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POLITICS

Trump Administration Weighs Adding Currency Rules to Nafta

Rules barring manipulation would serve as precedent for future trade talks

U.S. Trade Representative Robert Lighthizer said he is looking at currency rules as a part of planned renegotiation of Nafta.
PHOTO: ANDREW HARRER/BLOOMBERG NEWS

By William Mauldin

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WASHINGTON—The Trump administration has told senators it is considering adding rules barring currency manipulation to the North American Free Trade Agreement, according to congressional aides, a departure from past U.S. policy that could set a precedent for other trade deals.

U.S. Trade Representative Robert Lighthizer said in a Senate meeting Wednesday that he is looking at currency rules as a part of planned renegotiation of Nafta, the 23-year-old trade agreement that connects the U.S. economy with Canada's and Mexico's, the aides said.

An administration official confirmed the U.S. is looking at some sort of currency disciplines but didn't say whether the rules would be binding and enforceable through Nafta's dispute-settlement procedures.

Mr. Lighthizer is briefing key House and Senate lawmakers this week on the North American agreement, and the Trump administration is expected in the coming days to send Congress a letter announcing plans for formal Nafta negotiations. The talks, which could start in three months, would likely include Nafta updates to address technology and the internet, as well as stronger rules on what products qualify for duty-free trade in order to favor North American supply chains over rivals in Asia

Canada and Mexico haven't been the focus of U.S. criticism over currency, but adding currency rules to Nafta could set a precedent for including them in future negotiations with Asian trading partners.

Currency rules weren't in a previous draft of the administration's Nafta negotiating blueprint plan reviewed by The Wall Street Journal in March.

"It is highly controversial, but I think it does make sense," said Fred Bergsten, founding director of the Peterson Institute for International Economics and co-author of a forthcoming book this year on currency manipulation.

“The link between exchange-rate movements is very clear and very substantial. It’s a lot more important than many of the other things that have been linked to trade policy,” he said.

While U.S. manufacturers have complained about currency manipulation, groups representing sprawling multinational businesses say they are more concerned about tariffs and commercial rules of the road than currency levels, which fluctuate up and down over time.

In the past two years, critics of U.S. trade policy have generated opposition to Washington’s trade agreements by saying China and other countries manipulate their currencies in ways that have a bigger effect on their export competitiveness than tariff levels set by trade deals.

Former President Barack Obama’s administration didn’t include enforceable currency rules in the Trans-Pacific Partnership, the 12-nation deal that Congress never ratified and President Donald Trump exited from in January. At the time, U.S. officials said that trading partners were opposed to the rules, and some worried such guidelines, even if carefully tailored, could tie the hands of U.S. monetary policy in the future.

Instead, the TPP countries agreed to nonbinding guidelines and transparency procedures outside the agreement.

The issue of currency rules wasn’t unexpected as a part of the new administration’s trade policy. Mr. Trump has frequently blamed China for manipulating its currency, although his Treasury Department declined to declare Beijing a currency manipulator this year. Economists say China has actually been intervening to support the value of the yuan of late, rather than pushing it weaker to gain a trade advantage.

Trade legislation passed by Congress in 2015 directs the administration to look at currency issues in trade pacts. “Unless they address currency, they’re not going to get trade agreements through the Congress,” Mr. Bergsten said.

Mr. Lighthizer is set to attend a gathering of Asian leaders in coming days in Vietnam. The Trump administration is seen as unlikely to revive the TPP but could pursue bilateral talks with individual countries in the bloc.

In Canada, a spokesman for Foreign Minister Chrystia Freeland said Canada is ready to negotiate new terms for Nafta once formal talks begin.

Neither the Canadian government nor the Bank of Canada targets a particular level for the currency, and intervention is considered only in “exceptional circumstances,” according to material on the Canadian central bank’s website. The last time the Bank of Canada intervened in foreign-exchange markets was in September 1998.

The Canadian dollar tends to move in line with the price of crude oil, given the importance of the commodity sector on economic growth.

Mexico also allows the peso to float freely. The Mexican currency has declined sharply when Mr. Trump has threatened to pull the U.S. out of Nafta.

“Currency manipulation is often in the eyes of the beholder and neither Mexico nor Canada has conducted extensive foreign-exchange market intervention to maintain an undervalued currency,” said Eswar Prasad, a Cornell University professor and former official at the International Monetary Fund. Mr. Prasad said adding the provision could help with leverage in negotiations but “would mainly help in some political chest-thumping about getting tough with U.S. trading partners.”

Led by the Detroit auto industry, U.S. manufacturers have complained that trading partners have pursued economic policies that weaken their currencies to make their exports unfairly competitive when shipped to the U.S., compared with American goods.

U.S. auto makers blamed Japan for taking steps that weakened the yen, but the currency rules most frequently discussed by trade officials wouldn’t prevent countries from socalled quantitative easing or similar domestically focused steps to boost demand.

If incorporated into Nafta, currency rules would become a precedent that could be used in future trade talks with Japan, Malaysia, South Korea or other Asian countries that have intervened in their currencies in the past. Japan and Malaysia were part of the TPP talks, and South Korea has a free-trade agreement with the U.S. that the Trump administration has signaled it wants to renegotiate.

The rules could also be used in economic negotiations with China.

—Paul Vieira in Ottawa contributed to this article

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