To Date, a Critical Tool to Address Currency Manipulation and Stem Record-Setting Trade Deficits Has Been Underutilized

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Will the U.S. Treasury Department's "Report on Foreign Exchange Policies of Trading Partners" Again Fall Short of Its Mandate?

Introduction

Within the next few days, the U.S. Treasury Department is expected to produce its latest semi-annual "Report to Congress on the Foreign Exchange Policies of Major Trading Partners of the United States." As with the first three reports under the Trump administration, it is unlikely that the latest report will list any country as having distorted currency values to gain trade advantages. This does not entirely reflect a sudden change in practice by countries with a history of managing exchange rates to gain trade advantages, particularly as international capital outflows from emerging markets have made it possible for some trading partners to avoid intervention in foreign exchange markets recently. **Rather, the complete lack of action by the U.S. Treasury Department reflects the criteria under which the U.S. government assesses countries' practices.**

Treasury is not taking full advantage of the tools available to it to put countries on notice for damaging currency practices. Inexplicably, given Donald Trump's focus on currency misalignment, his Treasury Secretary Steven Mnuchin has chosen to rely on the methodologies and criteria developed by the previous administration. These terms reflect the previous Treasury Secretary's choice to minimize scrutiny relative to the discretion Congress provided in a 2015 law ostensibly aimed at better combatting trade partners' currency practices that distort trade. The Trump Treasury Department has failed to set the criteria for assessment appropriately, instead relying on the methodologies and regulations it inherited from the previous administration; has not demanded transparency from trading partners to obtain necessary data; and has not highlighted countries' policy stances on currency issues. With respect to the last point, by choosing to only focus on actual currency interventions in a set period before a report, Treasury's current methodology ignores the distorting effect of large foreign currency reserves that countries, such as China, have accumulated by past interventions guided by its policy stance. As economist Dean Baker argues, the stock of reserves (a result of past interventions), not just flows (or changes in reserves), matters in determining exchange rates.[1]

The first three statutorily-required currency reports prepared by the Trump administration relied on the previous administration's methodologies and regulations even as these criteria had been criticized as letting countries off the hook. For instance, two leading analysts of the effects of macroeconomic trends on trade patterns who have closely studied Treasury's

semi-annual currency reporting for years at the Peterson Institute for International Economics and the Council on Foreign Relations have both recommended changes. The administration's failure to use the authority available under the relevant statutes – the Omnibus Trade and Competitiveness Act of 1988 (Pub. L. No. 100–418, 102 Stat. 1373 (codified at 22 U.S.C. 5304 (1988)) and the Trade Facilitation and Trade Enforcement Act of 2015 (Pub. L. No. 114-225, 130 Stat. 196 (codified at 19 U.S.C. section 4421 (2016)) – to tighten the criteria contradicts Trump's campaign pledges and purported policy goals.

One of Trump's most frequently repeated campaign promises was to declare China a currency manipulator on Day One. Trump's "Contract with the American Voter" pledged: "I will direct the Secretary of the Treasury to label China a currency manipulator." While Trump repeatedly reiterated that pledge once inaugurated, Treasury Secretary Mnuchin declared that determinations about countries' currency practices would be undertaken based on biannual reviews and reporting requirements. Trump acquiesced, elevating the importance of the annual Report to Congress on the Foreign Exchange Policies of Major Trading Partners.

Sustained current account imbalances in which the United States endures persistent deficits and others enjoy persistent surpluses are evidence of misaligned currencies. An overvalued dollar means U.S. exports cost more abroad, while weak currencies of trading partners mean their exports are effectively subsidized here, creating trade imbalances. Countries have actively intervened to depress the value of their currencies by building up foreign exchange reserves. A decade after it was generally agreed that this phenomenon was partially to blame for the 2008-09 financial crisis,[3] these imbalances in the global economy are still apparent. As the October 2017 currency report from Treasury stated, "current account surpluses in major trading partners have not only been large but unusually persistent over the last decade."[4] According to the 2017

Box 1:
Criteria in Laws Pertaining to Treasury's Report on Foreign Exchange Policies of Major Trading Partners

In publishing the semi-annual Report to Congress on Foreign Exchange Policies of Major Trading Partners, Treasury responds to two statutes: the Trade Facilitation and Trade Enforcement Act of 2015 (Pub. L. No. 114-225, 130 Stat. 196 (codified at 19 U.S.C. section 4421 (2016)) and the Exchange Rates and International Economic Policy Coordination Act of 1988, part of the Omnibus Trade and Competitiveness Act of 1988 (Pub. L. No. 100–418, 102 Stat. 1373 (codified at 22 U.S.C. 5304 (1988)). Section 3004(b) of the 1988 Omnibus had specified that countries are to be evaluated on whether they (I) have a significant bilateral trade surplus with the United States; (II) have a material current account surplus; and (III) "manipulate the rate of exchange between their currency and the U.S. dollar for the purposes of preventing effective balance of payments adjustments or gaining an unfair competitive advantage in international trade." The 1988 law also mandates that Treasury "analyze on an annual basis the exchange rate policies of foreign countries, in consultation with the International Monetary Fund." Section 701 (a)(2)(A)(ii) of the 2015 statute changed the third criterion to measure whether countries are engaged in "persistent one-sided intervention" in the foreign exchange market. The law then added a new procedure requiring one year of "enhanced analysis"[2] and "enhanced bilateral engagement" if the three criteria are met. Previously, if a country met all three of the 1988 criteria, it was *immediately* considered a "currency manipulator."

