

Politics

Here's How Trump Can Formally Call China a Currency Manipulator

By [Saleha Mohsin](#)

September 7, 2018, 9:00 AM GMT+8

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- ▶ U.S. hasn't designated any country since naming China in 1994
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- ▶ White House pressure builds for Mnuchin to designate China
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We Are All Caught in the Middle of This Trade War, Says Footwear Distributors' Priest

If President Donald Trump wants to follow through on his repeated threats to label China a currency manipulator, all he has to do is turn back the clock.

The Treasury Department hasn't accused China of artificially suppressing the value of the yuan because it relies on a 2015 law that sets strict standards for the designation. But a 1988 law -- still in effect -- sets a looser standard. Treasury Secretary Steven Mnuchin simply has to use it, said several former department officials.

The U.S. is "looking very strongly at the formula" it uses to decide whether China and other countries are manipulating their currencies, Trump said in an Aug. 30 interview with Bloomberg

News. The White House is putting pressure on Mnuchin to publicly shame China and he has gotten increasingly involved in the department's twice-yearly currency analysis, usually released in October, according to two people familiar with the matter.

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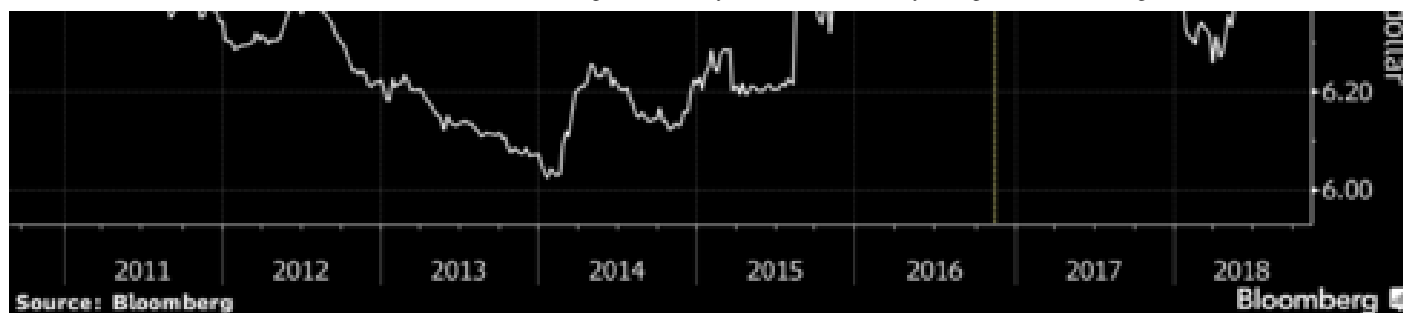
Declaring China to be a currency manipulator wouldn't trigger any sanctions or other U.S. penalties, but it would escalate trade tensions and likely cause a market reaction.

"The U.S. has a lot of issues with China, and this is another way for the administration to say: We're not happy with the way things are going," said Phillip Swagel, a Treasury official during the George W. Bush administration. "It's more of a symbolic finding. It could support action down the road."

Trump's latest threat comes as trade wars and the prospect of monetary tightening from the Federal Reserve roil emerging markets, with currencies from Turkey to India slumping to record lows against the dollar. China has taken action over the past month to support the yuan, including using the daily fixing to rein in declines and making it more expensive to short the currency.

The yuan has weakened 6.5 percent against the dollar over the past three months, slipping in August to its lowest value since January 2017.





The U.S. Treasury hasn't branded any country a manipulator since Democrat Bill Clinton was in the White House. China was named five times from May 1992 to July 1994.

The Omnibus Trade and Competitiveness Act of 1988 gives the Treasury secretary broad discretion to use a wide range of data -- including foreign exchange reserve coverage, capital controls, monetary policy and inflation -- to make a decision. The law's definition is "very elastic," said Brad Setser, who did international economic analysis at Treasury during the Obama administration.

The Trade Facilitation and Trade Enforcement Act of 2015, however, lays out specific criteria a country must meet to be labeled a currency manipulator. It instructs Treasury to use three tests: A minimum \$20 billion trade surplus with the United States, a current account surplus in excess of 3 percent of GDP, and repeated interventions in currency markets.

Right now, China meets only one test -- the U.S. trade deficit with China hit \$375 billion last year.

But Treasury can change the threshold levels, giving Mnuchin another way to fulfill Trump's wish.

The Treasury Department's most recent currency report, released in April, explicitly noted that a country might be found a currency manipulator under the standards of one law but not the other.

Mnuchin's Prior Role

Mnuchin played a limited role in the first three reports issued since he took office, changing just a few lines in each, according to two people familiar with the matter. Trump contradicted Treasury's findings just three days after the latest report, speculating that China and Russia are gaming their currencies. Mnuchin has told the White House that it's not easy to label China a currency manipulator, frustrating some officials who see him as more loyal to bureaucracy than to Trump's agenda, according to one person.

China doesn't disclose its interventions in the foreign-exchange market. But Treasury's own currency reports acknowledge that China hasn't intervened heavily in the market since early 2017. Following China's surprise one-time devaluation in August 2015, the central bank was actually intervening to prop up the currency -- not drive it down, as Trump has accused Beijing of doing.

China's central bank signaled last month it's taking action to support the yuan, meaning the country is working to shore up the currency.

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"China has not engaged in currency manipulation for a number of years now," said Eswar Prasad, a former China expert at the International Monetary Fund who now teaches at Cornell University. While there are signs that China has intervened in markets to prevent its currency from depreciating, "manipulation typically has the connotation of a country persistently preventing its currency from appreciating in value."

– *With assistance by Jennifer Jacobs, Andrew Mayeda, Ben Bartenstein, and Nancy Moran*

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