U.S. says China is no longer a currency manipulator

By Alan Rappeport
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The Trump administration formally removed China's designation as a currency manipulator on Monday, offering a major concession to the Chinese government as senior officials arrived in Washington to sign a trade agreement with President Trump.

The Treasury Department released its long-delayed currency report on Monday afternoon, providing its first public analysis of China's currency practices since it designated China a manipulator in August at the direction of Mr. Trump. The report noted that China — which Mr. Trump had accused of weakening its currency, the renminbi, to make its goods cheaper to sell overseas — had made important commitments regarding the renminbi as part of the new trade agreement and that its value had appreciated since September.

"China has made enforceable commitments to refrain from competitive devaluation, while promoting transparency and accountability," Treasury Secretary Steven Mnuchin said in a statement.

As part of the trade deal that Mr. Trump plans to sign at the White House on Wednesday, China and the United States have agreed to avoid devaluing their currencies to achieve a competitive advantage for their exports. The Office of the United States Trade Representative said last month that the agreement would include a currency chapter that detailed "high-standard commitments to refrain from competitive devaluations" and targeting of exchange rates. The trade pact is expected to include an enforcement mechanism, which the office said would ensure that China could not use its currency practices to compete unfairly against American exporters.

Mr. Trump has long been critical of China's currency practices, arguing that Beijing weakens the renminbi to make Chinese exports cheaper in the United States. Mr. Trump accused China of doing just that in August, when Beijing allowed its currency to weaken, saying it was an attempt to blunt the effect of tariffs he had imposed on Chinese imports.

It is a rare point of bipartisan agreement that China deserves to be labeled a currency manipulator, bringing together Democrats like Senator Chuck Schumer of New York, the minority leader, and Republicans like Senator Rick Scott of Florida.

The decision to remove the label angered those and other lawmakers, who have argued that the president has undermined the credibility of the foreign exchange report by throwing the manipulation label around loosely.

"Just because we're negotiating a trade deal doesn't mean we should ignore Communist China's bad acts," Mr. Scott said on Twitter. "They are a currency manipulator. Period."

Mr. Schumer, who has criticized China's currency practices for years, accused Mr. Trump of caving to China in an attempt to score a political win.

"China is a currency manipulator — that is a fact," Mr. Schumer said. "Unfortunately, President Trump would rather cave to President Xi than stay tough on China. When it comes to the president's stance on China, Americans are getting a lot of show and very little results."

The currency report released on Monday said China had agreed to "publish relevant information related to exchange rates and external balances." China will remain on the Treasury Department's list of countries whose currency practices warrant close attention.

The United States had last labeled China a currency manipulator in 1994. The designation, while seen as a type of public shaming, is largely symbolic. The label is supposed to prompt discussions between the United States, the International Monetary Fund and the Chinese government on how China can make its currency more fairly valued. The International Monetary Fund said in a report last year that China's currency was fairly valued.

While most economists agreed that China had been distorting the value of its currency more than a decade ago, in recent years it has been allowing market forces to play a role in letting the renminbi fluctuate within a set range. For much of last year, Chinese officials had actually been propping up the renminbi amid a weakening economy to prevent its value from falling too quickly.

"China's foreign exchange reserves, a key indicator of the degree of foreign exchange market intervention, has been quite stable over the last year," said Eswar Prasad, former head of the International Monetary Fund's China division. "While China still has a sizable trade surplus with the U.S., its overall current position is near balance, further undercutting the characterization of China as a currency manipulator."

Treasury's currency report noted that the renminbi was trading as high as 7.18 per dollar in early September and was recently trading at 6.93 per dollar.

Mr. Trump had promised as a presidential candidate to slap the manipulator label on China. Yet Mr. Mnuchin opted not to do so in the first five reports that his department issued. The department said China did not meet the department's criteria for currency manipulation.

As trade negotiations with China dragged on last summer, Mr. Trump grew increasingly frustrated and seized upon China's weakening currency as another source of leverage. Despite his own resistance, Mr. Mnuchin used his discretion as Treasury secretary to impose the label at the urging of Mr. Trump.

"They did it for political reasons," Chad P. Bown, an international trade expert at the Peterson Institute for International Economics in Washington. "Clearly there was no legal basis or really an economic basis to do so."

Mr. Bown said that removing the label made sense now that the first phase of the trade deal is complete and that China probably was unhappy with the image of being deemed a manipulator.

Senior Chinese officials arrived in Washington on Monday to put the finishing touches on the trade agreement. In addition to the currency provision, the deal is expected to include a commitment by China to purchase more farm products and to open more of its markets, like financial services, to foreign firms. The Chinese are also expected to agree to protect American intellectual property. In exchange, the Trump administration has reduced some tariffs on $360 billion worth of Chinese goods.

Still, while the administration offered China an olive branch on its currency, it pressed ahead on Monday with new plans to scrutinize foreign investment that were devised with China in mind. The Treasury Department issued regulations to implement the Foreign Investment Risk Review Modernization Act of 2018, including exemptions for Australia, Canada and the United Kingdom from some of the more onerous requirements of the new law.

Mr. Trump's currency ire has not been aimed solely at China. In December, the president said on Twitter that Brazil and Argentina were currency manipulators and that he would impose tariffs on their steel and aluminum imports.

Mr. Trump has since backed down from his threat to impose tariffs on Brazil and has yet to follow through with new tariffs on Argentina. Neither country was tagged as a manipulator or placed on Treasury's monitoring list on Monday.