International Monetary Fund (IMF) External Sector Report, the persistence of large current account surpluses – and trade surpluses that are a key component of that – has been a historically unusual feature of the global economy over the last 15 years. Of 15 advanced economies that had external current account surpluses in 2002, 12 still had them in 2008, and 11 still had them in 2016.[5]

There is bipartisan agreement about the need to address currency manipulation[6] and the importance of currency "misalignment" in record-setting trade deficits.[7] But since citing China for the last time in July 1994 under President Bill Clinton, the United States has not declared any country a currency manipulator.[8] When it was used, the currency manipulator label has had a direct impact on the foreign exchange practices of trading partners.[9] For example, according to the U.S. Government Accountability Office, Taiwan, Korea and China all made "substantial reforms to their foreign exchange regimes" as a result of negotiations pursued by Treasury after the agency labeled these countries currency manipulators. Taiwan brought its current account surplus down from 19 to 9 percent of gross national product (GNP) after it was first named as a currency manipulator in October 1988, and then to 4 percent after it was cited a second time in May 1992. Korea's current account surplus declined from 8 percent to 3 percent of GNP after Korea was cited in October 1988. China's current account decreased from 3 percent to a small surplus by 1994 after being named a currency manipulator in May 1992.

Weaknesses in Currency Reporting Regime Not Fixed by New Administration

Since 1988, Congress has mandated that the U.S. Treasury Department "analyze…the exchange rate policies of foreign countries" and initiate negotiations with them if it finds that countries "manipulate the rate of exchange between their currency and the United States dollar."[10] But after taking action on a few instances of currency manipulation in the early 1990s, nothing was done in the 2000s despite record manipulation.[11] In response to concerns about Treasury's inaction on labeling countries currency manipulators,[12] the Trade Facilitation and Trade Enforcement Act of 2015, enacted in February 2016, prompted Treasury to develop a new format for currency reporting starting in April 2016. The new statute prescribed three criteria listed in Box 1 above. **However, Congress provided Treasury significant discretion to develop methodologies to evaluate a country on these measures** (Box 2). In total, five reports have been produced in the new format.

The Treasury report pertains not only to countries with which we have a free trade agreement (FTA) such as Korea, Canada and Mexico, but also to China, India and fast-growing Southeast Asian economies. No enacted U.S. FTA has covered exchange rates, and the closest the United States has come to doing so is in a provision in the core text of the recently re-negotiated North American Free Trade Agreement (NAFTA), but with enforceable obligations only on the issue of transparency. Ostensibly, currency terms are to be included in a renegotiated Korea agreement, but that remains to be seen. However, the

statutory authority under which Treasury writes its semi-annual report prescribes several options for remedial actions. While none is especially strong (for example, one option after a year of "enhanced analysis" is for Treasury to encourage the IMF to conduct additional surveillance), Treasury is nevertheless required to take action against countries that have not met the specified criteria and have failed to take corrective measures.[13]

Box 2:
Interpretation of 2015 Statute by Treasury

Initial Screener and Criteria Mandated by 2015 Statute	Threshold Assigned by the U.S. Treasury
Screener: "major trading partner"	The top 12 largest trading partners based on the prior calendar year. Euro area countries are assessed individually.
Criterion I: "significant bilateral trade surplus with the United States"	Surplus larger than $20 billion over the previous 12 months ending in middle or end of calendar year
Criterion II: "material current account surplus"	Current account surplus larger than 3 percent of GDP
Criterion III: "persistent one-sided intervention"	Net purchases of foreign currency, conducted repeatedly, totaling in excess of 2 percent of GDP over 12 months, ending either June or December. "Persistence" is defined as having "purchased foreign exchange on net for 8 of the 12 months", although "other patterns of intervention may also meet the persistence threshold."

Source: U.S. Department of Treasury, "Report to Congress on Foreign Exchange Policies of Major Trading Partners," Apr. 29, 2016.

However, in practice, the current administration has carried forward a format for the currency report established by the Obama administration that seems to avoid putting countries on notice. First, many countries that should be analyzed are screened out (and therefore not included in the analysis) and cutoffs are arbitrary for two of the criteria, allowing countries that are analyzed to escape scrutiny. Second, Treasury makes decisions using incomplete data about foreign exchange interventions and does not systematically report on efforts to improve transparency from trading partners. Finally, it neglects the broader policy stance of trading partners by covering only current practices, which inevitably obscures the reality that countries such as China may not be intervening in any specific six-month period but nonetheless have enormous foreign currency reserves that have a distorting effect.

Arbitrary Cutoffs Allow Countries to Avoid Being Put On Notice

Within the bounds of the 2015 statute, there are a number of things that the Treasury could do to tighten the criteria. While these modifications would not necessarily have changed the decision on whether China has manipulated its currency over the past two years, they would have put other countries on notice. Changes to the criteria may be critical to pursuing "enhanced analysis" and "enhanced bilateral engagement" with trading partners, including China in the future.

Trade Partners Covered

The Obama Treasury Department established a cutoff for what is considered a "major trading partner" as the top 12 partners in terms of total trade turnover. Treasury's rationale was that the "amount of trade falls off sharply" after the top 12.[14] But it is a judgement call as to whether that is the case (see Table 1).[15] More importantly, expanding the list would capture more potential and future currency manipulators, such as Hong Kong, Malaysia, Thailand and Vietnam. Previous research from the Peterson Institute showed cumulative manipulation in some years of these four countries to be as great as that of China even at the peak of China's manipulation.[16] Thailand added the most of any country in percentage terms to its stockpile of foreign reserves in 2017.[17] Southeast Asian countries are the very countries trying to attract investment in global supply chains away from China, and they would be prime candidates to engage in currency manipulation to depress the value of their currencies to support the export sector. Peterson Institute economists Fred Bergsten and Joe Gagnon suggest widening the list to 25 countries[18] (or reducing the threshold effectively from $55 billion in annual trade with the United States to $30 billion). The countries within the top 25 but outside the top 12 – if taken together – would rank as our second-largest trading partner at $597 million in total trade with the United States, behind only China. Former Treasury official Brad Setser has argued for expanding the list to at least 20 countries.[19]

