U.S.-China trade tensions could ease somewhat after the Treasury Department’s semiannual foreign exchange rate report declined to name China a currency manipulator. However, China remains one of six countries Treasury has targeted for close scrutiny of their currency practices.

The Trade Facilitation and Trade Enforcement Act established a process to determine whether a country may be pursuing foreign exchange policies that could give it an unfair competitive advantage against the U.S., engage countries that may be pursuing such policies, and impose penalties on those that fail to adopt appropriate policies. The TFTEA requires Treasury to undertake an enhanced analysis of exchange rates and externally-oriented policies for each major trading partner that has a significant bilateral trade surplus with the U.S. (which Treasury has set at greater than $20 billion) and a material current account surplus (i.e., at least three percent of the country’s gross domestic product) and has engaged in persistent one-sided intervention in the foreign exchange market (i.e., conducted repeated net purchases of foreign currency that amount to at least two percent of its GDP over the year).

Treasury has determined that for the most recent period Japan, Korea, Germany, and Switzerland each met two of these three criteria. China met only one but accounted for “a disproportionate share” of the overall U.S. trade deficit. Taiwan only met one as well, down from two in the prior report, but has yet to demonstrate “a durable, not one-off, and clear improvement” with respect to the criterion it did not meet this time. As a result, these six countries will remain on Treasury’s monitoring list but no enhanced analysis will be undertaken.

In addition, despite President Trump's pledge to name China a currency manipulator early in his administration, Treasury has determined that neither China nor any other major U.S. trading partner currently meets the standard of manipulating the rate of exchange between its currency and the U.S. dollar for purposes of preventing effective balance of payments adjustments or gaining unfair competitive advantage in international trade.
If such a determination were made, Treasury would be required to commence enhanced bilateral engagement with that country. If that country failed to adopt appropriate policies to correct its undervaluation and external surpluses within a year, the president would be required to take one or more of the following actions: (1) denying access to Overseas Private Investment Corporation financing, (2) excluding the country from U.S. government procurement, (3) calling for heightened surveillance by the International Monetary Fund, and (4) instructing the Office of the U.S. Trade Representative to take such failure into account in assessing whether to enter into a trade agreement or initiate or participate in trade agreement negotiations. The president may waive the remedial action requirement under specified circumstances.

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