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Thoughts on the "US Treasury's Foreign Exchange Report to Congress"

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Although it is a bit old news now, the Department of the US Treasury released on April 29 a report on the Foreign Exchange Policies of Major Trading Partners of the United States (Exchange Report) in which it created a new "Monitoring List" to evaluate the unfair currency practices of its major trading partners and it named 5 countries including Japan in the list (Chart 1). This report, which generated much interest, seems to represent afresh two points: the present situation of the US that has been compelled to depend more on export promotion and protection of trade and a possibility of a qualitative change in its future foreign exchange policy from the "strong dollar policy" that has been advocated up to now.

The semiannual Exchange Report started when the US Treasury Department was required to report to Congress on economic and exchange rate policies of major trading partners pursuant to the Omnibus Trade and Competitiveness Act of 1988 (Act of 1988). The new addition of Monitoring list was facilitated by the Trade Facilitation and Trade Enforcement Act of 2015 (Act of 2015) which was enacted this February. The Act of 2015 required Treasury to set (1) numerical criteria to evaluate the countries that may be pursuing unfair foreign exchange policies, (2) prepare action programs to impose meaningful penalties on economies, when and if determined they have pursued unfair practices. In other words, this means that the protectionist trade policy of the US was reintroduced and reinforced after 27 years' interval in the way to establish numerical criteria and retaliation clauses, and this fact itself may reveal the strong inclination of the US for export promotion and trade protection.

Chart <Evaluation Criteria and Recent Performance>

Criterion	①Bilateral goods trade balannce (2015, Bil.$)	②Current Account Surplus (% of GDP)	③Intervention: Net FX purchases (% of GDP)
Criterion	More than 20 Bil$.	Exceeding 3%	Exceeding 2%
China	365.7	3.1%	−3.9%*
Germany	74.2	8.5%	—
Japan	68.6	3.3%	0.0%
Mexico	58.4	-2.8%	-1.8%
Korea	28.3	7.7%	0.2%
Italy	27.8	2.2%	—
India	23.2	-1.1%	1.8%
France	17.6	-0.2%	—
Canada	14.9	−3.3%	0.0%
Taiwan	14.9	14.6%	2.4% *
UK	1.5	-1.9%	0.0%
Brazil	-4.3	-3.3%	0.1%

*Treasury estimates

Compiled by IIMA based on "Foreign Exchange Policies of Major Trading Partners of the United States" April 29, 2016

(Notes) 1. Figures in red meet the criterion

2. 5 countries in green are listed in the Monitoring list as countries meeting two of the three criteria.

Speaking of 27 years ago when the Act of 1988 was enacted, it was a period when the tension of trade friction between Japan and the US was very strong as symbolized by the broadcast video of extreme performance of a congressman destroying by hammer a piece of Japan-made home electronics. Even at that time there were calls from Congress that not only identifying countries that manipulate exchange rates but also there should be some retaliation measures taken against them and several legislations including Super Section 301 were introduced but they all remained as temporary legislation. In the background of the present new tough attitude against the exchange rate policies of the US trading partners, in addition to the apprehension for a prolonged slow growth of the US economy, there were a number of requests during the discussion of the TPP legislation for strengthening the monitoring function of exchange rate policies. In this sense the Act of 2015 can be said to have been legislated to address the prolonged slower growth as well as to sort of take the steam out of Congress to facilitate the enactment of the TPP bills.

Given such a domestic trend in the US, it will be natural that both Hillary Clinton and Donald Trump, two dominant candidates for presidency, have chosen trade issues as one of their important campaign pledges and propose very protectionist policy recommendations. Mr. Trump included in his seven priority policies a restructuring of China-US trade relations, urging that "China should instantly be identified as a country manipulating exchange rate policy". Mrs. Clinton, who is seen as making more moderate policy recommendations, has also criticized that "for many years Asian countries such as China and Japan have raised their export competitiveness by maintaining lower exchange rate of their currency" and declared that as the manipulation is "especially remarkable in China and Japan, she would take retaliatory steps once she assumes the presidency". Specifically, she has advocated, in addition to reviewing the customs tariffs, to newly establish a post of chief trade investigator under the direct control of the president to protect employment of US manufacturing sector, and that she would take a resolute action against the countries that manipulate their exchange rates.

For a long time, the US authorities have officially adopted a "strong dollar policy" but in practice tried to avoid putting the foreign exchange issues forward as much as possible. However, as was seen above, both Congress and President (candidates) are now strengthening their protectionist attitude. Accordingly it should be viewed that this would increase the possibility that the US exchange rate policy would make a qualitative change in the days ahead. At least the traditional stance of avoiding highlighting the exchange rate issues as much as possible has already been modified and instead the exchange rate policies are now treated as a front-line policy tool. As is well known, the slogan of a strong dollar policy which the then Secretary Rubin first used in 1995 has long lost its substance and the term itself has no significance any more. Yet the successive Treasury Secretaries have continued to make use of the slogan to indicate its intention of no policy change and to facilitate communication with the market. In the US that needs to facilitate export promotion and trade protection, the slogan will cease to be used anymore, and it is more likely that the long held communication method for exchange rate policy will be changed in the future.