Table 1: Covering Only Top 12 Trade Partners Excludes Vietnam, Thailand and Others

Country	2017 Trade Value (Imports + Exports in $000s)
1. China	635,966,595
2. Canada	582,446,911
3. Mexico	557,033,858
4. Japan	204,239,482
5. Germany	171,237,511
6. Korea	119,440,710
7. United Kingdom	109,403,657
8. France	82,469,432
9. India	74,331,748
10. Italy	68,286,326
11. Taiwan	68,246,032
12. Brazil	66,504,232
13. Netherlands	59,973,764
14. Ireland	59,580,394
15. Switzerland	57,696,441
16. Vietnam	54,646,984
17. Malaysia	50,235,111
18. Singapore	49,149,928
19. Hong Kong	47,578,397
20. Belgium	45,005,309
21. Thailand	42,026,881
22. Saudi Arabia	35,126,949
23. Australia	34,652,685
24. Israel	34,490,378
25. Indonesia	27,076,888

Source: U.S. International Trade Commission DataWeb

Bilateral Trade Balance

Treasury established a cutoff for the bilateral trade balance criterion of $20 billion under which a country is not considered to have a large trade surplus with the United States. According to Treasury, "this threshold would generally include the group of economies representing about 80 percent of the value of all trade surpluses with the United States, and corresponds closely to the top decile of trade surplus countries. It also captures all economies with a trade surplus with the United States that is larger than 0.1 percent of U.S. GDP."[20]

However, these are arbitrary figures; Treasury does not cite any academic or policy studies that provide a basis for this cutoff. If this threshold were slightly lower than $20 billion, then Taiwan would have qualified for "enhanced bilateral engagement" in April 2016 and October 2016 (see Annex Tables 1 and 2), with trade surpluses of $14.9 billion and $13.6 billion with the United States. Switzerland would have qualified for this stage in October 2016, April 2017, October 2017 and April 2018 (see Annex Tables 2, 3, 4 and 5) if the threshold came down to $10 billion, just as legitimate – and still very sizable – in economic terms.[21] Changing the threshold would allow only six more countries to make the cut on this criterion (see Table 2).

Size of Intervention Allowed

Some countries have recently avoided foreign exchange interventions because international capital outflows from emerging markets made intervention unnecessary.[22] **Allowing foreign exchange interventions up to 2 percent of GDP is a threshold that Bergsten and Gagnon call "too generous,"[23] especially for large countries like China and Japan with a huge reserve stock.** With a GDP over $11 trillion and reserve stock over $3 trillion, China can intervene in currency markets to the tune of $220 billion within a twelve-month period.[24] Moreover, since a currency's value is determined by supply and demand in the foreign exchange market, these large countries may not need to intervene very much to have an impact on the markets. Baker argues that the stock of reserves (a result of past interventions), not just flows (or changes in reserves) matters in determining exchange rates.[25] He contends that a country can depress the value of its currency without intervening at a particular moment by holding an "excessive" amount of foreign exchange. Although Treasury cannot change the criterion without congressional action to change the 2015 law to measure stocks of reserves, it can tinker with the threshold of net intervention. Neither China nor Japan has made net interventions above zero since the beginning of 2016, but they could certainly begin to do so as macroeconomic conditions change.

Table 2: Taiwan Escapes Scrutiny with Bilateral Trade Surplus Just Below Threshold of $20 Billion

Country	2017 Trade Surplus with the United States ($000s)
1. China	375,227,535
2. Mexico	71,056,532
3. Japan	68,847,698
4. Germany	64,251,995
5. Vietnam	38,319,954
6. Ireland	38,107,267
7. Italy	31,640,082
8. Malaysia	24,582,777
9. India	22,930,825
10. Korea	22,887,426
11. Thailand	20,352,652
12. Canada	17,503,549
13. Taiwan	16,737,330
14. France	15,306,111
15. Switzerland	14,307,537
16. Indonesia	13,340,832
17. Russia	10,016,202

Source: U.S. International Trade Commission DataWeb

Transparency of Trade Partners' Practices Does Not Seem to Be Improving

In reporting on foreign exchange policies and practices, Treasury has little recourse except to use the official statistics produced by the government ministries of trading partners. Although international conventions and

forums exist to further harmonize statistical reporting,[26] in many cases, the data published are inadequate or the underlying methodology can change according to the priorities of that government.

For example, the inability to account for acquisitions of foreign assets by Chinese residents disguised as travel services to avoid China's capital controls starting in 2016 played a role in the decline of China's current account surplus.[27] Research cited by Treasury in October 2017 suggests that this practice of disguising foreign asset purchases lowered the current account balance by 1 percent of GDP in 2015 and 2016.[28] In April 2016, China exceeded the 3 percent threshold, and its current account surplus subsequently decreased to 2.4 percent of GDP and further to 1.8 percent in April 2017, and then to 1.3 percent by October 2017 before rising again to 1.4 percent in April 2018. If the current account balance were properly measured, China would have exceeded the 3 percent threshold for one additional reporting period (October 2016).[29]

Treasury has noted in multiple reports that the statistics on foreign exchange intervention are not available for many key trading partners. Treasury uses publicly available data on foreign asset purchases by the central bank. Alarmingly, three out of six countries on Treasury's Monitoring List of countries (countries that meet two of three criteria) do not report information on foreign exchange intervention adequately (see Table 3). Other countries like India – a country that is among the top 12 trading partners – do publish these interventions.[30] When Treasury does not have data on a country's foreign exchange intervention, it estimates them based on "valuation-adjusted foreign exchange reserves."[31] In other words, it subtracts from the change in total reserves the appreciation or depreciation of existing assets by making assumptions about the composition of the portfolio. Treasury qualifies its own estimates significantly: "To the extent the assumptions made are not reflective of the true composition of reserves, estimates may overstate or understate intervention."[32]

