Treasury Department drops China's designation as a 'currency manipulator,' in further sign of thaw

Chinese President Xi Jinping and President Trump, joined by other officials, meet in Buenos Aires in December 2018. (Kevin Lamarque/Reuters)

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The Treasury Department on Monday dropped China from a list of nations it alleges manipulate currency values to gain an unfair trade advantage, greasing the wheels for the scheduled signing of a U.S.-China trade deal Wednesday.

In a semiannual report, department officials said no countries met the standards set by Congress for the “manipulator” label. But the political context for the decision was hard to miss.

“The Treasury Department has helped secure a significant Phase One agreement with China that will lead to greater economic growth and opportunity for American workers and businesses,” Treasury Secretary Steven Mnuchin said. “China has made enforceable commitments to refrain from competitive devaluation, while promoting transparency and accountability.”

The move reversed the department’s decision in August to add China to the list. It also came two days before President Trump is scheduled to sign a partial trade deal with China in a White House ceremony that is expected to disclose the details of Chinese promises on its currency and other trade matters.

Scott Kennedy, a specialist on the Chinese economy at the Center for Strategic and International Studies, said putting China on the list last year had been a “political step” designed to pressure Beijing in the middle of trade talks.

David Dollar, a senior fellow at the Brookings Institution and a former Beijing-based Treasury Department official, said that “China has not been manipulating its currency, so this is just recognizing reality.”

“The phase-one deal confirms this,” he said, “so it would have been inconsistent for the U.S. to sign the deal and continue to call China a manipulator.”

The administration shift was denounced by some lawmakers. “China is a currency manipulator — that is a fact,” said Senate Minority Leader Charles E. Schumer (D-N.Y.). “Unfortunately, President Trump would rather cave to President Xi [Jinping] than stay tough on China.”

The Treasury Department report criticized Beijing for turning away from economic liberalization to a more state-directed approach and "increasing reliance on non-market mechanisms."

China's growing use of government subsidies and coercive trade practices was "distorting" its relationships with key trading partners, the report added.

Trump has long accused China of depressing the yuan's value to make its products more affordable for foreign customers, thus contributing to the chronic trade imbalance with the United States.

One dollar now buys about 6.9 yuan, little changed from August and up about 2 percent over the past year.

Despite Trump's previous claims, the International Monetary Fund has said repeatedly that the yuan is fairly valued.

In recent years, Beijing has occasionally intervened in currency markets to support the yuan's value, not reduce it, said Eswar Prasad, the former head of the IMF's China unit.

Chinese authorities fear that an excessively weak currency would only encourage residents to try to evade official controls and send their money outside the country, further depressing the yuan.

As a presidential candidate, Trump promised to brand China as a manipulator in his first day in office. Instead, Mnuchin opted not to designate China in 2017 or 2018, since Beijing's behavior did not meet specific criteria detailed in a 2015 law.

In August, Mnuchin added China to the list in response to pressure from the president, even though many economists said the label was incorrect.

Mnuchin's decision came at a time when China was not intervening in currency markets as it had in the years after it joined the World Trade

Organization in 2001. China’s global trade surplus is roughly one-tenth its 2007 size.

With the United States and China calling a truce in their two-year-long trade conflict, the Treasury Department’s about-face this week was not a surprise. Labeling a country a “currency manipulator” is a mostly symbolic step that requires department officials to launch consultations with the offending nation.

The Treasury Department said it would monitor the currency practices of China and nine other U.S. trading partners: Germany, Ireland, Italy, Japan, South Korea, Malaysia, Singapore, Switzerland and Vietnam.

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