

The Administration's Designation of China as a Currency Manipulator

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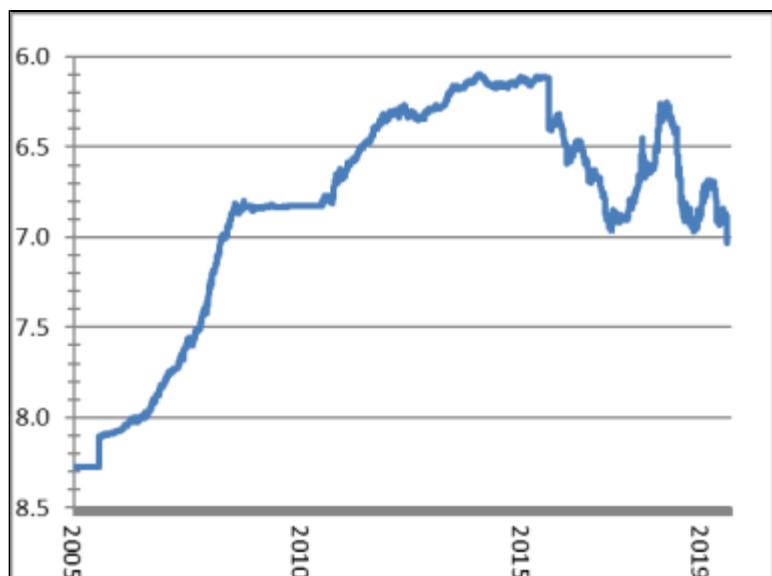
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On August 4, China's central bank allowed its currency, the yuan, to depreciate to an 11-year low, breaking the politically sensitive threshold of seven yuan to one U.S. dollar (**Figure 1**). A depreciation of the yuan against the U.S. dollar makes Chinese exports less expensive in global markets. [Some analysts speculate](#) the depreciation is designed to offset and retaliate against U.S. tariffs on Chinese imports, coming four days after President Trump announced his intent to impose an [additional 10% tariff on \\$300 billion of Chinese imports](#) on September 1. There are differing views on the causes of yuan's movements, however, as discussed below.

On August 5, [Treasury Secretary Mnuchin](#), under the [auspices of President Trump](#), determined that China is manipulating its currency. Although [some policymakers](#) have called for this designation for years and Donald Trump made it a [central issue](#) in his presidential campaign, the Treasury Department had not labeled a country as a currency manipulator in 25 years.

Figure 1. Chinese Yuan per U.S. Dollar



Source: International Monetary Fund

Notes: A decrease in the graph represents a depreciation of the Chinese yuan relative to the U.S. dollar.

Provisions in U.S. Law Addressing Currency Manipulation

The Treasury Secretary designated China as a currency manipulator under the provisions laid out in the Omnibus Trade and Competitiveness Act of 1988 (the 1988 Trade Act, [P.L. 100-418, 22 U.S.C. 5301-5306](#)). This law requires the Treasury Department to analyze on an annual basis the exchange rate policies of foreign countries, in consultation with the International Monetary Fund (IMF), and "consider whether countries manipulate the rate of exchange between their currency and the United States dollar for purposes of preventing effective balance of payments adjustments or gaining unfair competitive advantage in international trade."

If manipulation is occurring with respect to countries that have global currency account surpluses and significant bilateral trade surpluses with the United States, the Secretary of the Treasury is to initiate negotiations, in consultation with the IMF, to ensure adjustment in the exchange rate and eliminate the unfair trade advantage. The Treasury Secretary is not required to start negotiations in cases where they would have a serious detrimental impact on vital U.S. economic and security interests.

The Treasury Department had [previously designated China](#), as well as Taiwan and South Korea, as currency manipulators in the late 1980s and early 1990s.

The Treasury Secretary has not found China to be manipulating its currency under a second set of provisions in U.S. law, enacted more recently through the Trade Facilitation and Trade Enforcement Act of 2015 ([P.L. 114-125; 19 U.S.C. 4421-4422](#)). This act addressed some policymakers' concerns that successive Administrations had taken insufficient action to address currency manipulation under the 1988 Trade Act. According to the newer provisions, if a country meets three criteria—significant bilateral trade surplus with the United States, material currency account surplus, and engaged in persistent one-sided interventions in foreign exchange markets—the Treasury Secretary is required to engage bilaterally with the country and if the problem persists, take specified putative actions.

China does not meet the three specified criteria, according to the [May 2019 assessment by the Treasury Department](#). China has a large trade imbalance with the United States (goods trade surplus of \$419 billion in 2018), but a small current account surplus (0.4% of GDP in 2018) and only "modest" interventions in foreign exchange markets.

Common Questions about the Designation

- **Does China's current exchange rate policy constitute currency manipulation?** Concerns about currency manipulation typically focus on a country's efforts to drive down (depreciate) the value of its currency in order to boost exports. For several years in the 2000s, China did intervene actively in foreign markets to depress the value of its currency. More recently, China has intervened in foreign exchange markets to prop up the value of the yuan, in order to prevent capital flight from China and keep inflation in check. In [June](#), Treasury Secretary Mnuchin said that China was intervening in currency markets to prop up the yuan, and warned it could be designated a manipulator if it stopped. The Administration is concerned that China allowed its currency to depreciate in order to negate U.S. tariffs and gain an "unfair" trade advantage described in the 1988 Trade Act. However, [many analysts](#) have argued that China's decision to allow the yuan to depreciate and move closer to its market value is not clearly an effort to gain an "unfair" trade advantage. China also does not meet the three-prong criteria for currency manipulation specified in the Trade Facilitation and Trade Enforcement Act of 2015. Chinese officials [reportedly](#) argued that the downward movement of the yuan reflected market forces responding to the proposed U.S. tariffs.
- **What are the consequences of labeling China as a currency manipulator?** The specified consequences for currency manipulation are less severe under the 1988 Trade Act than under the Trade Facilitation and Trade Enforcement Act of 2015. The 1988 Trade Act requires negotiations with the country, in consultation with the

IMF. The 1988 Trade Act does not prescribe putative measures if initial negotiations fail to result in policy changes, as required by the Trade Facilitation and Trade Enforcement Act of 2015. According to [one analyst](#), there are "no practical consequences" to the designation; [others](#) have called it merely a "political exercise." The IMF is unlikely to criticize China on currency; in July 2019, the IMF [determined](#) that China's exchange rate is broadly in line with medium-term economic fundamentals and desirable policies.

- **How does the designation affect broader trade negotiations with China?** The United States and China have been locked in [trade negotiations](#) for more than a year. President Trump has already imposed an additional [25% tariff on \\$250 billion](#) of U.S. imports from China, and pledged additional tariffs. [Many analysts](#) have argued that the currency manipulation designation has complicated negotiations and reduced the likelihood of an agreement in the short-term, and in turn [have argued](#) that the escalation could begin having significant economic repercussions.
- **What is Congress's role?** Congress enacted the provisions in U.S. law defining currency manipulation and the resulting consequences. If Congress has concerns about which provisions are being used or how, Congress could revoke or amend the authorities granted to the Executive Branch pertaining to currency manipulation.