Table 3:
Three of Six Countries on the April 2018 "Monitoring List" Do Not Provide Adequate Information on Foreign Exchange Interventions

	Availability of Data on Reserves	Availability of Data on Interventions
1. China	Yes	No
2. Japan	Yes	Yes
3. Korea	Yes	No
4. Germany (European Central Bank)	Yes	Yes
5. Switzerland	Yes	No
6. India	Yes	Yes
Memo: Taiwan	No	No

Source: U.S. Department of Treasury

Instead of putting countries further on notice for continuing to provide inadequate information, the Treasury under Secretary Mnuchin's leadership has moved in the opposite direction toward obscuring what is missing. The report no longer distinguishes estimates from exact figures in its main summary table (see Annex Tables 1 and 2). A plea for more transparency ("Treasury strongly encourages those economies in this Report that do not currently release data on foreign exchange intervention to do so.") was moved from the body of the report in October 2016 to a footnote in April 2017.[33] Treasury should

report on the specific steps it is taking to *achieve* greater transparency, not try to hide the lack of progress.

Important Information on Long-Term Policy Stance Is Minimized

A final reason that Treasury is not adequately reporting on foreign exchange policies and practices is that it does not discuss key pieces of underlying information useful to understanding a country's actions in foreign exchange markets. To apply the criteria evenly, Treasury is required to approach reporting on foreign exchange practices in a somewhat mechanical fashion. But a fundamental piece of information gets lost: whether countries have an official or unofficial exchange rate management policy. China has an established policy of managing its exchange rate,[34] and Korea has an "undeclared target zone" according to Setser.[35] Neither is mentioned in the April 2018 report.

Treasury currently urges trading partners to adopt a durable policy stance in its domestic economic policy priorities and foreign currency market interventions that support a global re-balancing[36] without systematically evaluating them on that policy stance. The 1988 standard requires some review of the policy stance as it measures *intent* to manipulate in the third criterion. Treasury acknowledges that it does not do a full analysis of the indicators that would be needed to issue a finding under the 1988 statute.[37] Nonetheless, Treasury proceeds to determine whether countries meet the 1988 standard.[38] If Treasury is responding to the 1988 law, then it is minimally required to "analyze on an annual basis the exchange rate policies of foreign countries." Treasury should discuss these policies in the report. Overall, how Treasury fulfills its obligations under the 1988 statute needs to be clarified.

A Statutorily-Required Expert Committee Was Never Convened

Section 702 of the Trade Facilitation and Trade Enforcement Act created the Advisory Committee on International Exchange Rate Policy.[39] The last administration, in its October 2016 report, appeared to welcome external advice from this committee, saying that the committee could "provide advice to the Secretary of the Treasury with respect to the impact of international exchange rates and financial policies on the economy of the United States."[40] However, it apparently left appointing members to next administration. The statute gave the responsibility for appointing three of nine members to the President and the remaining six to Congress. Responsibility for selecting three members fell specifically to the President Pro Tempore (Senator Orrin Hatch, R-Utah) in consultation with the Senate Banking and Finance Committees, and three additional members were to be selected by the Speaker of the House (Rep. Paul Ryan, R-Wis.) in consultation with the House Financial Services and Ways and Means Committees. None of the nine members was ever named, and therefore not a single meeting was held. By law, the committee is now terminated.[41] This sends the wrong signal about the seriousness of the administration's approach to dealing with currency manipulation.

Conclusion

Given its history and prominence, the semi-annual Treasury report will continue to represent the official view of the U.S. government on currency manipulation. A number of proposals have been put forth to deal with currency manipulation outside of this reporting regime, including allowing the United States to directly intervene in currency markets in response to intervention by trading partners.[42] The Senate version of the 2015 customs bill framed currency manipulation as a subsidy subject to countervailing duties and enforceable by the Commerce Department through duties on imports, but that version of the law was not ultimately passed by Congress.[43] Others have suggested negotiating a new Plaza Accord similar to the agreement signed in 1985 in which "surplus countries" agreed – under the threat of broad tariffs – to promote realignment of currencies. This agreement achieved a 30 percent decline in the dollar.[44] Until support for more stringent measures can be mustered, the Trump administration must take full advantage of the influence it has over foreign exchange practices of trading partners through the semi-annual reporting process using the statutory authority it does have.

ANNEX

U.S. Treasury "Reports to Congress on Foreign Exchange Policies of Major Trading Partners" – All Summary Tables Using The Post-2015 Criteria

Table 1: April 2016

	Bilateral goods trade balance (2015, Bil. $) (1)	Current Account		Intervention	
		Percent of GDP (2015) (2)	*Memo*: 3 year change percent of GDP (2a)	Net FX purchases, percent of GDP (3)	Persistent net purchases of foreign currency[1] (3a)
China	365.7	3.1%	0.5%	-3.9%*	N
Germany	74.2	8.5%	1.5%	-	N
Japan	68.6	3.3%	2.3%	0.0%	N
Mexico	58.4	-2.8%	-1.4%	-1.8%	N
Korea	28.3	7.7%	3.5%	0.2%*	N
Italy	27.8	2.2%	2.6%	-	N
India	23.2	-1.1%	3.8%	1.8%	N
France	17.6	-0.2%	1.0%	-	N
Canada	14.9	-3.3%	0.3%	0.0%	N
Taiwan	14.9	14.6%	5.0%	2.4%*	Y
UK	1.5	-5.2%	-1.9%	0.0%	N
Brazil	(4.3)	-3.3%	-0.3%	0.1%	N
Memo: Euro Area	130.2	3.2%	1.9%	0.0%	N

