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Trump administration officially declines to label China currency manipulator

By Ana Swanson and Max Ehrenfreund April 14

The Trump administration has chosen not to brand China a currency manipulator in an official report, reversing one of the president's most prominent campaign promises on trade.

In a semiannual report on America's major trading partners published late Friday, the Treasury Department declined to label any country a currency manipulator, though it kept China, Japan, South Korea, Taiwan, Germany and Switzerland on a previously established "watch list" of countries that merit close attention for their currency practices.

During the campaign, Trump often claimed that China was manipulating the value of its currency to boost its exports, a policy that cost the United States manufacturing jobs. He promised to label the country a currency manipulator on Day One of his presidency.

But 83 days into his presidency, the president struck a different chord.

"They're not currency manipulators," Trump told The Wall Street Journal in an Apr. 12 interview, adding that China hasn't been manipulating its currency for months and that labeling China a manipulator could discourage the country from helping the United States with North Korea.

Economists agree that China doesn't currently merit the label of currency manipulator, and has not engaged in the practice for several years.

Eswar Prasad, a professor of international trade at Cornell University, said the administration's decision not to label China a currency manipulator was a good thing for the global economy.

"Using that label right now would have ratcheted up the tensions, would have accomplished little in terms of advancing U.S. economic and business interests, and could have hurt the bilateral relationship at a time when the relationship is even more important, not just for economics but for geopolitical issues," Prasad said.

The report is the latest sign of a dramatic shift in economic policy for Trump, who won the support of many voters by promising to get tough on the country's biggest trading partners, especially China and Mexico.

Trump signed a presidential memo on Jan. 23 to officially withdraw the United States from the Trans-Pacific Partnership, an Obama-era trade deal that Trump had heavily criticized. He signed two more executive orders in April directing government officials to investigate the practices of trading partners.

But other prominent promises made on the campaign trail have yet to materialize, including renegotiating the North American Free Trade Agreement and hammering out better terms of trade with China.

Some supporters say this is only natural. Congress has not yet confirmed one of the administration’s top negotiators, United States Trade Representative nominee Robert E. Lighthizer. But as the days pass, some supporters and critics of Trump's tough talk on trade are losing patience.

“China has years of experience manipulating its currency to gain a trade advantage. And no doubt Beijing will manipulate its currency in the future unless it is deterred in some way,” said Scott Paul, the president of the Alliance for American Manufacturing, which represents industry and steelworkers. “Failing to name China is a missed opportunity.”

“Unfortunately the President’s failure to name China a currency manipulator is symptomatic of a lack of real, tough action on trade against China,” Sen. Charles E. Schumer (D-N.Y.), the Democratic leader, said in a statement Friday.

“While they’re not manipulating their currency at the moment because it doesn’t suit their economic needs, make no mistake about it, as soon as the tide turns they will. When the President fails to label them a currency manipulator, he gives them a green light to steal our jobs and wealth time and time again,” Schumer said.

The value of a currency is determined by supply and demand, and currency manipulation occurs when a country buys or sell large amounts of its own currency on global markets to change the price.

But U.S. policy is really directed at countries that sell large volumes of their own currency to lower its price — a practice that makes a country’s exports relatively cheap on global markets, hurting American exporters. In previous years, when China artificially lowered the value of its currency, it helped the country export products to the United States, and U.S. industries and workers balked at what they saw as an unfair competitive edge.

“When our trading partners engage in currency manipulation, they impose significant, and often long-lasting hardship on American workers and businesses,” Treasury Secretary Steven Mnuchin said in a news release that accompanied the report.

The accompanying report used similar language to describe China's past interventions in exchange markets — a shift to a more forceful tone from prior reports issued under the Obama administration, but not one with immediate practical consequences.

“Expanding trade in a way that is freer and fairer for all Americans requires that other economies avoid unfair currency practices, and we will continue to monitor this carefully,” Mnuchin added.

China held down the value of its currency, called the renminbi, RMB or yuan, to help its exporters for nearly a decade. But recently, China's behavior changed. For the past several years, the country has actually been propping up the value of its currency, which helps American manufacturers.

The Treasury report acknowledged as much.

After “engaging in one-way, large-scale intervention to resist appreciation of the RMB for a decade, China’s recent intervention in foreign exchange markets has sought to prevent a rapid RMB *depreciation* that would have negative consequences for the United States, China, and the global economy,” the report read.

Trump's dramatic reversal on China's currency follows a cordial meeting between the president and Chinese leader Xi Jinping at Mar-a-Lago on Apr. 6 and 7.

Before the summit, Trump tweeted that the meeting would be a “very difficult one” due to China's large trade deficit and the American jobs it had cost.

But after the encounter, he characterized the meeting in another tweet as one of “goodwill and friendship.” The countries agreed to a 100-day plan for trade talks to boost U.S. exports to China, and China said it was willing to offer U.S. companies greater access to its markets for beef and financial services.

In the interview with The Wall Street Journal, Trump said he had offered the Chinese better trade terms in exchange for their help on addressing the nuclear threat from North Korea. “That’s worth having not as good a trade deal as I would normally be able to make,” he said.

A 2015 law requires the Treasury Department to review the currency practices of major trading partners using three criteria, including exporting more than it imports to the U.S., and persistently buying or selling its currency to change its value.

While the report stops short of labeling the country a currency manipulator, the Treasury Department report criticizes China for past currency manipulation and warns that the United States “will be scrutinizing China’s trade and currency practices very closely.”

“China will need to demonstrate that its lack of intervention to resist appreciation over the last three years represents a durable policy shift by letting the RMB rise with market forces once appreciation pressures resume,” the report says.

The report reiterated the Obama administration’s recommendations to other countries on the list for reforms. Germany, South Korea and Switzerland should increase public borrowing to support domestic demand for goods and services, the report suggested. The Treasury Department continued to call for reforms to the labor market that would improve Japanese workers' productivity, along with fiscal and monetary support for the Japanese economy.

It also called on Taiwan to be more transparent in its purchases of currency on global markets.

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