwillingness to condone other currencies' weakness against the dollar," said Prasad, author of "The Dollar Trap."

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In a report to clients on Thursday, Morgan Stanley analysts said this week's meeting in Japan of Group of 20 finance chiefs "could see the dollar coming under early selling pressure."

Commerce says that the purpose of its proposal is to "provide relief" to American workers, farmers and businesses "injured by unfairly subsidized imports," according to the regulatory filing in which it was announced. It doesn't expect that this type of countervailing duty, or CVD, would deter trade with any country, according to the proposal.

But current and former Treasury officials aren't so sure.

While there is value in the U.S. addressing harmful currency practices, tactics such as tariffs "could disrupt global trade and capital flows, create currency wars and damage the international monetary and financial system," said Mark Sobel, a former Treasury official.

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"The harm would only worsen if others retaliate in kind," he said.

Sobel was a senior-level civil servant at Treasury in 2007 when Congress unsuccessfully pressured the George W. Bush administration to impose a similar countervailing duty, with China a key target.

Treasury and Commerce

Treasury representatives didn't respond to requests for comment on the conflict between the two departments. A spokeswoman for Commerce declined to comment.

Commerce's proposal doesn't identify any individual country as a target. It would allow American companies to seek anti-subsidy tariffs on products from countries considered to be engaging in competitive devaluation.

The U.S. government could also initiate an investigation, according the May 23 regulatory filing. The regulation, if implemented, would be administered by the enforcement and compliance unit inside of the Commerce's International Trade Administration, an agency spokesman said.

A decision to apply a countervailing duty on exports would rely on a framework for analysis to be developed by Treasury, the proposal said. Criteria for the framework would be decided after a public comment period closes on June 27, a senior Treasury official said in a briefing with reporters before Treasury Secretary Steven Mnuchin left for the G-20 gathering in Japan.

Treasury aims to make the framework public and keep it consistent with its semi-annual foreign-exchange report to Congress, according to the official, who spoke on the condition of anonymity. The U.S. government has used that report to signal action against countries suspected of manipulating their currencies.

But in deciding whether to impose countervailing tariffs, Commerce could disregard Treasury's analysis if it "has good reason to disagree," according to the proposal.

Paper Trail

Treasury officials fought to include language in the proposal that would require Commerce's currency assessments become part of the public record, people familiar with the matter said.

Publicly pitting two U.S. agencies against each other is "highly unusual" and risks leaving the administration in an "awkward position," said Doug Jacobson, a trade lawyer at Jacobson Burton Kelley in Washington.

If Commerce overrides Treasury's assessment of a country's currency practices, that paper trail could land the U.S. government in court with companies seeking to avoid tariffs, Jacobson said.

Currency traders, meanwhile, say they're wary of any kind of government intervention in the market -- especially by the largest and most important economy in the world.

"We would much prefer currencies to trade based on fundamentals of monetary policy and economic data than tweets" and other kinds of political intervention, said John Doyle, a currency strategist at Tempus Inc.

Earlier: Warren Calls for 'Actively Managing' Dollar Value to Boost Jobs

Trump has an unlikely ally in suggesting an aggressive currency policy to achieve economic goals: Democratic presidential candidate Elizabeth Warren. In a plan released earlier this week, she called for "actively managing" the dollar to bolster U.S. jobs and growth

Warren, a Massachusetts senator, blames foreign investors and central banks for having “driven up the value of our currency for their own benefit.

— With assistance by Jenny Leonard

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