* Treasury Estimates

Table 2: October 2016

	Bilateral Goods Deficit (USD Bil., Trailing 4Q) (1)	Current Account			FX Intervention		
		Balance (% of GDP, Trailing 4Q) (2a)	3 Year Change in Balance (% of GDP) (2b)	Balance (USD, Billion; Trailing 4Q) (2c)	Net FX Purchases (% of GDP) (3a)	Net FX Purchases ($ Bil.) (3b)	Persistent Net FX Purchases? (3c)
China	356.1	2.4	0.0	260.9	-5.1%	-566	No
Germany	71.1	9.1	2.3	312.3	-	-	No
Japan	67.6	3.7	2.6	158.3	0.0%	0	No
Mexico	62.6	-2.9	-0.8	-31.7	-2.2%	-24	No
Korea	30.2	7.9	2.0	107.1	-1.8%	-24	No
Italy	28.3	2.3	1.9	42.5	-	-	No
India	24.0	-0.8	4.2	-16.0	0.3%	5	No
France	18.0	-0.5	0.4	-12.8	-	-	No
Taiwan	13.6	14.8	5.2	75.8	2.5%	13	Yes
Switzerland	12.9	10.0	-1.6	66.2	9.1%	60	Yes
Canada	11.2	-3.4	0.1	-51.1	0.0%	0	No
United Kingdom	-0.3	-5.7	-2.0	-161.2	0.0%	0	No
***Memo*: Euro Area**	130.5	3.2	1.3	380.4	0.0%	0	No

Sources: Haver Analytics; National Authorities; U.S. Bureau of Economic Analysis; and U.S. Department of the Treasury Staff Estimates

Table 3: April 2017

	Bilateral Goods Deficit (USD Bil., Trailing 4Q) (1)	Current Account			Foreign Exchange Intervention		
		Balance (% of GDP, Trailing 4Q) (2a)	3 Year Change in Balance (% of GDP) (2b)	Balance (USD Bil., Trailing 4Q) (2c)	Net FX Purchases (% of GDP) (3a)	Net FX Purchases (USD Bil.) (3b)	Net FX Purchases 8 of 12 Mos.?† (3c)
China	347.0	1.8	0.2	196	-3.9	-435	No
Japan	68.9	3.8	2.9	186	0.0	0	No
Germany	64.9	8.3	1.5	286	-	-	No
Mexico	63.2	-2.7	-0.2	-28	-0.5	-6	No
Italy	28.5	2.8	1.8	51	-	-	No
Korea	27.7	7.0	0.8	99	-0.5	-7	No
India	24.3	-0.5	2.1	-11	0.4	10	No
France	15.8	-1.2	-0.3	-30	-	-	No
Switzerland	13.7	10.7	-0.8	71	10.0	66	Yes
Taiwan	13.3	13.4	3.4	71	1.8	10	Yes
Canada	11.2	-3.3	-0.1	-51	0.0	0	No
United Kingdom	-1.1	-5.1	-1.1	-138	0.0	0	No
Memo : Euro Area	125.7	3.4	1.2	403	0.0	0	No

Sources: Haver Analytics; National Authorities; U.S. Census Bureau; and U.S. Department of the Treasury Staff Estimates

†In assessing the persistence of intervention, Treasury will consider an economy that is judged to have purchased foreign exchange on net for 8 of the 12 months to have met the threshold.

Table 4: October 2017

	Bilateral Goods Surplus with United States (USD Bil., Trailing 4Q) (1)	Current Account			Net Foreign Exchange Intervention			
		Balance (% of GDP, Trailing 4Q) (2a)	3 Year Change in Balance (% of GDP) (2b)	Balance (USD Bil., Trailing 4Q) (2c)	Purchases (% of GDP, Trailing 4Q) (3a)	Purchases (USD Bil., Trailing 4Q) (3b)	Purchases (USD Bil., Trailing 2Q) (3c)	Purchases 8 of 12 Months† (3d)
China	357	1.3	-0.1	155	-2.7	-311	-62	No
Japan	69	3.7	3.5	185	0.0	0	0	No
Mexico	69	-1.7	0.7	-18	-0.2	-2	-2	No
Germany	63	7.7	0.7	268	-	-	-	-
Italy	29	2.8	1.4	51	-	-	-	-
India	23	-1.3	-0.3	-30	1.8	42	30	Yes
Korea	22	5.7	-0.3	84	0.3	5	9	Yes
Canada	19	-2.9	-0.2	-45	0.0	0	0	No
France	14	-1.0	0.3	-26	-	-	-	-
Taiwan	14	12.7	1.5	70	0.9	5	3	Yes
Switzerland	13	10.3	1.3	69	8.7	58	30	Yes
United Kingdom	-1	-5.1	0.4	-129	0.0	0	0	No
Brazil	-5	-0.7	2.9	-13	2.3	46	5	Yes
Memo : Euro Area	126	3.0	0.8	357	0.0	0	0	No

Sources: Haver, National authorities, U.S. Census Bureau, and U.S. Department of the Treasury staff estimates

†In assessing the persistence of intervention, Treasury will consider an economy that is judged to have purchased foreign exchange on net for 8 of the 12 months to have met the threshold.

Table 5: April 2018

	Bilateral Trade	Current Account			Foreign Exchange Intervention			
	Goods Surplus with United States (USD Bil., Trailing 4Q) (1)	Balance (% of GDP, Trailing 4Q) (2a)	3 Year Change in Balance (% of GDP) (2b)	Balance (USD Bil., Trailing 4Q) (2c)	Net Purchases (% of GDP, Trailing 4Q) (3a)	Net Purchases (USD Bil., Trailing 4Q) (3b)	Net Purchases (USD Bil., Trailing 2Q) (3c)	Net Purchases 8 of 12 Months† (3d)
China	375	1.4	-0.9	168	-0.6	-68	-6	No
Mexico	71	-1.6	0.2	-18	-0.2	-2	0	No
Japan	69	4.0	3.3	197	0.0	0	0	No
Germany	64	8.1	0.6	299	..	..	..	..
Italy	32	2.8	0.9	54	..	..	..	..
India	23	-1.5	-0.2	-39	2.2	56	27	Yes
Korea	23	5.1	-0.9	78	0.6	9	6	Yes
Canada	18	-3.0	-0.6	-49	0.0	0	0	No
Taiwan	17	14.6	3.1	84	1.3	7	5	Yes
France	15	-0.6	0.4	-15	..	..	..	..
Switzerland	14	9.8	1.4	67	6.6	45	9	Yes
United Kingdom	-3	-4.1	1.3	-107	0.0	0	0	No
Brazil	-8	-0.5	3.8	-9	0.1	2	-3	No
Memo : Euro Area	133	3.5	1.0	440	0.0	0	0	No

Sources: U.S. Census Bureau; Haver Analytics; National Authorities; U.S. Department of the Treasury Staff Estimates

†In assessing the persistence of intervention, Treasury will consider an economy that is judged to have purchased foreign exchange on net for 8 of the 12 months to have met the threshold.

Sources: U.S. Department of Treasury, "Report to Congress on the Foreign Exchange Policies of Major Trading Partners." Available at: https://www.treasury.gov/resource-center/international/exchange-rate-policies/Pages/index.aspx.

Endnotes

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[1] *See* Dean Baker, "The Continuing Problem of China's Currency Management Policy," Testimony to U.S. - China Economic and Security Review Commission Hearing on Assessing the U.S. Rebalance to Asia, March 31, 2016. Available at: http://cepr.net/publications/briefings/testimony/the-continuing-problem-of-china-s-currency-management-policy.

[2] According to Section 701(a)(2)(B) of the customs bill, "enhanced analysis" should include all of the following: 1) description of currency market developments, including interventions; 2) description of REER trends and degree of undervaluation; 3) analysis of changes in capital controls and trade restrictions; 4) patterns in reserve accumulation.

[3] *See* "When a Flow Becomes a Flood," *The Economist*, Jan. 22, 2009. Available at: https://www.economist.com/node/12972083.

[4] U.S. Department of Treasury, "Report to Congress on the Foreign Exchange Policies of Major Trading Partners," Oct. 17, 2017, at 1. Available at: https://www.treasury.gov/resource-center/international/exchange-rate-policies/Pages/index.aspx.

[5] International Monetary Fund, "2017 External Sector Report," IMF Policy Paper, June 28, 2017, at 33. Available at: http://www.imf.org/en/publications/policy-papers/issues/2017/07/27/2017-external-sector-report.

[6] For example, the Currency Undervaluation Investigation Act, S. 433, 114th Cong. (2015), sponsored by then-Senator Jeff Sessions (R-Alabama) was co-sponsored by six Democrats including Senators Chuck Schumer (D-New York) and Sherrod Brown (D-Ohio). Available at: https://www.congress.gov/bill/114th-congress/senate-bill/433.

[7] The concept of "manipulation" is the subject of the foreign exchange reports and is defined differently by the two laws outlined in Box 1. Meanwhile, "misalignment" refers to when an actual exchange rate differs from its "fundamental" or "equilibrium" value. The fundamental value is determined by long-term economic factors. There are debates about how to calculate currency misalignment, and the equilibrium value of a currency can vary based on the model used. *See* Rebecca Nelson, "Current Debates over Exchange Rates: Overview and Issues for Congress," Congressional Research Service, Sept. 17, 2015. Available at: https://www.hsdl.org/?abstract&did=787819.

[8] U.S. Department of Treasury, "Report to Congress on International Economic and Exchange Rate Policies, Appendix 2: Past U.S. Treasury Determinations with Respect to Economies Considered to Have Manipulated their Exchange Rate," Oct. 15, 2009. Available at: https://www.treasury.gov/resource-center/international/exchange-rate-policies/Documents/appendix2finalapril152009.pdf

[9] Government Accountability Office, "Treasury Assessments Have Not Found Currency Manipulation, but Concerns about Exchange Rates Continue," GAO-05-351, April 2005, at 14. Available at: https://www.gao.gov/products/GAO-05-351.

[10] Section 3004(b) of the Omnibus Trade and Competitiveness Act of 1988 (Pub. L. No. 100–418, 102 Stat. 1373 (codified at 22 U.S.C. 5304 (1988)). Available at: http://uscode.house.gov/statviewer.htm?volume=102&page=1373.

[11] C. Fred Bergsten and Joseph Gagnon, *Currency Conflict and Trade Policy: A New Strategy for the United States*, (Washington, D.C.: Peterson Institute for International Economics, 2017), at 171. Available at: https://piie.com/bookstore/currency-conflict-and-trade-policy-new-strategy-united-states. The authors write: "China was by far the most active manipulator [from 2000 to 2015], piling up more than $4 trillion of official holdings (including its sovereign wealth fund) as a result of intervention that averaged $1 billion to $2 billion per day for a number of years. Manipulation fully explained its external surpluses, which peaked at 10 percent of GDP in 2007. Several other Asian economies – most notably Hong Kong, Korea, Singapore, and Taiwan – behaved similarly at least some of the time, partly to emulate China and avoid losing competitive position to it."

[12] Rebecca Nelson, "Current Debates over Exchange Rates: Overview and Issues for Congress," Congressional Research Service, Sept. 17, 2015, at 20. Available at: https://www.hsdl.org/?abstract&did=787819.

[13] Section 701 (c) of the Trade Facilitation and Trade Enforcement Act outlines the following remedial actions that the President can choose from: "a) prohibit [the Overseas Private Investment Corporation] from approving new financing for a project located in that country b) prohibit procurement by the federal government of goods and services from that country, subject to consultations with OMB (c)(4)(A) and Congress (c)(4)(B) c) instruct the U.S. ED of the IMF to call for additional rigorous surveillance on the currency practices of that country d) instruct the USTR to take into account the failure to adopt appropriate policies on whether to enter into a trade agreement with that country or to participate in trade negotiations with that country."

[14] U.S. Department of Treasury, "Report to Congress on the Foreign Exchange Policies of Major Trading Partners," Oct. 14, 2016, at 33. Available at: https://www.treasury.gov/resource-center/international/exchange-rate-policies/Pages/index.aspx.

[15] Our analysis shows that in 2017, for example, the 13th largest trading partner (Netherlands) had only $6 billion in trade less than the 12th largest trading partner (Brazil). Based on data from U.S. International Trade Commission, "Interactive Tariff and Trade DataWeb", USITC, accessed March 30, 2017. Available at https://dataweb.usitc.gov/.

[16] C. Fred Bergsten and Joseph Gagnon, "Currency Manipulation, the US Economy, and the Global Economic Order," Peterson Institute for International Economics Policy Brief 12-25, Dec. 2012. Available at: https://piie.com/sites/default/files/publications/pb/pb12-25.pdf.

[17] Lilian Karunungan, "India, Thailand Risk Landing on Currency Manipulator Watchlist," *Bloomberg*, Jan. 3, 2018. Available at: https://www.bloomberg.com/news/articles/2018-01-03/india-thailand-risk-fx-manipulator-watchlist-as-reserves-swell.

[18] C. Fred Bergsten and Joseph Gagnon, "The New US Currency Policy," Realtime Economic Issues Watch, April 29, 2016. Available at: https://piie.com/blogs/realtime-economic-issues-watch/new-us-currency-policy.

[19] Brad Setser, "Make the Foreign Exchange Report Great (Again)," Council on Foreign Relations Follow the Money Blog, Oct. 23, 2017. Available at: https://www.cfr.org/blog/make-foreign-exchange-report-great-again.

[20] *See* U.S. Department of Treasury, "Report to Congress on the Foreign Exchange Policies of Major Trading Partners," Apr. 29, 2016, at 33. Available at: https://www.treasury.gov/resource-center/international/exchange-rate-policies/Pages/index.aspx.

[21] Our analysis shows that if Treasury were to lower the threshold to a $10 billion deficit with the United States, it would add only six additional countries that would bring the total to a little over 80 percent of the value of all trade surpluses and would still isolate the analysis to roughly the top decile of trade surplus countries. Based on data from U.S. International Trade Commission, "Interactive Tariff and Trade DataWeb", USITC, accessed March 30, 2018. Available at https://dataweb.usitc.gov/.

[22] C. Fred Bersten, "Currency Manipulation in 2016," Presentation to Forum on the Trans-Pacific Partnership (TPP) Trade Agreement Hosted by House Ways & Means Committee, Jan. 7, 2016. Available at: https://piie.com/commentary/testimonies/currency-manipulation-2016. Bergsten states: "We cannot know whether this welcome drop in manipulation will continue when market forces reverse …. It is thus critically important to erect and implement effective deterrents against [currency manipulation] that will protect our economy from a repetition of the heavy costs levied by manipulation over the past decade."

[23] C. Fred Bergsten and Joseph Gagnon, "The New US Currency Policy," Realtime Economic Issues Watch, April 29, 2016. Available at: https://piie.com/blogs/realtime-economic-issues-watch/new-us-currency-policy.

[24] For GDP data: World Bank "GDP (current US$), 2016," DataBank, accessed April 4, 2018. Available at: https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=CN. For stock of reserves: International Financial Statistics database, International Monetary Fund, "International Liquidity: Total

Reserves Excluding Gold," accessed April 4, 2018. Available at: http://data.imf.org/?sk=4C514D48-B6BA-49ED-8AB9-52B0C1A0179B.

[25] *See* Dean Baker, "The Continuing Problem of China's Currency Management Policy," Testimony to U.S. - China Economic and Security Review Commission Hearing on Assessing the U.S. Rebalance to Asia, March 31, 2016. Available at: http://cepr.net/publications/briefings/testimony/the-continuing-problem-of-china-s-currency-management-policy.

[26] *See* Rebecca Nelson, "Current Debates over Exchange Rates: Overview and Issues for Congress," Congressional Research Service, Sept. 17, 2015. Available at: https://www.hsdl.org/?abstract&did=787819.

[27] U.S. Department of Treasury, "Report to Congress on the Foreign Exchange Policies of Major Trading Partners," Oct. 17, 2017, at 17. Available at: https://www.treasury.gov/resource-center/international/exchange-rate-policies/Pages/index.aspx. The report states: "Research by staff at the Federal Reserve Board suggests that capital controls have possibly been circumvented to some extent by Chinese residents' acquisition of foreign assets abroad mis-recorded as services imports. This circumvention effectively results in an understatement of China's current account surplus by inflating import figures with transactions that should be included in China's financial account."

[28] *See* Anna Wong, "China's Current Account: External Rebalancing or Capital Flight?" International Finance Discussion Papers 1208, June 2017. Available at: https://www.federalreserve.gov/econres/ifdp/files/ifdp1208.pdf.

[29] China made a change to its balance of payments statistics in 2016 to implement IMF guidelines that could have affected Treasury's reporting on currency practices. China's current account would currently be larger if not for a change it instituted in the way it accounts for Chinese tourists' spending abroad. This spending, considered "imports of travel services" showed an increase from $120 billion in 2013 to about $315 billion by the first quarter of 2016 as a result of the new methodology; this rise is not explained by the increase in the number of Chinese tourists or their spending patterns. *See* Brad Setser, "China's Tourism Puzzle Has Gone Mainstream," Council on Foreign Relations Follow the Money Blog, Sept. 22, 2016. Available at: https://www.cfr.org/blog/chinas-tourism-puzzle-has-gone-mainstream. Setser writes that the new measurement "likely moved some financial outflows to the current account, and thus it has had the effect of reducing China's current account surplus."

[30] Reserve Bank of India, "Sale/Purchase of U.S. Dollar by the RBI," RBI Bulletin, dated March 10, 2018, accessed April 3, 2018. Available at: https://www.rbi.org.in/scripts/BS_ViewBulletin.aspx?Id=17430.

[31] U.S. Department of Treasury, "Report to Congress on the Foreign Exchange Policies of Major Trading Partners," Oct. 17, 2017, at 26. Available at: https://www.treasury.gov/resource-center/international/exchange-rate-policies/Pages/index.aspx. Footnote 15 states: "This methodology requires assumptions about both the currency and asset composition of reserves in order to isolate returns on assets held in reserves and currency valuation moves from actual purchases and sales, including estimations of transactions in FX derivative markets."

[32] U.S. Department of Treasury, "Report to Congress on the Foreign Exchange Policies of Major Trading Partners," Oct. 17, 2017, at 25. Available at: https://www.treasury.gov/resource-center/international/exchange-rate-policies/Pages/index.aspx. See footnote #9.

[33] U.S. Department of Treasury, "Report to Congress on the Foreign Exchange Policies of Major Trading Partners," Oct. 14, 2016, at 39. Available at: https://www.treasury.gov/resource-center/international/exchange-rate-policies/Pages/index.aspx. U.S. Department of Treasury, "Report to Congress on the Foreign Exchange Policies of Major Trading Partners," Apr. 14, 2017, at 25. Available at: https://www.treasury.gov/resource-center/international/exchange-rate-policies/Pages/index.aspx. See footnote #9 in the April 2017 report.

[34] Hu Xiaolian, "A Managed Floating Exchange Rate Regime is an Established Policy," The People's Bank of China, dated July 15, 2010, accessed April 3, 2018. Available at: http://www.pbc.gov.cn/english/130724/2881712/index.html.

[35] Brad Setser, "I Gave Korea Too Much Credit in December," Council on Foreign Relations Follow the Money Blog, March 20, 2018. Available at: https://www.cfr.org/blog/i-gave-korea-too-much-credit-december. Setser writes: "While Korea deserves credit for allowing the won's trading range to be reset

ever so slightly, they do not seem to have abandoned the idea of managing the won to keep it within an (evolving) undeclared target zone."

[36] U.S. Department of Treasury, "Report to Congress on the Foreign Exchange Policies of Major Trading Partners," Apr. 14, 2017, at 26. Available at: https://www.treasury.gov/resource-center/international/exchange-rate-policies/Pages/index.aspx. The report states: "Though there has been a trend in the last two years towards reduced currency intervention by key trading partners, it is critical that this not represent merely an opportunistic response to shifting global macroeconomic conditions – in particular changes in capital flows which have created depreciation pressures on many emerging market currencies – but a durable policy shift away from foreign exchange policies that facilitate unfair competitive advantage."

[37] U.S. Department of Treasury, "Report to Congress on the Foreign Exchange Policies of Major Trading Partners," Apr. 14, 2017, at 23. Available at: https://www.treasury.gov/resource-center/international/exchange-rate-policies/Pages/index.aspx. The report states: "Because the standards and criteria in the 1988 Act and 2015 Act are distinct, it is possible that an economy could be found to meet the standards identified in one of the Acts without being found to have met the standards identified in the other. In particular, a finding that an economy met the standards in the 1988 Act of manipulation its currency would require Treasury to examine a *wider array of additional facts* [emphasis added] such as foreign exchange reserve coverage, monetary policy or inflation developments."

[38] U.S. Department of Treasury, "Report to Congress on the Foreign Exchange Policies of Major Trading Partners," Oct. 17, 2017, at 2. Available at: https://www.treasury.gov/resource-center/international/exchange-rate-policies/Pages/index.aspx. The report states "no major trading partner of the United States met the standards identified in Section 3004 of the Omnibus Trade and Competitiveness Act of 1988 (the "1988 Act") for currency manipulation in the first half of 2017."

[39] *See* Trade Facilitation and Trade Enforcement Act of 2015, Pub. L. No. 114-225, 130 Stat. 196 (codified at 19 U.S.C. §4422 (2016)). Available at: http://uscode.house.gov/statviewer.htm?volume=130&page=195#.

[40] U.S. Department of Treasury, "Report to Congress on the Foreign Exchange Policies of Major Trading Partners," Oct. 14, 2016, at 8. Available at: https://www.treasury.gov/resource-center/international/exchange-rate-policies/Pages/index.aspx.

[41] This was confirmed with an official at the Treasury Department. The official was not certain whether the committee could be re-instated. Phone conversation with Daniel Hall, Designated Federal Officer, March 29, 2018, Phone: 202-622-7801.

[42] Joe Gagnon and Fred Bergsten of the Peterson Institute have proposed countervailing currency intervention (CCI) in which the United States directly intervene in currency markets by purchasing large amounts of foreign currency. Peterson Institute, "Peterson Institute's Study by Bergsten and Gagnon Proposes New Strategy to Counter Currency Manipulation," News Release, June 6, 2017. Available at: https://piie.com/newsroom/press-releases/peterson-institutes-study-bergsten-and-gagnon-proposes-new-strategy-counter.

[43] Rebecca Nelson, "Current Debates over Exchange Rates: Overview and Issues for Congress," Congressional Research Service, Sept. 17, 2015. Available at: https://www.hsdl.org/?abstract&did=787819.

[44] *See* discussion in Robert Scott, "Growth in U.S.–China Trade Deficit Between 2001 and 2015 Cost 3.4 Million Jobs," Economic Policy Institute Report, Jan. 31, 2017, at 39. Available at: https://www.epi.org/publication/growth-in-u-s-china-trade-deficit-between-2001-and-2015-cost-3-4-million-jobs-heres-how-to-rebalance-trade-and-rebuild-american-manufacturing/.